

The Breakdown of Morale *

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Abstract

This paper studies how morale in teams can break down. It interprets high morale as team members working together productively, either because of a sense of fairness or because of implicit incentives from repeated interactions. Team members learn that lay-offs will occur at a fixed future date, which will eventually cause morale to break down.

The paper shows that the breakdown of morale can vary in size and the equilibrium outcomes can be Pareto ranked. A firm's measures to encourage cooperation may actually hurt morale, by convincing opportunistic team members to imitate and later take advantage of cooperative colleagues.

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