

The Economics of Prozac*

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Abstract

Unlike many contracts, employment contracts are subject to various external administrative procedures ruling separations, ranging from compulsory severance payment and advance notice periods (usually seniority based), collective layoffs procedure (usually depending on firm's size) and other forms of protections against arbitrary dismissal. These external constraints raise the well-being of workers everything else unchanged, but may fail to do so once other economic channels are accounted for. The most studied example is given by firing regulations reducing job creations and adversely affecting outsiders. Here, we explore the effect such legislations on firms' attitude towards insiders (i.e. protected workers), notably workers' monitoring, working environment and ultimately what one calls harassment. We show that in downturns, harrasing workers in order to induce a quit is a substitute to greater dismissal freedom ; intense monitoring and depreciated working conditions will also occur. A more protected workforce may thus suffer more than it gains from non-pecuniary pressures from the firm.

We test these chanel on a panel of Canadian households (the National Public Health Survey) which includes detailed data on stress at work and consumption of various medications including anti-depressants. Exploiting cross-provinces differences in employment protection legislation, we exhibit very strong positive links between employment protection and stress and mild but positive links between employment protection and consumption of anti-depressants. We also look at the effect of the economic cycle and the tightness of local labor markets on workers' distress.

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