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Rent-Sharing, Hold-up, and Wages: Evidence from Matched Panel Data

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Abstract:

It is widely believed that rent-sharing reduces the incentives for investment when long term contracts are infeasible because some of the returns to sunk capital are captured by workers. We propose a simple test for the degree of hold-up based on the fraction of capital costs that are deducted from the quasi-rent that determines negotiated wages. We implement the test using a 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 profits of the firm of 3-7%, arising mainly from firms in concentrated industries. On the other hand we find little evidence that bargaining lowers the return on investment. Instead, firm-level bargaining appears to split the rents after deducting the full cost of capital.

Text: See [Discussion Paper No. 6086](#)

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