The Economics of Prozac.

(Do employees really gain from strong employment protection?)*

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Abstract

Unlike many other contracts, employment contracts are subject to various external administrative procedures governing separations, ranging from compulsory severance payments and advance notice periods (usually seniority based), to collective layoff procedures (usually depending on the firm’s size), and other forms of protections against arbitrary dismissal. These external constraints may raise the wellbeing of workers if everything remains constant, but may fail to do so once other economic channels are accounted for.

Here, we explore the effect of such legislation on the firm’s attitude towards insiders (i.e. protected workers), notably worker monitoring, working environment, and ultimately what we could term harassment. We show that during downturns, harassing workers in order to induce a quit is a substitute for greater dismissal freedom, and that intense monitoring and depreciated working conditions will occur. Thus, a more protected workforce may loose more than it gains from non-pecuniary pressures exerted by the firm.

We test these mechanisms using data from a panel of Canadian individuals (the National Public Health Survey) including details on work-related stress and the consumption of various medications, including anti-depressants. By exploiting cross-province differences in employment protection legislation, we show strong positive links between individual employment protection and some dimensions of stress, and weaker but positive links between employment protection, depression and the consumption of various psychotropic drugs. Tenure and firm size information from another dataset is then used to generate further variance in EPL by imputation, confirming the previous results.

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