The Influence of Performance Pay on Alcohol and Drug Use

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Friday, November 16, 2018
3:00 – 4:30 P.M.
Bruneau Centre Room IIC2001

Using a panel of young workers, we show cross-sectional evidence of greater alcohol and illicit drug use among those paid performance pay. Recognizing that this likely reflects worker sorting, we first control for risk and ability proxies. We then control for worker fixed effects and finally for worker-employer match fixed effects. These estimates continue to indicate that the risk of substance use increases when workers are moved to performance pay. While robustness tests examine heterogeneous responses, our evidence fits conjectures that stress and effort increase with performance pay as does the spillover coping mechanism of alcohol and drug use.

Funding provided by the Vice-President Academic’s “Support for Scholarship in the Arts at Memorial Program” and the Collaborative Applied Research in Economics (CARE) initiative.