

DO LARGER SEVERANCE PAYMENTS INCREASE INDIVIDUAL JOB DURATION

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This paper analyzes the effect of severance payments on the probability of separation at given tenure, wages and other individual and firms characteristics. It studies a mandatory deferred wage scheme of the Italian labour market. Deferred wages increase job duration if two conditions hold : wages are rigidly set outside the employer-employee relationship, and past provisions are accumulated at interest rates that are below market rates. Under such circumstances, workers who draw from their accumulated stock of unpaid wages should experience, at given tenure, a subsequent increase in the probability of separation. This prediction appears empirically robust and quantitatively sizeable; a draw of 50% of the TFR stocks increases the instantaneous hazard rate if jobs termination by some 30%. A variety of robustness test support this results.

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