

Mitigating Mobility Frictions: The Effect of Cash-on-Hand on Labor Mobility

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Abstract

Providing recently laid off workers with cash benefits may help them overcome mobility costs and thereby stimulate labor mobility. On the other hand cash benefit may dampen the employment shock and reduce the incentive to move. In this paper, we test these two competing mechanisms against each other. For this we use a severance pay regulation in Austria, which generated a sharp cutoff after which workers became eligible to a severance payment of two monthly salaries. Our results indicate that this cash payment increased labor mobility by around 8% to 12%. This increase is much stronger for worker groups with lower baseline mobility rates.

Keywords: Unemployment, labor mobility, internal migration, commuting

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