IZA

Rent-Sharing, Hold-up, and Wages: Evidence from Matched Panel Data
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(October 2011)

Abstract:
It is widely believed that rent-sharing reduces the incentives for investment when long term contracts are infeasible becaus
some of the returns to sunk capital are captured by workers. We propose a simple test for the degree of hold-up based on
fraction of capital costs that are deducted from the quasi-rent that determines negotiated wages. We implement the test us
data set that combines Social Security earnings records for workers in the Veneto region of Italy with detailed financial
information for employers. We find strong evidence of rent-sharing, with an elasticity of wages with respect to current profit
of the firm of 3-7%, arising mainly from firms in concentrated industries. On the other hand we find little evidence that barga
lowers the return on investment. Instead, firm-level bargaining appears to split the rents after deducting the full cost of capit

Text: See Discussion Paper No. 6086

Back