opportunistic and actions that correct past mismanagement. An incumbent management making these changes is likely to be censured in either case. In contrast, an acquiring management is censured only when these actions are perceived as opportunistic. An acquiring management will not be censured for making changes needed to correct the previous management's mismanagement. If acquirers can take actions harmful to workers and escape worker censure, then acquirers that have taken these actions will be less likely to switch away from the use of implicit contracts.

This study is organized in the following manner. The first section argues that defined benefit pension plans represent an implicit contract. Thus worker reluctance to accept these pension plans suggests that they do not trust the firm. The second section discusses the data. Section three examines whether the replacement of defined benefit pension plans with defined contribution pension plans is correlated with layoffs and wage reductions. Finally, concluding comments are offered in section four.

## 1. Defined Pension Plans as Implicit Contracts

There are two types of pension plans: defined contribution (DC) and defined benefit (DB) plans. A defined contribution plan is essentially a tax-deferred savings account funded by employer (and sometimes employee) contributions. These contributions usually are some fraction of the worker's compensation, are tax-deductible, and can accumulate tax-free. Vesting of workers in defined contribution plans occurs rapidly. Once vested, workers

with 272 participants. To treat RJR-Nabisco as a censured firm based on this one termination would be inappropriate.

Finally, a list of Compustat firms that were acquired by other Compustat firms was constructed from several sources. These sources include Grimm's Mergerstat, Mergers and Acquisitions, and Announcements of Mergers and Acquisitions (1979-1983). Since these publications report acquisitions of significant blocks of stock as well as acquisitions of entire firms, the Directory of Corporate Affiliations and the Wall Street Journal Index were used to confirm that the firm's ownership had in fact changed hands.

In these tests an acquiring firm is a Compustat firm that acquired another Compustat firm at least one-fifth its size (in annual sales). Changes in employment or wages at an acquiring firm represent changes in both the firm's acquired and initial operations. It is assumed that if an acquiring firm reduces employment the reduction occurs mainly in the acquired operations. It seems plausible that the acquiring firm would at least eliminate redundant central office staff in the acquired operations. Lichtenberg and Siegel offer some evidence that this is the case.[8] It is also assumed that an acquirer would reduce wages primarily in the acquired operations. This is consistent with theories that takeovers are disciplinary. Presumably, an acquirer would bring labor costs down in his own operations

[8] F. Lichtenberg and D. Siegel, The Effect of Takeovers on Employment and Wages of Central-Office and Other Personal, NBER Working Paper No. 2895, (1989).

Table 5

PROBIT ESTIMATES OF THE IMPACT OF CHANGES IN PER EMPLOYEE WAGES ON THE PROBABILITY OF A DB-DC OR A DB-NO PLAN SWITCH

| MODEL NO. | 7 | 8 |
|---|---|---|
| Intercept ($\alpha_1$) | -2.35<br>(-26.7)* | -2.32<br>(-20.1)* |
| $D_1$ ($\alpha_2$) | -1.83<br>(-0.32) | -1.86<br>(-0.32) |
| WAGES1 ($\beta_1$) | -2.15<br>(-2.68)* | -2.20<br>(-2.71)* |
| $D_1$ WAGES1 ($\beta_2$) | 2.15<br>(0.06) | 2.18<br>(0.06) |
| WAGES2 ($\beta_3$) | | -0.40<br>(-0.47) |
| $D_1$ WAGES2 ($\beta_4$) | | 0.41<br>(0.01) |
| $X^2$ value of likelihood | 15.0 * | 15.4 * |
| ratio test with degrees of freedom | 3 | 5 |

observations

| | |
|---|---|
| TERM = 0: | 2814 |
| TERM = 1: | 19 |
| total: | 2833 |

t-statistics are in parentheses

* significant at the 0.05 level