Performance Pay

The forecast section of this Review is followed by a special section on Performance Pay, beginning with an introduction by Alex Bryson (a.bryson@niesr.ac.uk) and Keith Bender. These two editors have written on performance pay in a blog that will be available from this link tomorrow: http://niesr.ac.uk/blog

Following their introduction are three articles looking at Performance Pay from different viewpoints:

How prevalent is performance-related pay in the United States? Current incidence and recent trends
by Maury Gittleman and Brooks Pierce (US Bureau of Labor Statistics)
Contact: gittleman_m@bls.gov

The authors address basic questions about performance-related pay in the US. How widespread is it? What characteristics of employers and jobs are associated with it? What are recent trends in its incidence? What factors are responsible for these trends? Nearly two-fifths of hours worked in the US economy in 2013 were in jobs with performance-related pay, but this share has been declining. We consider several possible causes for this trend and find that they do not have much explanatory power. We do establish, however, that any potential explanation must also account for a long-term shift in the relative incidence of performance-related pay away from low-wage and toward high-wage jobs.

Industrial composition, methods of compensation and real earnings in the Great Depression
by Robert A. Hart and J. Elizabeth Roberts (University of Stirling and IZA)
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A major objective of the government during the Great Recession has been to severely restrict public sector real wage growth. One potential advantage of performance-related pay schemes is that they naturally offer greater wage responsiveness to fluctuations in the business cycle. Based on evidence from engineering and allied industries during the Great Depression we show that piecework wages exhibited more flexibility than their timework equivalents. We compare and contrast southern/midland engineering districts of Britain with northern districts. The former region was dominated by piece-rated workers and by modern sections of the industry, such as vehicle and aircraft manufacture. Time-rated work predominate in northern districts where older sections – for example, marine and textile engineering – were clustered.

Union coverage, membership and performance-related pay: are piece rates different?
by Patrick O’Halloran (Leon Hess Business School, Monmouth University)
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This paper revisits a literature on the links between unionisation and performance-related pay (PRP), which offers a disparate set of results. Part of the reason for this is the usual inability to distinguish between different types of PRP and the lack of rich panel data containing such measures. Analysis of panel data containing six separate PRP schemes reveals that union members are less likely to receive PRP in general and less likely to receive bonus payments, stock options, or profit sharing than non-members. Furthermore, profit sharing is negatively related to both union membership and coverage. However, union members or those covered by a union contract are more likely to be paid piece rates, providing further evidence that piece-rate pay differs from other forms of PRP.
The UK Productivity Puzzle – the debate continues

The final section of the Review is entitled: The UK productivity puzzle – the debate continues. Following an article in our May issue, criticising a study by Bill Martin and Robert Rowthorn in 2012, Martin and Rowthorn have responded with the following short article. The debate, however, is then continued by Goodridge, Haskel and Wallis in the penultimate note in the Review and finally in a rejoinder by Martin and Rowthorn.

Can intangible investment explain the UK productivity puzzle? A response and comment
by Bill Martin and Robert Rowthorn (Centre for Business Research, University of Cambridge)
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This note responds to the recent critique by Goodridge, Haskel and Wallis (GHW) of our 2012 study of Britain’s productivity puzzle. We show that a correct reworking of the latest official data on changes in labour composition overturns GHW’s main criticism. We also question the strength of the empirical evidence offered by GHW in support of their alternative explanations of the productivity puzzle.

A response to Bill Martin and Robert Rowthorn
by Peter Goodridge,* Jonathan Haskel** and Gavin Wallis*** (*Imperial College Business School, e-mail: p.goodridge10@imperial.ac.uk ** Imperial College Business School, CEPR and IZA, e-mail: j.haskel@imperial.ac.uk *** University College London, Bank of England, e-mail: gavin.wallis@bankofengland.co.uk)

This note responds to a critique of our recent paper, “Can Intangible Investment Explain the UK Productivity Puzzle?” In that critique Martin and Rowthorn present a re-working of data on labour composition which they feel refutes an element of our argument. In this response we argue that the data are still in support of our original position. Essentially, the puzzle is that measured labour productivity has been falling, but labour quality is rising, so, at least on this measure, changes in labour quality cannot explain falling productivity.

A rejoinder to Goodridge, Haskel and Wallis
by Bill Martin and Robert Rowthorn
Contact: bm342@hermes.cam.ac.uk

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