THE SPIRIT OF DELTA

A Study in Transactions

by Juergen Backhaus
Department of Economics, Auburn University, Alabama 36849

Prepared for Presentation at the Annual Meeting of the
Public Choice Society, Phoenix, Arizona 1984

I

When a firm faces adverse economic conditions in its product markets and profits decline, its textbook response would be to cut back on production costs. Sooner or later, the firm will, in particular, attempt to reduce labor costs. Wages, however, tend to be sticky downwards. Often, firms trying to win wage concessions have experienced numerous difficulties. Sometimes, these obstacles have even forced management to abdicate some of its traditional prerogatives. In some cases, wage cuts were only granted by organized labor in exchange for an increased labor role in firm decision taking, such as when union representatives took seats on company boards. That organizational changes may often be necessary in order to win wage concessions is consistent with economic theory: labor will try to exchange wage cuts for enhanced job security and will consequently wish to monitor the use of its wage "investment" to this end. (Furubotn & Wiggins 1982).

Firm policies designed at winning wage concessions do have additional pitfalls which are likewise responsible for the downward stickyness of wages. These additional problems stem from market signaling*. Since wage concessions are difficult to win, a firm which tries to resort to this strategy of wage cutting sends out signals to its customers, suppliers, creditors and work force which are adverse in each singular instance. Creditors will perceive their outstanding loans as riskier than they had initially assumed. Credit costs may therefore increase and additional credit may be more difficult to obtain. This can increase the costs of projects conceived or started prior to the crisis. Customers may anticipate the likelihood of a future discontinuance of service and suspect present work to be of shoddy quality, as the firm is believed to seek new ways of cutting the costs of labor and supplies. Suppliers will wish to contain risk and try to keep credit lines down. Likewise, workers will only be rational in anticipating smaller future wage increases, reduced chances of promotion, and thus in rationally reassessing the future stream of earnings from the present employer be more inclined to search for new jobs. All these adjustments tend to result in higher procurement and credit costs as well as adverse selection of customers and workers. Adverse changes in the business environment in turn require increased outlays for maintaining good will and can e.g., increase advertising costs of the already beleaguered firm. This is only a partial list of reasons that seem to make it worthwhile to look at alternative labor market adjustment strategies which are less costly to the firm.

In this paper I want to argue that a different and less costly strategy than wage cutting is indeed available. In drawing opon the economic literature on gift relationships*, cases are considered in which it is rational for workers to engage in voluntary giving to their company. Correspondingly it may be rational for the company, instead of seeking wage reductions, to deliberately create a climate which makes giving rational, attractive and easy.

Businessmen used to industrial strife that seems to invariably go along with recessionary decline, cannot fail to think that this approach looks irresponsibly utopian, just what can be expected from a scholarly paper. The economist unfamiliar with the theory of gift relationships will be concerned with the impossibility of reaching a social optimum due to individual utility maximization. And it is true that free riding behavior must play an important role in any theory of non-price exchanges in the labor market. An outline of such a theory is given in section IV. In order to provide an appropriate analytical background, some economics of the gift relationship are summarized in section III. The incredulous scepticist should, however, immediatly turn to section II, where I summarize the findings of a case study which prompted this research.

II

A dedication ceremony was held on Dec. 15, 1982, as "The Spirit of Delta", a brand new 150 feet long Boeing 767 was unveiled at Atlanta's Hartsfield International Airport. Wrapped in a huge red bow, the 30 million dollar jet was presented to Delta Air Lines as a gift by its employees.

In the preceeding september, Delta had surprised its non-contract employees with an unexpected raise of up to 8%. In an effort to thank the mamagement of Delta for this raise and the job security that Delta promises, while other airlines were laying off workers, three airline attendants initiated a drive to raise 30 million dollars by asking fellow employees to voluntarily donate part of their pay to the project 767 as a sign of their appreciation to the company. Pledge cards were distributed to the employees and approximately 78% of the airline's largely non-unionized 37 000 member staff joined in the gift program, by pledging between one and five percent of their wages for up to two years. These contributions were in the form of voluntary payroll deductions, which were to reduce Delta's expenses sufficiently to offset the cost of the new aircraft, which was one of the 20 new 767 first ordered nearly four years ago.

All active* Delta employess were eligible to participate in the voluntary program which was designed "to enable Delta employees to demonstrate their gratitude to the company for its efforts to keep their jobs secure and to maintain their living standards during the present difficult economic times".* The employees could indicate on the pledge card the percentage of the voluntary payroll deduction, if any, to which they would agree and the number of months this reduction would be effective. In an intra-company memorandum from its president, the employees of the airline referred to therein as "members of the Delta family" were informed that the board of directors on October 29 1982 had formally accepted the plan sponsored by the employees and further agreed to provide certain administrative services in order to facilitate the project.*

In an attempt by the board of directors to aid in the project, the board amended Delta's retirement plan so that participation in project 767 would not affect an individual's benefits from retirement, disability, survivorship or savings plans. The aforementioned memorandum further noted that "first inclination was to graciously decline. However, after considering the present state of the economy and the difficult competitive environment we are operating in, we could not justify refusing such a wonderful proposal."* The memorandum went on to describe management's delicate position, having to be extremely careful not to get involved in the project to such an extent that it would appear that the project may have been conceived or directed by management. While staying this fine line, the company did, though, want to disclose that it implemented full co-operation by offering use of company mail, providing employees with office facilities, and by making the necessary adjustments to participating employees' payroll records.

The "wonderful proposal" was not quite without its historical precedent. As we look back into Delta's history, it is apparent that the company's good will with its workers had had time to develop and mature. In 1950, Delta Airline mechanics took up a collection to buy the company's then president* a pledge commemorating his 25th anniversary with the airline. However, before they realized it, employees had raised more than five thousand dollars and the jubilee was presented with a shiny new Cadillac instead. The "family feeling" concept of Delta began again with the same president and is until today an integral part of firm policy. The concept is not without a contingent meaning. A policy of not laying off full time workers due to economic reasons has been strictly observed for twenty five years. This stands in stark contrast to practices in the rest of the industry.*

Due to reduced routes caused by the nation's air traffic controllers' strike, price wars and the recession, most companies have recently had widespread layoffs or wage concessions*. Another part of this policy is a worker oriented leadership style. The management of Delta pride themselves as being one of the most flexible management teams in the airline business, providing security and benefits practiced at no other carrier, with a policy of avoiding to lay off workers, of placing them in other jobs and providing fully funded payroll wage plans by the company. Full employment policy in times of recession, extraordinary amounts of training when no training was the norm and in general a feeling of sincere care for its employees is said to have paid off an economic benefit.*

One of the most unique long term Delta policies, though, is that of promoting from within.* Both policies are facilitated by the fact that Delta can widely ignore union work rules which are common in the airline industry. There are only two unions at Delta, the Air Line Pilots' Association (ALPA) with some 4 000 mewmbers and the much smaller flights dispatchers' union, which organizes those in charge of flight control. this allows for highly flexible personnel policies. This labor flexiblity takes much time spent in training workers, but the company feels it has proven that this policy pays off in terms of relative productivity gains. Likewise, in times of recessions, the workers can be reassigned, thus enabling Delta to continue its policies of avoiding lay offs.

This willingness of Delta to "go the extra mile" for its employees has been a major factor in resisting union organization efforts. Today, Delta remains one of the very few airlines that is still largely non-unionized. Avoiding the strict union work rules that are typical for the industry has been cited by some as a key to the firm's profitability, since it allows the employee to perform a variety of jobs when needed. The "spirit of Delta" must be considered a genuine outcome of long standing and conscious company policy making. The groundwork of mutual trust that is important for efficient gift relationships shows up in a number of features of the company's management approach. E.g., Delta's management team is trained for job interchangeability, just as its non-contract employees. With their policies of open communication and "family pride", they continue to strive to keep well informed and see that potential problem areas are detected and dealt with prior to actually becoming grievances. Also, the management's long standing conservative financial philosophy has kept Delta growing even during these past years of carrier depression. Delta's management admittedly hopes that by standing by their employees during hard times, Delta workers will be willing and able to be more productive and loyal to the corporation. These combined policies have created much better than average relations between the workers and management at Delta, thus allowing a more cooperative effort.

Even with these innovative policies, Delta is of course not immune to the vicissitudes of the business cycle or other adverse market developments. The company reported a loss* in march 1982, this being the first quarterly loss since 1957. With both management and workers having this almost unprecedented loss in mind, an unexpected pay raise to its non-contract employees* of up to eight per cent came as quite a surprise. Flight attendant Jeans Owens, one of the three stewardesses who initiated the gift drive, explains that "we know what a hard time the airline has been having and we just wnated to say thanks for the way Delta has treated us."

Incidentally, at the time that the gift drive was being initiated, those elements of long standing company policy that are most important for its workers, notably job security, were reaffirmed. In an address given by Robert Oppenlander, senior vice president/finance of Delta Airlines, Inc., to the Atlanta Society for Financial Analysts on June 30 1982, he stated that while the decision not to lay off employees contributed to their quarterly loss, that decision was consistent with Delta's long standing policies of maintaining the Delta family intact, even in the face of very adverse economic circumstances. He stated that "we have seen this philosophy pay big dividends in the past, and we expect it will continue to do so in the future."

III

Although a considerable amount of economists' attention focusses on the price system and the way in which flexible market prices allow for efficient exchange and resource allocation, there is quite a long tradition in economics pointing to pitfalls of the price system and exploring alternatives, too. Economists such as Alfred Marshall, Arthur Cecil Pigou, Allyn Young and Frank Knight have emphasized limitations of the price system all along, while more recently Kenneth Boulding drew special attention to grants and transfers as an important area of economic activity and research. The economics of gift relationships attracted wider attention only a decade ago when Richard Titmuss* published "The Gift Relationship". Concerned mainly with the donation, distribution and quality of blood thus circulated, his book was intended to have wider applications. One of the main themes of the book was that reliance on the private market represses the expression of altruism, erodes the sense of community, limits personal and professional freedom and legalizes hostility where mutual trust is called for. Titmuss' study prompted a series of conferences and symposia. While his main contention that the market in blood gave rise to inefficient resource allocation - to be corrected by altruistic giving - was later challenged in a landmark paper by Reuben Kessel*, we now dispose of a sizable literature on gift exchanges which will also provide some guidance for an analysis of the particular case at hand. And while Titmuss' case with respect to the blood market was effectively rebutted, it does certainly not follow from Kessel's paper that gift relationships cannot prove to be more efficient than market exchanges.

As they constitute an important aspect of economic activity, gifts should not be looked at as either merely gratuitous or undeserving of economists' attention. In analyzing a particular gift relationship, one has to keep in mind that participation in the gift exchange reveals choices on the part of both donor and recipient. Not unlike market exchange, the gift relationship is based on two matching consensual decisions (meeting of minds) and is therefore likely to correspond in an optimal fashion to what the parties really want to achieve. When a gift is made, the donor decides to give, and the recipient decides to accept the gift. The third decision involves both parties' choice to prefer a gift relationship over a market exchange. In line with this threefold set of choices, in this section I shall discuss in turn first motives for giving, secondly reasons leading up to the acceptance of a gift and thirdly conditions of gift exchange.

Motives for giving

People engage in giving for a multitude of reasons.*

1. The welfare of any one individual will generally depend both on his own satisfaction and on the satisfaction obtained by others. When talking about giving, we refer to a positive relationship of altruism (instead of envy). This motive is outcome related. It does not hinge on an individual's participation in an act of giving. The individual is only concerned with a desired end result, i.e. improvement in the situation of the recipient

irrespective of the source or cause of this improvement.*

2. The welfare of any one individual may further depend not only on the utilities of himself and others but also on his contributions to the utility of others. In this case, the individual benefits from actively participating in a gift relationship as a donor. This motive is act related, different and separate from the aforementioned outcome related emphasis.

3. Many people will also wish to conform to certain norms and expectations that constitute the implicit social contract. We refer here to ethical convictions in the Kantian or more recently Rawlsian tradition, where the observance of a particular code of conduct by anybody is deemed beneficial for every member in society, and consequently individuals feel comfortable in observing these standards even in the absence of sanctions and controls.

Empirical investigations have further suggested motives for charity which are, on the whole, less charitable.*

4. Among them is the political motive. To quote from Ireland's study:*

> "One of the first instructions given to any aspiring young politician is that he engage himself in work for charitable organizations as a means toward developing a 'non partisan' reputation for being a leader in his community before he attempts to seek an elective office. Obviously, the route of philanthropic endeavour is not the only route to elective office, but it is a route commonly observed among politicians, especially in local elections".

In this context, visibility of the charitable work or contribution will be the overriding concern. And the example shows, too, that an exchange is involved here. While the aspiring politician offers resources to the charitable organization, the charity places him visibly in front of the public's eye, casting him in a friendly spectrum.

5. The employment connection:*

> "Contribution to philanthropic organizations (...) is often implicitly or explicitly a condition of employment in many companies and offices (...) In such cases, individual contributions may be aimed solely at maintaining employment in a location."

In this case, the contribution is not really voluntary at all, which is why Johnson labels it a charity "tax" (1973, p.92). The donation is like a price paid for the continuance of employment similar to other types of work related expenditures. The donor is exclusively interested in registering the act of his contributing.

6. The income motive. Finally,

> "individuals may be charitable to increase their income stream (...) Generally, this income motive can be expected to be more prevalent among firms or unions that possess a degree of monopoly/monopsony power."

Although Johnson is here mainly concerned with expenditures made by individuals or organizations in order to improve their image or standing with the general public, the motive can give rise to more complex strategies depending on the reasons why the contribution is seen to improve the donor's income.

The Decision to Accept a Gift

It is perhaps curious that while much scholarly effort has gone into investigations of why gifts are made, the reasons for accepting a gift have received relatively scant attention. An exception is the seminal paper by Wilson Schmidt (1969)* from which an understanding of equilibrium gift sizes may be gleaned.

Let us assume the following notations.* (Alchian & Allen 1973, p. 7)

A	The market value of the transferred goods
B	The hypothetical price which, if existing, would have induced the recipient to buy the goods
C	The money the recipient would have paid for whatever amount of the transferred good he would have purchased in the absence of the gift
D	The (opportunity) cost of the gift to the recipient, which is zero in the case of a pure gift with no strings attached
E	The donor's rent
F	The value to the donor of having his gift accepted.

Then it follows that A - B is the net total cost to the donor of the resources transferred to the recipient, and this cost can be considered in terms of different aspects.

A - B is "wasted" from the recipient's point of view - a view by no means shared by the donor; B - C is the value to the recipient of the extra specific resources made available through the gift; and C - D, which is the general purchasing power wealth transfer to the recipient.

With this somewhat abstract terminology in mind, let us look at the recipient's decision to actually accept the gift. It is obvious that the gift will only be accepted if B - C is positive. On the other hand, the donor will be ready to make the gift only if F exceeds A. However, and this is where Wilson Schmidt's argument comes in, the donor will likely experience decreasing marginal utility from making additional units of the gift and hence stop giving where the marginal cost of giving equals the marginal utility. In this case, F will necessarily exceed A, and the donor is left with a positive rent. From the point of view of the recipient, this implies that the recipient's utility may possibly be increased to the point where F only slightly exceeds A. This can be accomplished by either decreasing F or increasing A. Increases of A could could be in kind or in cash, such as when the gift is accompanied by a cash transfer. Finally, the gift size may be increased. In a competitive environment, this may be accomplished by raising F, e.g. by enhancing either of the above mentioned gift motives, where strategies may vary from appeals to altruism to more contingent inducements. Sometimes, the recipient may be able to lower the costs of making the gift or its price. Obviously, the gift cannot be greater in value (A) than the satisfaction (F) which the donor derives from it, or more precisely

$$F \geq A \tag{1}$$

It follows from this algebraic exercise that accepting a gift is not costless to the recipient. Equation (1) can be rewritten as

$$F = A + E, \tag{2}$$

where E denotes the maximum size of gift increases potentially available. This is a measure of the donor's rent. From this it follows that accepting a gift as offered by a donor entails the cost of D + E to the recipient. This means that accepting a gift may be costly in that too ready an acceptance may preclude receipt of a still larger gift. Hence, the recipient may, instead of accepting outright, wish to renegotiate the gift so as to minimize D + E. If a utility maximizing agent is observed to accept a certain gift, the inference must be that either the gift is deemed optimal in size (i.e. E = 0) or the costs of renegotiating are taken to outweigh the expected benefits. These renegotiating costs include, of course, the expected cost of losing the gift altogether to a competing (and more grateful) recipient.

The foregoing discussion is rather incomplete in focussing excluisively on the magnitude of the gift. In discussing gift exchange relationships, however, it should be noted that a principal reason for making the gift is to alter the recipient's situation as seen through the eyes of the donor. Typically, asessments of the recipient's utility differ considerably depending on who does the assessing. And it is precisely this difference in evaluation which prompts many a gift. Hence, resources will be spent on what may be termed "gift seeking":*

> "We must not ignore the impact of opportunities to capture subsidies or gifts will have on the behavior of potential receivers in their attempts to qualify for the subsidies. Prospects of competitive applicants can be improved if they spend money to revise their activities so as to reach a more advantageous position, as determined by the allocative criteria used by the donor." (Alchian & Allen 1973, p. 7)

It is therefore appropriate to say that the recipient who is willing to accept a gift will generally accept constraints on his behavior along with it. The severity of these constraints will certainly differ. It is reflected in the size of D, since acceptance of the gift will preclude the recipient's choice of some valued opportunities. The highest valued opportunity foregone by the recipient determines the opportunity cost D. The behavioral change intended by the gift may either have occured in advance some time ago in order to qualify for the gift, it may take place upon receipt of the gift, as when an art collection is actually dedicated to a city upon completion of the museum building, or the behavior modification may be continuous as when the gift is made in installments or comes in the form of a donation that can be rescinded at any time. It may be futile at this point to attempt assessing the relative importance of these behavioral changes for the recipient. The effects which the donors were aiming at when making the gift may not even be predominantly with the recipient but rather with some other third party which in some way or another crucially depends on the recipient's behavior.

How important the donor's influence on the behavior of the recipient is from the point of view of the donor can be seen when looking at the form of the gift itself. Was the gift made in kind or as a cash transfer? Is the gift specific or amenable to a general variety of uses? Is the gift contingent on some action on the part of the donor, either in the past, the present or the future? Would the recipient have acted or act differently in the absence of the gift? And what are the alternatives available to the donor in order to achieve the desired outcome? These questions lead into our next consideration regarding the choice between market and gift relationships.

The Choice Between Market Exchange and Gift Relationships

When a donor decides to offer a gift, he must be convinced that in doing so he can achieve the desired result more effectively by making a gift than by using the market. Since the donor will seek to maximize E i.e. the difference between the costs to him of making the gift and the satisfaction derived from it, he will not fail to consider the available alternativews. Quite often, not too many alternatives may be available. This is especially so when contracting costs would be high. When a donor tries to influence the behavior of a recipient, all too often the intention is not so much to stimulate a particular course of action on the part of the recipient. If this were the case, the desired course of action might be called a "service" and its rendition stipulated in an appropriate contract. Often the donor wants to insure that some but not necessarily as yet specified and foreseeable activities on the part of the recipient be avoided, which - if unprevented - would be harmful to the interests of the donor. In this case, giving serves as an <u>insurance</u> against the event the recipient is in a position to either control or at least influence.*

The choice between entering into a market exchange or a gift relationship will further depend on the transactions costs associated with each of these approaches. As mentioned already above, the costs of using the market may be high when the outcome desired by the donor is difficult to be contracted for.

The gift relationship, on the other hand, is plagued with different transactions costs. First, there are costs of monitoring the recipient in order to ascertain observance of the behavioral conduct desired. As there are often many donors giving to only one recipient, those individuals actively monitoring will provide positive externalities to their fellow donors. With free riding behavior present, many a donor will choose to rationally stay underinformed.* Free riding behavior may, however, not remain confined to monitoring recipients on behalf of donors. If donors want to "altruistically" affect the situation of the recipient in an outcome related fashion, achievement of the desired outcome may be a public good, and, hence, free riding behavior will render collection of donations difficult in the first place. This should suggest that gift relationships are more likely to emerge when there is a closely knit or homogenous group of donors that can handle the free rider problem.*

Finally, the attractiveness of a gift relationship from the point of view of the donor will depend on whether the gift can be made in specific enough a manner to induce the desired behavioral change or enforce continuation of some desired conduct. In this context, let me note two critical points. One refers to the possibility of substituting resources. As Bruno Frey argued in a paper entitled "Weapons Exports and Aid to Underdeveloped Countries",* grants in aid may free resources for purposes the donor expressly tries to obstruct. This points back to the problem of monitoring referred to above. Monitoring is particularly costly since the entire range of recipients' behavior needs to be supervised, not merely the use of the gift.

Secondly, a gift relationship will be the more attractive to a donor the more leverage he is allowed to retain over the recipient. Giving will be more attractive if the gift is divisible and if it is difficult for the recipient to substitute for the gift should it be suddenly withheld.

As to the recipient, many of the above considerations apply, though partly in a reverse sense. Most importantly, there are some benefits that are difficult to obtain in the market place, where they may be obtainable through a gift relationship. With respect to free riding, better organized groups are more likely to receive. Relatedly, the recipient may be able to help the donors to organize and reduce the extent of free riding among donors.

Obviously, the gift will be more attractive to the donee if the restrictions imposed by the donor are slight or easy to circumvent. Still, it may be in the interest of the recipient to facilitate the donor's task of monitoring, if the gift can thereby be increased. This follows from a variation of equation 2 above. Considering that the satisfaction from giving depends partly on the recipient's compliance with the donor's wishes, and since monitoring compliance is costly, we may rewrite equation 2:

(2') $F = A + E + M,$

where M stands for the costs of monitoring. Hence, with E being invariant, the recipient faces a tradeoff between the size of the gift and his independence. The more cooperative the recipient is, in facilitating the donor's task of monitoring, the larger the gift may be.

The recipient will, however, have a strong interest in remaining independent from the gift, since his obvious dependence may decrease the size of the gift. The more inelastic the recipient is with respect to receiving the gift, the less credible will be his threat to refuse acceptance of it. Therefore, E and the recipient's elasticity are inversely related, i.e. cet. par. the less elastic is the recipient's demand, the larger will be the donor's rent.

IV

In interpreting the Delta case, it is my contention that the Delta employees exchanged the gift for a reaffirmation of the security of their jobs.

One of the difficulties with this interpretation is that it is generally not shared by the participants in this particular gift exchange. This is, however, not an indication that the interpretation is incorrect. The assumption that individuals behave rationally does not include the rather different assumtpion that they intend to and consciously do so. The only important question in this context is whether the interpretation is borne out by the facts. It is this question to which I now turn.

From Richard Titmuss' study we have learnt that an atmospere of trust is an important ingredient of efficient gift relationships. The notion of a "Delta family" conveys the same idea. We may conclude that an atmosphere of trust was present, hence a gift relationship could develop. This atmosphere was, of course, a consequence of deliberate and long standing company policies.

In looking at the motives for giving, we can exclude the outcome related altruistic concerns. The airplane was one of twenty which the company had ordered and of which it would have taken delivery anyway. The act of the gift was the important aspect. The case does not neatly fit any one of the empirical situations mentioned above. The gift was completely voluntary, any one individual could not expect an individual reward. This is particularly true for the three initiators of the gift drive, who exposed themselves to

criticisms and had to give up their regular work pattern. Stimulating a re-affirmation of the traditional firm policies with respect to job security was, however, a very worthwhile end. The net present values of Delta jobs are substantially above industry level, which is why even slight improvements in their probality of retention are worth a sizable gift.
We can therefore conclude that a powerful motive for giving was present in an atmosphere which had been shaped by the recipient so as to be conducive to building up a gift relationship.

Looking at the decision to accept the gift we can start by noting that the gift involved no waste. The market value of the transferred plane was exactly equal to the price which had induced the recipient to buy the plane. It had already been ordered by the recipient who was training pilots on the model when the news of the gift drive arrived. While the gift was efficient, the opportunity costs were not zero. They seem to have been thought of as being substantial, since the board's "first inclination was to graciously decline." As the company president goes on to elaborate in the aforementioned memorandum, the board tried to contain these opportunity costs. The company was anxious to avoid the negative publicity which it feared if the public perceived the gift drive as a management sponsored pay cut. The extraordinary feature of this wage give back was that each individual employee was allowed to determine the extent and duration.

The donors' rent must be assumed to be substantial. The net present value of retaining employment with Delta over a period of ten years, if the highest valued opportunity thus foregone is employment with Eastern Airlines, Delta's main competitors in the labor market, exceeds $ 120,000 for a pilot, $ 30,000 for flight attendants $ 120,000 for lead mechanics. On the other hand, with a participation rate of 78 %, the pledges ranged between 1% and 5% for a period of up to two years. Predictably, the pilots had the highest contribution rate.

While the donors' rent was high, the convetional avenues for decreasing it were foreclosed to the recipient. A rejection of the gift would not have increased the gift size, since it would have crushed the yet unorganized gift drive. Management could neither involve itself with the gift drive for fear of raising the opportunity cost. The recipient was thus presented with a take it or leave it choice, and took the gift.

It is revealing to look at the form the gift took. The plane is, of course, largely symbolic. But it signifies the active expanding company, a condition for job security. The individual pledges for temporary wage give-backs, on the other hand, were not symbolic at all. Renunciation of the reaffirmed job security policies could have resulted in a like revocation of the pledges. A period of two years, from the point of view of the donors, must have looked like the time span which recovery of the airline industry would require.

We may conclude that the gift was chosen to be an efficient one and suitable for the purpose of winning reaffirmation of job security. While the gift involved little waste, it carried a huge donors' rent; and the circumstances of the gift were such that the recipient could not very well reappropriate part of that rent.

Could the same exchange have been accomplished in the market place? It is certainly not unheard of for a firm in financial difficulties to ask for wage give backs. Nor is it inconceivable that these give backs will be granted in exchange for assurances of job security. This is exactly the kind of exchange which unions and boards have negotiated during the recent economic recession. However, as I have pointed out in the introduction, the costs to the company of asking for wage concessions are high. They include adverse selection in the labor market - the most able and flexible employees are most likely to quit first - and in the product market. This point is important in the airline industry, since passengers make advance reservations and often remain loyal to one carrier. The extent of this loyalty showed up in those private contributions by frequent travelers mentioned above. Finally, requests for wage concessions send adverse signals to the financial community, on which airlines heavily rely in financing their jets as well as to input producers, notably the manufacturers of planes. Finally, it should be taken into account that the airline industry is still under some guidance by the regulatory authorities which, due to their (buraucratic) risk aversion, will prefer financially sound over weak carriers. Hence, the cost of negotiating a wage concession is extraordinarily high in the airline industry.

The benefits from an enhancement of their job security were higher than normal in the case under review. This is due partly to the excellent wages, partly to the tradition of promoting from within, which further increases the net present values of Delta jobs to an extent neglected in the figures reported above. This implies that from the point of view of the donors, an exchange of wage concessions in return for job security was more attractive than it would have been in a comparable firm. Since the costs of a market transaction were comparatively higher in the case under review, the climate for a gift exchange was particularly promising from the start.

On the other hand, we cannot ignore that the job security enhancements received were by far less tangible than might have been negotiated for through collective bargaining. But the intriguing side effect of a gift exchange as commpared to a negotiated wage give-back is the good will it creates with the business community on which the corporation relies. Hence, a highly desirable feature of this type of gift exchange is that the insurance which it provides for the donor covers a risk which is rendered smaller by virtue of the gift exchange itself. Undoubtedly, the major obstacle for a gift drive on the donors' side is the likelihood of free riding. The job security exchanged is a non-exclusionary public good, and the circumstances of the gift drive quite deliberately allowed free riding. Although it might have resulted in somewhat fewer (not necessarily lower) contributions, for the company this arrangement was valuable in itself, because it helped underscore the vitality of the firm.

In general, we can be confident that free riding will be more pervasive the larger the benefits derived. Hence, with relatively small contributions in exchange for a large benefit (i.e. the donors' rent), free riding should be expected to remain a somewhat contained phenomenon. Indeed, it included some 22 % of the company's employees. free riding was important, it was not important enough to make the gift exchange impractical.

V

This paper reports the case of an airline which is presented by its employees with a new jet. This unusual gift is interpreted as a gift exchange. While the company is shown to have received wage concesssions and a good will boost, the employees are demonstrated to have received enhanced job security in exchange. The interpretation of the case suggests that a gift exchange allowed for a more efficient transaction than an alternative market exchange.

Endnotes

I should like to acknowledge the assistance of Laurie Alexander and Melanie Benson in gathering information for this case study.

Page 1

Eirik G. Furubotn, Steven Neil Wiggins, "Plant Closings, Worker Reallocation Costs, and Efficiency Gains to Laobr Representation on Boards of Directors," Zeitschrift fuer die gesamte Staatswissenschaft 140, March 1984

Page 2

A. Michael Spence, Market Signaling. Cambridge: Harvard University Press

Page 3

A brief survey is given in part III

Page 4

However, retired and disabled employees as well as survivors were likewise eligible for participation in project 767, and they contributed too; and so did a few regular customers.

Particularly, two groups of retired personnel, the "Golden Wings" (pilots) and the "Delta Pioneers" (all employees with thirty years or more of service) donated some $ 50,000. Donations from the private sector through a group calling itself "Frieds of Delta" came in at over $ 50,000. In total, about 230 non-employees pledged over $ 100,000 or o.o5 % to project 767.

The quotes are from the "Project 767 Plan".

Page 5

Dated November 4, 1982

Page 1. In private conversation, company members noted that public relations considerations (i.e. "signaling") played an important part in these considerations. The plan of the three flight attendants had been prematurely leaked to the press, and company management, caught by surprise, was anxious to retain control over the initiative. Delta therefore asked the three flight attendants to take a (paid) leave of absence from their jobs in order to hold briefings at each base explaining and promoting their idea. While Delta also paid for their travel expenses, the many other volunteers who participated in the project were not reimbursed.

Page 6

This refers to the airline's founder, the late C. E. Woolman.

As witnessed by the struggle of Eastern Airlines, whichj operates from the same Atlanta base and with which comparisons are often made.

See for most of these details Janet Guyon, "'Family Feeling' at Delta Creates Loyal Workers, Enmity of Unions." Wall Street Journal July 7, 1980, pp. 13, 16

See Michael J. McManus, "Delta Airlines' Employees Are Treated With Love." Wall Street Journal, 1982. See also Business Week's Aug. 31 (1982) cover story.

Page 7

The present Chairman of the Board, e.g., started with the company as a reservationist. Similarly, all Delta executives "have moved up from ranks", a fact which considerably affectsthe net present value of expected life time earnings for the average Delta employee.

In keeping with this emphasis on job security, in 1957 and 1958 thirty flight engineers were transferred temporarily to Continental and Northeastern Airlines. They flew with those lines for a short period of time and returned to Delta after the economic crisis had subsided. Again, in 1973, when other airlines cut employment in response to the oil embargo, Delta reassigned 700 pilots and flight attendants to ramp and training department positions. Although reassignments have occurred, Delta has not laid off workers in 51 years.
"During peak periods, pilots and gate agents help load bags to speed up departures." Sine 1974, according to the CAB, Delta has had the fewest complaints per passenger boarded of any major airline. "'At Christmas, you see top management come and pitch in', says Scotty McCarthy, 31, who started as a baggage handler 10 years ago. 'I've gone over to Eastern at peak times and seen mountains and mountains of bags, and I've seen one guy trying to handle all this. Does anyone come over to help him? No ma'am.'" Wall Street Journal, Monday, July 7, 1980, pp. 13, 16)

This "loss" requires a word of explanation. While Delta's net income dropped 86 % to less than 21 millionm Delta also paid off 100 million $ worth of long term debts. So, in reality, Delta had a profitable year rather than an unprofitable one. Delta is also reported to have the lowest long term debt total of any airline in the industry.

The union members did not participate in the pay raise.

Page 10

Richard Titmuss, The Gift Relationship: From Human Blood to Social Policy. London: George Allen & Unwin 1971

Reuben Kessel

Page 11

Kenneth Arrow, "Gifts and Exchanges." Philosophy and Public Affairs, 1 (4), 1974

Page 12

Russell D. Roberts, "A Positive Model of Private Charity and Public Transfers." Journal of Political Economy 92 (1), February 1984, pp. 136-148

This is the underlying reason for the observed crowding out of private charity bu public transfers. See Russell 1984

Gordon Tullock, The Charity of the Uncharitable

Dissertations by Ireland and Johnson

Page 13

(Ireland 1973, p. 70)

(Johnson 1973, 9.92)

Page 14

Wilson Schmidt (1969)

(Alchian & Allen 1973, p. 7)

Page 16

(Alchian & Allen 1973, p. 7)

Page 30

Page 18

Richard A. Posner

Gordon Tullock

Page 19

With respect to empirical research on this and related propositions, see the experimental results by Werner W. Pommerehne and Friedrich Schneider, "Wie stet's mit den Trittbrettfahrern? Eine experimentelle Untersuchung." Zeitschrift fuer die gesamte Staatswissenschaft, 136 (2), June 1980, pp. 286-308

Bruno S. Frey, "Weapon Exports and Aid to Developing Countries." Journal of Peace Science, 1(2), Spring 1975

Page 20

Examples abound as when recipients organize special tours or "open door" events for donors. In the case under study, the task of monitoring is facilitated by the company's job training program which gives emplyees a better understanding of operations in which they are not involved. A more far reaching solution would involve employee participation in firing decisions.

Page 26

This is precisely the opposite of moral hazard. While in the case of moral hazard, the risk is increased due to the existence of insurance coverage (owing to opportunistic behavior by insurees), the gift exchange which trades job security against wage concessions reduces the risk of job loss, since the gift exchange enhances the good will capital of the firm.

Still, the company president, in registering his own contributing, "felt confident" that the other company officers had acted likewise.