Chapter 8: Show Me Something Other Than the Money

The concept of compensating wage differentials has been a staple in economics for over 200 years. Adam Smith wrote about them in the 18th century, John Stuart Mill in the 19th, and Ronald Ehrenberg and Robert Smith, authors of *Modern Labor Economics*, among many others, in the 20th and now 21st. The theory behind compensating differentials has never been particularly challenging for anyone who understands supply and demand models. If Job A is so attractive that a huge supply of prospective workers offer their services for the job, the large supply will likely drive the wage for Job A down. Similarly, if Job B is so unattractive that hardly any prospective workers offer their services, the wage will probably have to be raised to help the job attract more workers.

While the theory seems fairly simple, real world observations often don’t seem to match up with it very well: It often seems that some of the most desirable jobs (movie star, professional athlete, musician, doctor, lawyer—insert your fantasy job here ________) pay the best, while the least attractive jobs (burger flipper, cashier, janitor) frequently don't pay very well at all. Mill helped clear all this up by talking about non-competing groups and reminding us that it is both supply and demand that set wages. Even if we want to be rock stars or professional athletes, most of us do not have the talent or looks or whatever the combination if it is that will get us that gig. So, in fact, the supply for those jobs is really pretty small. And although we don't necessarily aspire to be asking people if they want fries with that burger, the vast majority of us are qualified and there are bills to be paid and sometimes that is the way we get the money to pay them. So the potential supply is huge, and the wage correspondingly low.

Of course, as was discussed in Chapter Eight of *Modern Labor Economics*, it’s not always about the money. Compensation takes on many forms, and individuals have widely varying preferences regarding what will make them happy. Several recent articles in *The Wall Street Journal* illustrate the wide variety of creative ways in which employers and employees move beyond wages and salaries to find the right fit.

Two *Wall Street Journal* articles by Sue Shellenbarger get us well beyond wages and salaries. One focused exclusively on how firms are helping their employees with the demanding process of adoption. The key benefits appear to be flexibility in one’s work scheduling, including paid leave, and reimbursement of some or all adoption costs, which can run as high as $35,000 for international adoptions. Shellenbarger expanded on the theme of noncash compensation in a second article, citing results from multiple sources with lists of “Best Places to Work.” Flexible work scheduling again appeared to be a top priority for employees. Providing concierge services to take care of tasks for workers, very popular in the 1990s, now gets more mixed reviews. While having someone to pick up your dry cleaning might be appreciated, workers would prefer to have time off to take care of family-related tasks rather than outsource them to someone else. Today’s younger workers, notes Shellenbarger, value vacation much more highly than their predecessors, and are willing to “pay” for it in salary offsets when firms offer that option. Finally, she says younger workers are also more concerned about their work environment, detesting the anonymity of cubicle world, and appreciating fitness centers and coffee bars.

Dana Mattioli reported in *The Wall Street Journal* on a different level of environmental concerns as part of a job package. Citing a poll by MonsterTRAK.com, Mattioli reports that 92 percent of young professionals indicated that an environmentally friendly firm would be more apt to draw their interest. Some of the environmental concerns Mattioli raised were also in keeping with the workplace environment, such as more natural lighting, better air filtration systems, and eco-friendly paint and carpeting. Many of these benefits represent a win-win for both employer and employee, as they help increase productivity while reducing sickness and absenteeism.

A *Wall Street Journal* article by Anne-Marie Chaker suggested an interesting benefit being offered to “ease the bite” of cuts in other benefits. While mentioning other “soft” (meaning zero or low cost to the employer) benefits like group discounts at health clubs or pet insurance, her focus was on assistance firms are providing parents with the college admission process. Assistance varies widely, from merely helping people find available resources, to individual counseling, to seminars on test preparation.
Finally, in perhaps one of the more surprising benefits, a *Wall Street Journal* article by Joann Lublin describes the increased practice of employers continuing to provide access to employee assistance programs (EAPs) even after they have been laid off. Though some of her sources disputed whether doing so actually benefits the companies, the costs are almost invariably very low, and the benefits are considered to be a less negative reputation for the firm among ex-employees and improved morale among those who remain with the companies.

Sources:

Questions:

1. Name some nonwage dimensions of a job for which you would demand more money to accept. Name some that you would be willing to give up some salary to get.
2. Does a greater emphasis on the importance of flexible work scheduling and more vacation by today’s younger workers indicate that they have less of a commitment to work or would be less productive than the young workers of earlier generations?
3. Name some reasons for compensating differentials commonly observed in the labor market. Could supply and demand conditions make these unnecessary in the future?