

# IAB-Colloquium zur Arbeitsmarkt- und Berufsforschung

## Job Security, Severance Pay Exemption and Employer Moral Hazard in Recessions

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The paper studies the consequences of an exceptional labor market policy to secure jobs in times of recession in the Netherlands. The program is a combination of preventive checks of permanent worker contract terminations and the possibility for a firm in demise to obtain severance pay exemption for the workers concerned. A theoretical equilibrium model predicts when the wage elasticity of labor demand exceeds the inverse of the sum of the replacement ratio and the severance pay rate a system of severance pay exemption is less costly than the alternative of additional unemployment insurance benefits. A novel data set identifies key differences in procedural durations and firing costs distributions with and without the exemption policy for permanent contract terminations of individual workers during the period 2006-2009. The empirical analysis indicates that the policy contributes positively to slowing down the increasing rate of unemployment in recessions.

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