

THE CHANNEL KEEPS IT · CHAPTER FIVE

The Five-Dollar Day, Reread

Chapter Five of The Channel Keeps It

Ammanuel Santa Anna

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A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

ABSTRACT

On 5 January 1914, the Ford Motor Company announced that it would pay the men at its Highland Park plant in Michigan five dollars for an eight-hour day. The rate it replaced was two dollars and thirty-four cents for a nine-hour day. Within days, thousands of men were waiting at the plant gates in the cold, far more than there were jobs. The company had set out to solve a labour problem and had, for a few weeks, created a crowd. Seventy-three years later, two economists, Daniel Raff and Lawrence Summers, went back to the company's records and the contemporary accounts to ask what the five-dollar day had actually been. Their question was Akerlof's: was this a firm paying more than the market required in order to get something the market could not deliver? Their answer was yes. Ford had been losing workers almost as fast as it could hire them, and the work on the new moving assembly line was gruelling and easy to do badly.

CHAPTER FIVE

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A queue in January

On 5 January 1914, the Ford Motor Company announced that it would pay the men at its Highland Park plant in Michigan five dollars for an eight-hour day. The rate it replaced was two dollars and thirty-four cents for a nine-hour day.[25] Within days, thousands of men were waiting at the plant gates in the cold, far more than there were jobs. The company had set out to solve a labour problem and had, for a few weeks, created a crowd.

Seventy-three years later, two economists, Daniel Raff and Lawrence Summers, went back to the company's records and the contemporary accounts to ask what the five-dollar day had actually been.[26] Their question was Akerlof's: was this a firm paying more than the market required in order to get something the market could not deliver? Their answer was yes. Ford had been losing workers almost as fast as it could hire them, and the work on the new moving assembly line was gruelling and easy to do badly. The five-dollar day, they concluded, was "most plausibly the consequence of labor problems of the kind efficiency wage theorists stress." There were substantial queues for Ford jobs. Productivity and profits rose under the new regime.

The earlier chapters set out the idea that a wage above the market can be a gift, returned in effort that no contract could specify; showed how often that gift fails; and read reciprocity as a living system. This chapter works the idea through one documented case and one composite, labelled as such, and follows every figure to its source. Its claim: a gift wage works when it is received as attention inside a relationship that people can see and shape, and it turns into control when it arrives with conditions the recipient did not choose. Ford's five-dollar day did both, which is why it is the right case to begin with.

What came with the five dollars

The five dollars was not, strictly, a flat wage. Ford presented the increase as a share in the company's profits, paid on top of a basic wage to workers who qualified for it. To qualify, a man had to meet conditions, and the most notable of them concerned how he lived.

To check, the company relied on what it called its Sociological Department, set up in 1913. Its investigators visited workers' homes and were responsible for deciding whether a man's personal life and habits made him eligible for the full wage. They asked about drinking, savings, cleanliness, and whether a man's family lived as the company thought a family should. A worker who did not meet the standard could have the supplement withheld until he did. The museum that holds Ford's archive records that this phase ended with a reorganisation of the company in 1920.[25] Raff and Summers treat the structure as consistent with efficiency-wage theory: the firm wanted reliable workers and used the supplement to select and shape them. Later historians have been less neutral about it.

Read through Mauss, the five-dollar day was two things at once. It was a gift in Akerlof's sense: pay well above what the market demanded, offered in the hope of effort and loyalty in return, and visibly answered, in the queues and in the productivity that Raff and Summers document. And it was the gift that dominates, the shadow Chapter 3 described: a generosity that could not be refused on its own terms, came with inspection, and asked the recipient to live as the giver wished.

Ecstatic Economics makes the distinction in its discussion of workplace pay. Speaking of salary transparency, it adds a condition that applies to every gift wage: "This is not a universal prescription. Compensation transparency requires genuine equity in the underlying system — you can't make an unjust system transparent and expect positive results." The same is true of generosity. A gift laid on top of an arrangement people experience as unfair, or as intrusive, is received as part of that arrangement.

The historical record is clear that the five-dollar day raised pay and drew workers. It is less clear how much of the improvement in Ford's results came from the gift and how much from selection, from the shorter shift, or from the plant's other changes in the same years. Raff and Summers found strong support for the theory; they did not, and could not, run an experiment. That is the limit of the case, and it is stated here because it is the limit of nearly every historical case of this kind.

The gift in a letter

A cleaner test of the mechanism, with the relationship stripped to its minimum, came in 2007. Armin Falk, working with a charitable organisation, sent roughly ten thousand letters asking for donations.[27] A third contained no gift. A third contained a small gift. A third contained a larger one. The letters were assigned at random.

Compared with the letters carrying no gift, the share of recipients who donated rose by 17 percent when a small gift was enclosed and by 75 percent when the gift was larger. Those are relative increases in the frequency of donating, as the paper reports them, not increases in the amount raised.

The letters were addressed to strangers who would never meet the charity's staff. The gift still created an obligation that a measurable number of people chose to honour. Set beside Gneezy and List's fading wage

gift in Chapter 3, the result suggests that the gift's first effect is strong almost everywhere and that its staying power depends on what follows. A letter asks once. A job asks every morning.

Santa Anna's book, in its practice on co-regulation, describes the stance a leader needs for the second kind of asking. Bring warmth and attention into economic exchanges, it says, "Not as a strategy or manipulation, but as an offering." The distinction is the one Ford's investigators missed. An offering can be declined. A strategy that cannot be declined is a condition.

A kitchen, worked through

What follows is a composite, built for teaching. It is not a real business, and every figure in it was set by the writer to make the arithmetic clear. Its owner is called Maren.

Maren runs a catering kitchen with twenty-four staff: sixteen on the line and in preparation, four drivers, two in the office, and two senior cooks. Pay is near the local market rate for each role. Turnover on the line has been high for two years; she loses roughly one line cook a month and spends, by her own estimate, about four weeks of a senior cook's attention training each replacement. She has set aside a budget equal to about six percent of the annual wage bill to do something about it.

Her first plan is the five-dollar day in miniature: a raise of six percent for everyone, announced at the next staff meeting. The evidence of the last three chapters suggests three refinements before she does it.

First, separate the contract from the gift. Chapter 3's crowding-out evidence argues that pay people are owed should be paid plainly, through the contract, and never presented as a favour. Maren checks her rates against the local market and finds that the line cooks are two percent below it and the drivers are at it. She raises the line cooks by two percent through their contracts, with no speech. That uses about a third of her budget and closes a gap that was being read, correctly, as unfair. It is not a gift. It is a correction.

Second, make the remaining gift attentive. The Kube, Maréchal and Puppe result in Chapter 3 suggests that the same money buys more reciprocity when it is visibly chosen for the person. Maren takes the remaining two thirds of the budget and asks each staff member, privately, what would make the job better in a way money from her could pay for. The answers are not what she expected. Four of the line cooks want the rota fixed two weeks in advance rather than one. Two drivers want their own vans rather than a pool. Several people want paid time for a food hygiene course they have been putting off. One senior cook wants a day a month to develop new dishes. None of this is costless; all of it can be priced, and the total fits the budget with a margin.

Third, let people refuse. Nothing in the second round is mandatory. A cook who prefers the old rota keeps it. Nobody's home is inspected and nobody's hours are monitored in a new way. The book's warning about measurement applies here: "If a cooperative measures its success only in financial terms, it will gradually drift toward extractive behavior." Maren decides to measure two things only: monthly turnover on the line,

and the number of shifts covered by volunteers when someone is ill, which she has never counted before and which is, in Akerlof's terms, the gift coming back.

Following the figures

Because this is a composite, the numbers cannot prove anything. They can show the shape of the reasoning, and the provenance of each is set out here so that a reader with a real kitchen can replace them.

The six percent budget is Maren's choice, set by the writer. The two percent gap was found by comparison with a local wage survey, which in a real case would be named and dated. The roughly one leaver a month and four weeks of training per replacement are Maren's own estimates; in a real case they would come from the payroll and the rota. Turnover before and after is the measure, and in a real case it would be compared over at least two quarters, with the season noted, because catering turnover rises and falls with the calendar.

What the kitchen cannot show, any more than Highland Park could, is which part of the change did the work. The correction, the chosen gifts and the absence of inspection all happen at once. A larger firm could stagger them across sites. A kitchen of twenty-four cannot, and should not pretend to know more than it does. The honest report after two quarters is: here is what we changed, here is what happened, here is what we believe and why. Chapter 9, on measurement, sets out how to write that report so that it can be trusted.

In the composite, suppose turnover on the line falls to one leaver a quarter and volunteer cover rises from rare to usual. Maren cannot attribute it. She can say that the people who stayed are the people she asked, and that the line she opened by asking has stayed open. That is Mauss's measure, not an economist's, and it is the right one for a firm her size.

Three lessons from the case

The first is that a gift wage is rarely only a gift. Ford's was a gift, a selection device and a means of control, and the workers knew it. The design question is not whether to pay above the market but what the payment says, and whether the person receiving it can read it as attention rather than as a lever.

The second is that the first response to a gift is strong and its durability is earned. Falk's letters and Gneezy and List's short jobs show the first response. The longer pattern depends on whether the relationship keeps answering. Two sibling volumes trace what makes the answer durable: the evidence on employee ownership and profit sharing (*Owning the Work*), where people share in the outcome as well as the wage, and the history of gainsharing (*The Gain Was Always Shared*), where firms learned that a shared gain holds only when the people sharing it also shape the work.

The third is that the gift has to be refusable. Santa Anna's book says of money that it is "a design choice, not a law of nature." So is every gift a firm makes. The five-dollar day was designed, and part of its design

was an investigator at the door. Maren's kitchen is designed too, and part of its design is a question asked privately and an answer that could be no.

The queue at Highland Park in January 1914 is the image the case leaves. It shows that a gift, made large enough and plainly enough, brings people to the gate. What happened after they came through it depended on what was waiting inside. The next chapter follows a firm that has spent four decades on that question.

The Tool: The Gift Design Sheet

A sheet for a leader or a household planning any discretionary gift: a raise beyond the contract, a bonus, a benefit, a day off, help offered to a family member. It takes an hour to complete and a quarter to read.

Part A · Separate the lines (15 minutes).

QUESTION	ANSWER
What is this person or group owed by contract, agreement or fairness, and are they getting it now?	
If not, what is the gap, measured against what source, on what date?	
Close the gap first, plainly. Cost:	
Remaining budget for the gift:	

Part B · Ask before giving (one week).- Ask each recipient privately: "What would make this better in a way I could pay for or arrange?" Write their words, not your summary.- Group the answers. Note which cost money, which cost time, which cost a rule.- Mark anything you hear more than twice.

Part C · Design the gift (20 minutes).For each gift you choose, complete one line:

RECIPIENT	THE GIFT	WHY IT WAS CHOSEN FOR THEM	CAN THEY DECLINE IT WITHOUT COST? (YES/NO)	ANY CONDITION ATTACHED?

If any line answers *no* to the fourth column or has an entry in the fifth, rewrite the gift until it does not, or move it to Part A as a term of the contract and pay it as one.

Part D · Choose two measures (10 minutes).- One outcome you hoped to change (turnover, missed handovers, a family member's stress), with its current level and source.- One return you have never counted before (volunteered cover, ideas offered, help given unasked), with a way to count it that nobody experiences as surveillance.- Do not add a third.

Part E · Give, then wait (one quarter).- Give each gift with one sentence that names what you noticed: "You asked for the rota two weeks ahead; it starts on the first."- Do not ask for anything back. Do not mention the gift again.

Part F · Read the quarter (15 minutes).- Outcome measure, before and after:- Return measure, before and after:- What else changed in the same quarter (season, staff, prices):- What you now believe, and what you cannot tell:

References

1. The Henry Ford (museum and archive), "Henry Ford: Sociological Department", collections set, read 19 October 2026: the five dollars for an eight-hour day against the previous $2.34 for a nine-hour day; the Sociological Department's founding in 1913, its home investigations and its role in deciding eligibility for the full wage; and its end with the company's reorganisation in 1920. The date of 5 January 1914 is the widely documented date of the announcement. The presentation of the increase as profit sharing on top of a basic wage is from Raff and Summers's account and general histories; the exact split was not re-read in a primary document and is therefore not given.
2. Raff, D. M. G., & Summers, L. H. (1987). Did Henry Ford pay efficiency wages? *Journal of Labor Economics*, 5(4, Part 2), S57–S86. https://doi.org/10.1086/298165. A historical study from company records and contemporary sources; it supports the efficiency-wage reading but cannot separate the effect of the wage from the other changes Ford made in the same period. Its own turnover figures are not reproduced here.
3. Falk, A. (2007). Gift exchange in the field. *Econometrica*, 75(5), 1501–1511. https://doi.org/10.1111/j.1468-0262.2007.00800.x. One charity, one mailing; the 17 and 75 percent figures are relative increases in the frequency of donations, from the paper's abstract.

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