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IZA DP No. 11068

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ABSTRACT

Employer-Provided Severance Pay: The Emergence of Job Displacement Insurance, 1930–1954*

Employer-provided severance pay plans became common during the Great Depression, a reaction to (i) large-scale layoffs of long-service workers, and (ii) the growing formalism of the employment relationship. Reasonably consistent series are constructed for severance plan coverage and structure by broad occupational group (office or factory workers) over the next two decades based on an ambitious series of surveys conducted by the National Industrial Conference Board. By 1953/54, approximately one-third of surveyed companies reported having a formal severance plan for nonexempt salary workers and one-sixth for hourly workers. Over much of the period, modal long-service plans offered benefits of a week's pay for each year of service, although many firms, especially those outside the manufacturing sector, offered flat-rate "notice" payments of only a week or two. Surprisingly, coverage levels were only modest higher in 1954 than in the late 1930s. The stability of plan coverage and design in the face of large changes in economic conditions and labor relations remains a puzzle.

JEL Classification: J65, J32, J33

Keywords: severance pay, wage insurance, unemployment insurance, job displacement insurance, advance notice, layoff, Great Depression

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* Early support from the George Washington Institute of Public Policy (GWIPP) as a public policy scholar is gratefully acknowledged as are the related efforts of Sheenae Noh to create a digital version of the 1953 NICB microdata. An early version of this paper was circulated under the title "The Emergence of Private Job Displacement Insurance in the United States: Severance Pay Plans 1930–1954" (October 2005).

"The issue of income and job security is like *Brigadoon*. It materializes out of the economic mists after every severe recession. But it is a constant presence in some families; in some industries; in some occupations." Freedman (1978, p.ii)

I. Introduction

Severance pay has recently reemerged as a potentially important policy option as evidence of the large reemployment wage losses of long-tenured displaced workers has accumulated,[1] and concerns about the distortionary effects of severance pay have eased.[2] Government-mandated severance pay is almost universal internationally--Holzmann, Pouget, Weber, and Vodopevic (2012)--but remains a voluntary, employer-provided fringe benefit in the U.S., Parsons (2013).[3] This paper documents the early history of employer-provided severance pay in the United States, its design, prevalence, and dynamics.

The Great Depression provided an obvious impetus to the development of public and private job displacement insurance, Figure 1. The public unemployment insurance (UI) system, its genesis, and its evolution have been carefully studied.[4] The framework for state adoption of UI plans was set out in the Social Security Act of 1935. Within two years all states had established plans, shortly after began collecting payroll taxes, and by 1940 were paying benefits to workers. However, among long-service (high tenured) workers, losses from permanent job separation (job displacement) were/are largely the consequence of sharply lower reemployment wages, not periods of unemployment. Employer-provided severance pay, essentially scheduled

1 Surveys of the U.S. displacement loss literature include Jacobson, LaLonde, and Sullivan (1993), Fallick (1996), Kletzer (1998), Farber (2004, 2011), Couch and Placzek (2010), and von Wachter (2010). See the contributions in Kuhn (2002) for an international perspective.

2 See Parsons (2012) for a review of severance impact studies.

3 Or part of a collective bargaining agreement, in the U.S. or internationally.

4 For excellent discussions of the early years of the public unemployment insurance program, see Douglas (1939), Haber and Murray (1966), and Baicker, Goldin, and Katz (1998). ILO (1955) provides an account of the early development of public systems internationally. Nelson (1969), provides an authoritative account of the UI developments earlier in the century.

(or fixed sum) wage insurance, would seem a natural market response to these losses, an important component of job displacement insurance.[5]

<figure 1>

Access to another job is of course the worker's primary insurance against permanent job displacement, so it is not surprising that severance pay emerged from the custom of advance notice, a two-sided, implicit obligation to give both employers and employees reasonable time to find an alternative match.[6] As Everett D. Hawkins, the preeminent academic scholar on severance pay of the time, reported in 1940:

> …the use of dismissal compensation developed in many cases as a substitute for notice. Today [1940] many plans use notice and compensation interchangeably. In some, notice is customary, while in others compensation is preferred. Many of the more developed plans provide for both notice and compensation." Hawkins (1940, pp.8-9).

The Great Depression exposed the limitations of "next-job" as insurance at the same time that it generated an unusual number of displacements of long-service workers. Summarizing a compilation of company interviews, questionnaires, and letters from 329 U.S. companies with some type of severance pay plan,[7] Hawkins wrote:

> …dismissal compensation for wage earners and a formal scale of payments for salaried employees is a phenomenon, rather largely, of the last ten or twelve years…The depression greatly accelerated the payment of dismissal compensation and the adoption of definitely formalized plans…Forces had to be pared, including in many instances officials and long service workers. Over one-half of the firms reported that their plans were first formalized in 1930, 1931, or 1932, although compensation may have been paid informally for a number of years. Hawkins (1940, pp. 30-31).

It might be natural to imagine that severance coverage blossomed during the subsequent war and early post-war years as legislation, notably the National Labor Relations Act of 1935 and the Fair Labor Standards Act of 1938, made the employment relationship in the United States more formal. Surprisingly this was not the case. After rapid early growth, severance coverage

[5] For discussions of job displacement insurance and its underlying theory, see Parsons (2015, forthcoming.)
[6] For general reviews of employment contracting issues, see Parsons (1986) and Malcomson (1999).
[7] For more details on the method of data collection, see the full text and sources cited in Hawkins, Table 1, p.30.

and structure remained static over the war and post-war years as job displacement concerns eased.

The data in this study largely derive from a remarkable series of employer surveys conducted by the private, non-profit National Industrial Conference Board (NICB).[8] Three types of NICB surveys can be distinguished: (i) intensive surveys of severance pay structure in companies with severance plans; (ii) broader surveys of fringe benefit practices that focused on coverage, but often included significant plan details; and (iii) simple check-list enumerations of company personnel practices that provided important information on the prevalence of severance plans and other fringe benefit plans, but little on plan structure. Reflecting the membership of the National Industrial Conference Board, the surveys oversampled medium and large industrial companies. The precise severance pay questions varied over the period and care is required in reconciling the statistics. In only one case, a checklist enumeration survey conducted in 1953, has a transcription of the original data been preserved, so that unusual effort is devoted to assessing tabular results from published NICB survey results.

In the next section I describe the NICB surveys in greater detail. In Section III, the historical background is sketched, emphasizing the rapid formalization of the employment relationship between 1935 and 1954. In Section IV, severance pay is defined, and the evolution of severance pay *design* over this period is developed. The NICB severance surveys provide a detailed picture of severance practices, including plan coverage, benefit qualifying events, benefit magnitude, method of payment, and benefit financing. The broader *personnel practices* surveys conducted between 1937 and 1954 supply additional plan details. The limited evidence of severance coverage in the 1930s and earlier is then reviewed In Section V, and estimates of severance coverage from large-scale *check-list enumerations* of 1935, 1939, and 1953 (for

[8] Although Hawkins undertook original survey work, his survey design depends heavily on early NICB surveys and his samples extended the NICB data of that period.

hourly workers in all years and for salaried workers in 1953) reported in Section VI. Finally evidence on coverage trends, from personal practice surveys for 1940, 1948, and 1954 are developed in Sections VII and VIII, total and service-linked gradient plans (essentially scheduled job displacement insurance) alone respectively.

A major difficulty with the NICB data is the nature of the sampling, NICB members and in some cases the absence of a careful description of the methods used to draw survey samples. Fortunately the 1954 *personnel practice survey* estimates can be compared with those from a severance study sponsored by the American Management Association in 1957, in which the sampling technique was explicit, Haas and Floyd (1957), Section IX. Estimates from the AMA study, which was a random sample of companies with 400 or more employees, broadly parallel the results of contemporaneous NICB studies. The [limited] coverage of hourly workers is also confirmed by severance plan coverage estimates from collective bargaining agreements, collected sporadically by the Bureau of Labor Statistics (1945, 1948, 1951 and 1957), Section X. Section XI concludes.

II. The National Industrial Conference Board (NICB) Surveys

In the absence of large scale surveying of employment practices by government agencies, the NICB conducted a variety of company surveys over this period, the largest involving in excess of 2,000 companies. As noted in the introduction, three NICB series can be distinguished:

(i) intensive studies of severance pay plans for companies with severance plans in 1936, 1942, and 1953, NICB (1937a, 1943a, 1954a);

(ii) surveys of personnel practices in 1937, 1940, 1943, 1948, and 1954 that focused on prevalence, but included significant plan details for companies with plans— NICB (1937b, 1940b, 1943b, 1948, and 1954b);[9] and

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[9] The dating of the *personnel practices* surveys is often inexact, so the dates should be considered approximate. As the 1940 revision notes, the "information [is] brought up to date as of 1940 NICB [Donovan] (1940b, p.3). The 1954 study reports partially piggy-backing on the 1953 fringe benefit survey, which would place the survey, in part at least, in 1953. Given the dating of the other two series, the severance practice surveys and the prevalence check-list surveys, one could reasonably

(iii) simple check-list enumerations of company personnel practices, essentially prevalence only, circulated to thousands of companies in 1935, 1939, and 1953, NICB (1936a, 1940a, 1954c).

Key characteristics of the various data sets, including sample sizes and sectoral distributions, are summarized in the Appendix Table.

A key political purpose of the surveys was to accumulate evidence of efforts of NICB members to provide income support for workers, including tabulations of prevailing employment practices, so it is not surprising that the samples reflected the membership and disproportionately included relatively large industrial companies, especially heavy manufacturing companies. The industrial mixes, which changed over time, are illustrated in Figure 2 for the three large-scale enumeration surveys conducted in 1935, 1939, and 1953, Panels A through C respectively. The dominance of machinery and fabricated metal companies declined somewhat over the period, but remained a feature of the samples throughout.[10]

<figure 2>

Relatively novel activities often introduce surveying difficulties, and the severance questions evolved in the first few years after the practice became common-place. Even the term "severance pay," to indicate a payment to involuntarily and permanently separated workers in excess of accrued wages and benefits, replaced the earlier term "dismissal compensation" only in 1950. Care is therefore required in comparing the statistics over time and across occupational groups. Most NICB surveys distinguish two occupational groups—wage or hourly earners and salaried workers. A transition from "wage earner" to "hourly worker" occurred about 1940 and was symptomatic of deeper trends. The Fair Labor Standards Act of 1938 apparently induced many companies to start paying many nonsupervisory or "nonexempt" office workers

estimate that all surveys were executed the year prior to the publication date, but perhaps included responses that came in the publication year. As a convention, absent other information I use the date of publication for the survey year for these surveys.

10 The NICB surveys of employment practices, which remained active through 1979, became increasingly representative of the broader medium and large firm economy after 1954, Parsons (2017).

hourly rather than by salary, NICB (1954a).[11] Given the occupational differential in severance pay coverage, with severance much more common among office workers, and, *assuming no change in actual severance policies*, this categorical change would induce an increase in measured severance coverage of hourly workers.[12] The definition of salaried workers is also not unambiguous, with surveys of salaried workers sometimes limited to nonexempt or nonsupervisory salaried workers after 1940. In discussions of survey results over much of this period, nonexempt salary workers were called "clerical workers" by the contemporaneous analyst, NICB (1937a, 1940a, 1954a).

In most cases reconciliation of data across survey dates or across occupations can only be approximate, because *in general* only the reported tables survive, not the data nor the questionnaires. Often the logic of the question structure only becomes apparent when various years of the same type of analysis can be compared.

III. Background: The Evolving Workplace[13]

Employment relationships became more regular between 1935 and 1953/54, especially those of hourly workers, whose labor markets were transformed by the National Labor Relations Act of 1935 and the Fair Labor Standards Act of 1938.[14] The rapidly increasing regularity of the employment relationship is clearly reflected in the growth of paid vacations and holidays. In

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[11] "When government regulations required that office workers be paid overtime, some companies, to facilitate payroll procedures, transferred them to the hourly rolls. And thus the term "hourly employee," once identified with "production worker" or "wage earner," no longer has this connotation. The practices relating to hourly employees in this survey, while applying for the most part to production workers, include those affecting some office workers." NICB [Seybold] (1954b, pp.2-3)

[12] The impact of the recategorization is less clear for salaried workers.

[13] For historical treatments of this important process, see Jacoby (1992). Goldin (2000), and Owen (2004). Goldin (2000, p.585) summarizes the literature, "The modern market of longer-term contracts, it is believed, arose in the United States sometime in the 1940s and 1950s and replaced a rather chaotic market in which workers often migrated among jobs across the seasons, the business cycle, and in general."

[14] The collection of social security payroll taxes and state unemployment insurance payroll taxes began in 1937. The introduction of income tax withholding in 1943 under the Current Tax Payment Act of 1943 also likely contributed to the formalization of the employment relationship in medium and large establishments.

1935, paid time-off among salaried workers was a well-established, if far from universal practice; more than 60 percent of companies provided vacation pay to salaried workers in all industries except mining, more than 60 percent provided holiday pay in all except mining and the service industry, Figure 3A. It was much less common among hourly workers. The exceptions, as we shall see, were the same industries likely to offer severance pay to hourly workers---banking, insurance, wholesale and retail, public utilities, petroleum refining, and chemicals. The link is hardly coincidental; both paid time-off and severance pay signal a long term relationship with the company. Four years later, 1939, paid vacations and holidays were almost universal among salaried workers, and paid vacations had become common among hourly workers, Figure 3B. By 1954, virtually all the companies in the NICB survey provided both paid vacations and holidays to (non-exempt) salaried workers and hourly workers alike, Figure 3C.

<figure 3>

Reemployment wage losses following job displacement are increasing in service or tenure, so that large losses require regular employment, employment that is only occasionally punctuated by large employment shocks. One would expect then that job displacement risk would rise as workers accumulate tenure on more regular jobs.

IV. Severance Insurance Design

The severance pay surveys of employers known to have plans cannot provide direct estimates of plan coverage, but can provide information on the design of plans. The personnel practice surveys provide additional, if more limited plan descriptions. Major elements in any formal plan include:

(i) qualifying events for benefit status;
(ii) the benefit amount and method of distribution; and
(iii) the nature of plan finance, i.e. reserves, pay-as-you-go, reinsurance with third parties.

In this section I summarize the evidence on the *form* of severance plans and their evolution through 1954.

Severance pay was a form of job displacement insurance. Benefits were normally limited to workers suffering involuntary, permanent separations, without prejudice to the worker, although Brower argued that notice plans were often associated with individual inefficiencies—workers who were sufficiently productive to escape being let go in probationary periods but ultimately found wanting, NICB [Brower] (1937a, p.6). Long-service (gradient) plans could also serve this function, for small payments would accrue to short-service workers under most gradient systems; roughly half of graduated plans in 1936 permitted payments for inefficiency separations. Nonetheless the primary focus of long-service plans was clearly to compensate workers for permanent or indefinitely long separations:

> In forty-five of the sixty-six concerns [offering graduated plans] compensation is given only for permanent dismissal, while in the remainder it is granted for extended layoffs as well… Although many plans were originally adopted to facilitate necessary reductions in personnel, their scope has extended in a number of cases to include discharges for inefficiency, in order to eliminate individual misfits who might otherwise remain on the payroll for years. NICB [Brower] (1937a, p.6)

Less commonly, graduated severance plans were used to compensate workers for other reasonable separations; for example approximately 10 percent of the 66 companies paid severance to those separated for physical incapacity, and a few used the plans as a crude form of retirement pension.

Early severance pay, or dismissal compensation plans as they were then called, were of two basic types: (1) uniform plans, often labeled notice plans, and (2) service-linked or gradient plans, NICB [Brower] (1937a). Brower viewed the modest benefits of the uniform plans, often only one or two week's pay, as a vestige of advance notice customs and regarded only the service-linked plans as serious job displacement insurance. Note however that the two plans converge in practice if the maximum service cap on service-linked benefits is low. Left unspecified in notice plans was the actual behavior of companies forced to release long-service workers; many notice plans were offered by banks and other high-end service companies that had few permanent separations of long-service workers, who may have made ad hoc or informal arrangements for separation benefits for those few. The 1936 survey revealed a third group of companies that offered severance only on an "informal" basis, NICB [Brower] (1937a, p.10), although Brower was dismissive of the importance of these plans:

> In the present study, the Conference Board secured information from sixty companies employing over 200,000 workers that had these discretionary plans in effect. They are generally similar, to the extent that the award of a dismissal allowance is the exception rather than the rule, and that both long service *and recognized need* [italics added] are ordinarily requisite qualifications….These occasional separation allowances cannot be properly classified as dismissal-compensation plans. They more nearly represent charity bestowed because of obvious need." NICB [Brower] (1937a, p.10),

The same sentiment need not apply directly to companies that had formal "notice" plans but informal long-service plans.

Of gradient plans that gave benefits as "some portion of earnings multiplied by years of service.…Nine of the twenty-eight companies give one week's pay for each year of service, with no limitations upon amount." NICB [Brower] (1937a, p.7). Other plans were non-linear, with some offering increasingly larger benefits per year with longer service, others lesser benefits. In the extreme, incremental benefits fell to zero after only a few years of service. Age adjustments were also common, with older, long-service workers typically receiving additional benefits.

Within the firm, coverage was not universal; salaried or office workers were more likely to be covered than were wage earners, although Brower's data suggest that this was in no small part because companies that employed *only* salaried workers—banking firms, for example—were more likely to offer plans than were firms in manufacturing that had few salaried workers: NICB [Brower] (1937a, p.6) for graduated plans and NICB [Brower] (1937a, p.9) for uniform plans. The focus on salaried workers *only* was more prominent in uniform plans. The data would appear to suggest that there is a penalty for offering different fringes to different classes of workers and that blue collar workers in companies primarily staffed by office workers were more likely to have coverage.

The form of benefit payouts no doubt reflected the potentially small sums involved, especially in notice plans. "Of the [formal] plans studied, two thirds of the companies with graduated dismissal compensation plans and all the uniform-payment plans, with one exception, give the separation allowance in a lump sum." NICB [Brower] (1937a, p.10).

The financing of plans was pay-as-you-go. This led to obvious problems in any serious downturn when the number of separated workers was greatest. When questioned about recent changes in severance plans in 1936, approximately equal numbers of companies reported that they had reduced plan generosity because of the financial difficulties of the company as reported that they had enhanced benefit generosity because of the greater worker stress:

> In ten of the sixty-six graduated dismissal-compensation plans, the benefits have been made less liberal, as the original provisions of the plan proved too great a drain on the company treasury during the depths of the depression, when it became necessary to discharge many long-service workers at a time when company financial resources were at a low point....On the other hand, six of these sixty-six companies liberalized the dismissal benefits, largely because of the difficulties experienced by displaced workers in securing other employment. NICB [Brower] (1937a, pp.13-14).

As noted above, especially Hawkins (1940), the relationship between severance and advance notice payments in the 1930s was strong. As Brower noted, "…the uniform-payment plans ordinarily substitute the dismissal-compensation for the advance notice….On the other hand, the graduated dismissal-compensation plan, which was created primarily for the long-service employee, usually provides for an advance notice, but its length is not definitely fixed in the majority of plans." NICB [Brower] (1937a, p.10).[15]

The 1942 survey of severance pay practices revealed only modest changes in severance plan structure between 1936 and 1942. As NICB [Brower] (1943a, p.22) noted, "An

[15] The vagueness of the advance notice (AN) promise characterized later AN procedures as well, Deere and Wiggins (1996).

effort was made to secure information on the present status of plans included in the 1937 survey….few have been discontinued or changed in their essential provisions." In 1942, only 17 of the companies reported that their gradient plans had been revised recently, with 9 characterizing the changes as making the plans more generous, only three less generous (1943a, p.23).

Benefit structures were also similar in 1942. Of those companies with notice or uniform plan, 16 of 21 salaried employee plans offered exactly two weeks in 1942, while 4 of 5 wage earner plans offered a week or less, the other a flat $5, NICB [Brower] (1943a, p.10). Of the 104 service-linked plans that Brower surveyed in 1942, almost half (43.3 percent) had benefit formulae involving some "portion of pay multiplied by years of service." NICB [Brower] (1943a, p.10). Another 12.5 percent had the same basic algorithm but calculated benefits by service groupings rather than a simple formula. In another 16.4 percent, age was also factored in. Of the 62 plans with some variant of pay times year-of-service, either strictly or with some adjustment for age or service, 24 (39 percent) offered a basic plan with one week's pay per year of service, with the maximum service credit ranging from 4 weeks pay to unlimited. Another 6 (9.7 percent) offered two weeks of pay per year of service and 4 (6.5 percent) offered only one-half weeks pay per year.

By 1942, public unemployment insurance programs were operating in all states, and it was natural to question companies about the impact of UI on severance pay. Obviously the two programs were functionally distinct, with the public program often focused on the financing of temporary unemployment for workers, including those expecting to be recalled, the private one on permanent separations only. Perhaps then it is not surprising that the public system appears to have had little impact on private severance provision. Only 10 percent of resurveyed companies with service-graduated plans reported that state unemployment benefits were now deducted, NICB [Brower] (1943a, p.23). "Plans providing for a small uniform payment in lieu of advance notice have not been changed, because the extra pay for a week or two would only finance the employee during the waiting period under the law." NICB [Brower] (1943a, p.23). Conversely public unemployment insurance rules were likely to have encouraged the lump sum payment of benefits rather than periodic payments, because, as long as private payments were being made, several state systems did not treat the worker as unemployed and therefore eligible for benefits, NICB [Brower] (1943a, p.22).

A similar question was asked earlier, 1937, with a similar response. None of the companies reported that the introduction of the public unemployment insurance system had induced any change in plan features, although it is important to note that payroll taxes were being collected but benefits were not being dispersed at that time, NICB [Brower] (1937a, p.14). One executive did note that the public program could induce a reduction in severance in the future, while also noting the implied redistribution:

> The effect of such laws will be to give somewhat more compensation to younger and shorter service employees, but the men who have been receiving from ten to fifty-two weeks' pay under our program, who are older or who have longer service, will be cut down. NICB [Brower] (1937a, p.14).

The NICB undertook a third survey of severance practices in 1953, NICB (1954a), under the guidance of Lois E. Forde and Brower. Coverage of salaried workers was, as earlier, much more likely than that of hourly workers. Of the 103 companies studied, 54 (52 percent) essentially covered all workers, although six exempted managers; 27 (26 percent) covered only salaried workers; but note that 11 of these employed *only* salaried workers; 6 (5.8 percent) offered severance to union members that included both hourly and salaried nonexempt workers; and 16 (15.5 percent) covered hourly workers or at least unionized hourly workers, but not salaried workers, NICB [Forde and Brower] (1954a, p.8).

The 1954 personnel practice survey provided independent structural information on formal severance plans that largely confirms the findings from the severance practice surveys. Qualifying events for severance payments most frequently included "elimination of job," declining business activity," "consolidation of departments," "permanent closing of plant or division," and "technological change," NICB (1954b, Table 293, p.94), Figure 4.

<figure 4>

Eligibility, as earlier, emphasized involuntary permanent separations initiated by the company:

> All the plans provide severance pay for causes that might be considered beyond the individual's control. Among such reasons are elimination of the job, consolidation of departments, mergers, abandonment of plants, technological changes, and declining business activity. Thirty-two of the 103 plans analyzed, or about a third, grant severance pay only for such unavoidable layoffs. NICB [Forde and Brower] (1954a, p.9)

Forde and Brower note, however, an expansion in the ancillary uses of severance pay to insure other involuntary events: "Forty plans, or nearly 40 percent of the total, grant severance pay for terminations due to disability….Only about one in ten plans in the 1942 survey included this as a reason." [16] NICB [Forde and Brower] (1954a, p.9) Negotiated union plans frequently did not require a specific departure event to make the individual eligible for severance; nineteen plans, primarily union-negotiated, even covered separation "for cause."

Of the 96 companies with graduated-compensation plans, many offered benefits to both salaried and hourly workers, although not necessarily on the same terms. Some offered benefits to salaried workers only and others to hourly workers only. Forde and Brower categorized 70 hourly plans and 78 salaried plans. Of 70 service-linked programs for hourly workers, the great majority, 59 or 84.3 percent, calculated benefits either by multiplying pay by years of service or its discrete equivalent-- service year groupings, as did 78.9 percent of plans for salaried workers, NICB [Forde and Brower] (1954a, p.12). A week's pay for a year of service remained the modal benefit structure for both hourly and salaried workers, Figure 5, although

[16] About 80% of the cooperating companies with retirement benefit plans do not give severance pay to employees whose services are terminated by retirement, except under certain circumstances." NICB (1954a, p.25)

the maximum benefit was four weeks pay or less in about one half of all plans, NICB [Forde and Brower] (1954a, p.13).

<figure 5>

Forde and Brower argued that the major change between 1942 and 1954 was the increased formality of programs:

> Even as late as 1942 {footnote deleted}, many companies considered the severance pay plan to be a general statement of procedure which ordinarily was followed, but not adhered to strictly. New plans seem to be spelled out in considerably more detail than was the case in earlier years. And as a rule these plans outline a procedure which is to be followed, with few exceptions allowed. NICB [Forde and Brower] (1954a, p.4)

In that regard, note that the Forde and Brower study was confined to "bona fide severance pay plans. Also excluded are informal severance arrangements and plans which give severance pay in lieu of advance notice…" NICB [Forde and Brower] (1954a, p.4)

Despite the growing formalism of plans, *pre-funded* severance plans became increasingly uncommon. In 1942, Brower reported that "Eighty per cent of the companies included in the present survey finance dismissal compensation on a pay-as-you-go basis." NICB [Brower] (1943a, p.21). Eleven years later Forde and Brower reported that, "None of the companies included in the present survey has established a special fund for severance pay as such. Three companies have included severance pay provisions in their pension plans, which were negotiated with a union." NICB [Forde and Brower] (1954a, p.26). Note that tax laws did not encourage pre-funding; contributions to a fund would probably not have been tax deductible until spent, NICB [Forde and Brower] (1954a, p.26).

The connection of severance plans to advance notice remained in place, although perhaps less prominently, in 1953. Service-linked plans usually provided for advance notice, but 40 percent gave no specific length of notice, NICB [Forde and Brower] (1954a, p.13). As earlier, receipt of severance pay disqualified the unemployed worker from unemployment insurance benefits in a number of states, 8 totally and another 8 partially—limiting benefits to the difference between usual unemployment benefits and severance payouts, NICB (1954a, p.25). Conversely companies rarely coordinated severance benefits with receipt of public benefits, NICB [Forde and Brower] (1954a, p.26).

Surveys of companies known or believed to have severance pay can be an efficient way of securing information on severance pay structure, but do little to provide estimates of plan prevalence. Forde and Brower summarize their *impression* of 1953 plan coverage:

> [Formal] severance pay plans are frequently found among the following types of business: companies with a large number of salaried employees; companies whose employees are in frequent contact with the public, such as public utilities, communications concerns and mercantile establishments; and companies with relatively low labor costs. NICB [Forde and Brower] (1954a, p.5).

Whether that greater frequency is the result of (i) there being more businesses of that type in total or (ii) a greater propensity of businesses of that type to have plans is more efficiently answered by using more comprehensive samples.

V. Severance Coverage Trends, The Earliest Years

NICB surveys of any kind did not begin until 1935, and were largely focused on wage earners until the personnel practice surveys began in 1940. The surveys did collect retrospective information that provide some insights into the pre-1935 world. One type of evidence which can be collected from firms with plans (severance practice surveys) sheds light on trends in severance coverage, namely date-of-adoption information. Although inferior to contemporaneous measurement of severance coverage because date-of-adoption of existing plans is driven by plan exit rates as well as entry rates, date-of-adoption data do provide crude evidence for periods in which severance coverage data is unavailable. For example, plan adoption-date data, reported for most plans in 1936, provide a sense of the rapidity of adoption early in the depression, especially of service-graduated plans. The distribution of adoption activity is illustrated in Figure 6, in total and by plan type, for active plans with known adoption dates. Only 40 percent had been adopted prior to 1930, with a disproportionate share of these uniform plans.[17] Approximately two-thirds of all service-graduated plans were adopted in the six years prior to the survey, NICB [Brower] (1937a, p.5). The relatively small number of companies that reported discontinuing a plan, Table 1, would hint, at least, that the large proportion of companies with plans dating from the early 1930s was a consequence of an unusually high adoption rate in that period, not of an unusually high discontinuance rate of companies with plans from the 1920's, although discontinuances due to company business failures would not be represented in this data.

<figure 6>
<table1>

The 1942 NICB survey of severance practices, NICB [Brower] (1943a), also reported date-of-adoption data, though in less detail. This data suggests that adoptions were somewhat less active in the second half of the 1930s than the first half, especially when one factors in a reasonable depreciation rate on past adoptions; forty percent of the companies with plans in 1942 reported that the plans were adopted between 1930 and 1935, 33 percent between 1935 and 1939. A sixth of the plans had been adopted in the three-year period between 1940 and 1942, which suggests that adoption rates fell slightly in the early 1940s.[18]

VI. Severance Coverage Trends: Evidence from Check-list Enumeration Studies

The check-list enumeration studies, though limited in information on severance plan structures, provided detailed contemporaneous information on severance coverage. The first broad survey of severance (dismissal) compensation prevalence was undertaken by the NICB in 1935 to assess "what employers are doing for employees," NICB (1936). One important feature of these data was the reporting of severance practices by detailed industry, which permits some exploration of correlations over time and fringe benefit categories. Reflecting the

[17] A substantial number of respondents, 24%, did not report an adoption date. Nonreporting of adoption date was especially common for the typically small notice plans, at 44%.

[18] Note for example the rather small proportion of plans reported as adopted prior to 1930, about 10 percent.

study's title, a primary objective was to document the prevalence of various employer fringe benefits provided to workers, particularly hourly workers. The sample was large, almost 2,500 companies, although the survey did not collect detailed information on many fringe benefits. For example only prevalence statistics are available for severance pay and then only for hourly workers. The scarcity of plan detail leads me to label the 1935 survey, a comparable 1939 survey, and a similar 1953 survey as "check-list enumerations."[19] Only the 1953 survey requested company severance plan information for nonexempt salaried workers as well as hourly workers. This section will focus on severance coverage, over time and industry.

The 1935 sample of 2,452 industrial enterprises represented approximately "15.5% of the total number reported as gainfully occupied in these business classifications in the 1930 Census of Occupations." NICB (1936, p.5). As Figure 2A revealed, the sample was heavily weighted toward the manufacturing sector, and especially durable-goods manufacturing, with only fifteen percent of the sample outside the manufacturing sector. The aggregate results are best interpreted as evidence of practices in medium and large industrial companies.

The 1935 survey indicates that 12.9 percent of the 2,452 companies surveyed had active dismissal compensation plans for hourly workers.[20] The same positive effect of firm size on coverage noted in the severance prevalence surveys is apparent in 1935, with severance coverage of hourly workers among companies with less than 250 employees of 7 percent, of those with more than 10,000 employees, 41 percent. Note that these size differentials preceded the period of active unionization following the National Labor Relations Act of 1935.

[19] "Information for the study was secured by submitting a form on which were listed about 90 activities or policies that are connected with the employer-employee relationship. Companies were asked to check in appropriate columns the activities that are now maintained and activities that had formerly been carried on but had been discontinued." NICB (1936, p.8)

[20] The survey analysis does not report whether this statistic refers to all severance plans or only formal severance plans, although a comparison of the data with the 1939 survey, which explicitly limits responses to formal plans, suggests that the 1935 survey refers to both formal and informal plans.

Coverage was much higher outside the manufacturing sector, with 33.4 percent of nonmanufacturing companies reporting such plans in contrast to 9.2 percent of manufacturing companies, although recall that, excepting public utilities, nonmanufacturing severance plans are disproportionately notice plans. Dismissal compensation funds were more common than other "economic security" plans at that time; for example, an order of magnitude more common than employment guarantees and somewhat more common than relief funds, Table 2. The sectoral differential in plan prevalence is much less prominent for these alternative economic security plans.

<table 2>

A similar large scale check-list survey was undertaken between May and October of 1939, and responses were received from 2,700 companies, NICB (1939). The sample was similar in most respects to the 1935 sample, with only 18 percent of the companies outside the manufacturing sector. The severance plan response was explicitly limited to formal plans, "Dismissal Compensation, Formal Plan." Perhaps as a result, the percentage of companies that report a plan (7.2 percent) is more than forty percent lower than the 1935 estimate. Given that 40 percent of plans were informal in this period, it would suggest little change in coverage between 1935 and 1939. A comparison of coverage across detailed industries between 1935 and 1939 suggests striking stability over time. The simple correlation between coverage in 1935 and 1939 was 0.954. Although only four years separate the two studies, the stability of coverage is surprising, both because of the crudeness of measurement and because of the economic instability of the period.

The 1935-1939 check-list methodology was not repeated until 1953, at which time 444 companies responded to surveys on the fringe benefit they provided for workers. The industrial distribution of the sample is illustrated in Figure 2C. Survey emphasis remained on the goods-producing sector and medium and large establishments. As in 1935, the absence of program detail in the 1953 survey makes it impossible to determine whether the responses refer to formal plans or all plans, formal and informal; the inclusion criteria was whether company resources were spent on the activity.[21]

The hourly coverage estimates indicate an increase in severance coverage for hourly workers between 1939 and 1953, from 7 percent to 13 percent, Figure 7. Sectoral differentials were large—11 percent of companies in manufacturing and 37 percent in other sectors reported having a severance pay plan for hourly workers, NICB (1954a, adjusted tabulations). Among salaried (nonexempt) employees, the coverage distribution was more uniform between manufacturing (30.2 percent) and nonmanufacturing (32.5 percent). The hourly worker differential across sectors might reflect economies of scope or social processes that penalize companies for offering benefits to only one category of worker; an hourly worker is more likely to be covered if embedded in a company that has few hourly workers.

<figure 7>

Of special value, the 1953 study collected data on severance pay for (nonexempt) salary workers as well as hourly workers. At that time 13 percent of companies responded that they had a severance plan for hourly workers, 32.5 percent for salaried workers.[22] The large difference in coverage between the two occupational categories is also illustrated in Figure 7. Weighted by 1950 Census occupations, the two estimates imply a *total* company coverage estimate for 1953 of 21.1 percent of medium and large work places.

The coverage differential across occupational categories is quite stable across the three surveys (1935-1939-1953), as are the coverage rates by establishment size over the three surveys for wage earners, Figure 8. The structure across occupation as well as company size

[21] The estimates probably included informal plans. Reported industrial averages in the study, for example, included “on an individual basis” responses. The availability of transcriptions of the raw data in 1953 permitted elimination of this response in the estimates reported here.

[22] These estimates were obtained by subtracting severance provided on an “individual basis” from the totals reported in NICB [Stieglitz] (1953, Table 2).

in the check-list enumerations for the 1935-1939-1953 are wholly consistent with the same patterns for 1940-1948-1954 from the Personnel Practice series of surveys, discussed below, despite the wide differences in samples.

<figure 8>

The large size of the check-list enumeration surveys, see the Appendix table for details, permits us to generate reasonable estimates of coverage at the industry level. The industrial distribution of severance coverage rates of wage earners between 1935 and 1953 is illustrated in Figure 9A, and the correspondence plotted in 9B. As the scatter diagram in Figure 9B suggests, the stability of severance coverage across industries between 1935 and 1953 was high. The simple correlation is 0.782.[23]

<figure 9>

Coverage differentials by occupational group, hourly workers and nonexempt salaried workers across detailed industries in 1953 are illustrated in Figure 10A. The relatively advantaged severance coverage among salaried workers across almost all industries is transparent. Clearly severance coverage of hourly workers is higher in industries in which salaried worker coverage is highest, Figure 10B. The simple correlation in coverage by occupation across industries is 0.657

<figure 10>

The growth in the durability of the employment bond, which Clark Kerr was to lament as the "balkanization" of labor--Kerr (1977)--would logically boost the demand for terminal contract provisions, including severance pay and pensions. That turned out to be true of pension plans, but less so of severance plans. In 1935 companies in the NICB sample reported that severance pay provision was more common than formal pension provisions among hourly workers, 12.9

[23] The 1953 industries were considerably more detailed than the 1935 industries, so the two were consolidated by merging 1953 industries into 1935 industries. A few industries could not be matched between years and were deleted from the comparisons.

percent versus 10.3 percent of companies, although the sum of formal and informal pensions was substantially greater (34.0 percent), BLS [Brown] (1936, pp.32-33). The correspondence of severance pay and formal pensions for hourly workers in 1935 was striking, Figure 11A; the simple correlation across detailed industries was 0.600.[24] The correspondence between severance provision and pension provision remained strong through the 1930s, Figure 11B.

<figure 11>

In the fifteen years to follow, formal pension coverage grew greatly, in contrast to the modest changes in severance provision, Figure 12A.[25] By 1953, 66 percent of companies reported providing pensions to hourly workers, while only 13 percent reported providing severance pay to hourly workers, (the comparable numbers for salaried workers were 73 percent and 32.5 percent, NICB [Forde and Brower] (1954, pp.8-11). The tight correspondence of severance pay and pension provision (in 1935) had faded. The simple correlation across detailed industries of severance pay and pension coverage for hourly workers in 1953/54 was a modest 0.376; among salaried workers only slightly higher, r = 0.451. As with hourly workers, firm provision of pensions for salaried workers in 1953/54 was substantially more likely than provision of severance pay, Figure 12B. Still factors common to the work place apparently influenced both severance and pension provision.[26] The industrial correlations across broad occupational category—hourly and salaried—were high for both severance coverage, r = 0.657, and for pensions, r = 0.731.

<figure 12>

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[24] Two 1935 industries were dropped in both the graph and the correlation calculations because of small numbers—services with six observations and joint public utilities with eight observations. The next smallest industry cell was agricultural implements with 20 observations.

[25] Of course the rapid increase in marginal income tax rates differentially increased the attractiveness of pensions, with their tax-deferred status. Similar arguments do not hold for paid vacations and holidays.

[26] In manager interviews, a few managers remarked that severance could be viewed as a form of compensation for lost pension rights at a time when cliff vesting at thirty years was common.

VII. Severance Coverage Trends: Evidence from Personnel Practice Surveys

In 1937 the NICB, under the direction of Brower, began surveying companies for a variety of "personnel practices" including severance pay, separately for wage earners and salaried workers. The personnel practices surveys were repeated in 1940 [D. G. Donovan], 1943 [Elmer W. Earl, Jr.], 1948 [Geneva Seybold], and 1954 [Seybold]. Because the design and structure of the 1937 survey were similar to many later studies, I will describe it in detail. The Brower study included two wage earner samples--one of 441 responding firms and the other of 363 firms--and a salaried employee sample of 453 firms. The two wage-earner samples received different questionnaires, so that data on any particular wage earner practice was obtained from only one. Small establishments, those with less than 100 workers, comprised less than 5 percent of the sample, NICB [Brower] (1937, p.3), so the results should be interpreted as practices in medium and large establishments. Manufacturing establishments were the bulk of all samples, 91 percent, with the remainder largely financial institutions, notably banking and insurance.

Later personnel practices surveys did not include precisely the same questions as the 1937 survey; specific questions on advance notice and severance pay evolved with the maturing of severance pay practices. Early questionnaires tended to commingle questions on advance notice and severance pay, or, in the case of hourly workers, only ask questions on advance notice. Later surveys focused increasingly on severance pay as a separate policy. Because of the sharp differences in prevalence and structure of hourly worker plans and those of salaried workers, the development of each will be discussed separately.

Hourly Workers. Early NICB survey designers apparently felt that severance pay for wage earners was sufficiently unlikely that they limited the *wage earner* questionnaire to an assessment of advance notice practices. In 1937 advance notice plans were common, with 51 percent of the establishments having a definite policy of giving advance notice to workers separated through no fault of their own, and another 16 percent giving notice “if possible,” Table 3A. Only 30 percent of establishments had no expectation of offering advance notice of a permanent displacement. Scale effects were substantial; the likelihood of no advance notice declined as establishment size increased, and was only 16 percent for the largest establishment category, those with 5000 or more workers. Notice periods were not generous. The modal notice period for wage earners was one week--48 percent of establishments, with another 11 percent reporting two weeks, NICB (1937b, p.75). Only two percent offered even the possibility of notice of more than 2 weeks, i.e. “1 week to 1 month.” The expectation of advance notice was symmetric, with the modal employer expecting one week of notice if the wage earner resigned, NICB (1937b, p.76-77).

<table 3>

Similar questions about advance notice were asked of wage earners in subsequent surveys, 1940 and 1943; Table 3, Panels B and C respectively. The data suggest a moderate reduction in establishments with a no-advance-notice policy, with 22 percent of responding companies reporting a policy of no-advance-notice in 1940, and 20 percent in 1943. The scale effects were stable over this period, with the 1940 and 1943 data confirming significant declines in no-advance-notice policies as establishment size increased.

More detailed analysis of advance notice trends for hourly workers is muddled by changes in the precise structure of the response categories. The 1937 advance notice question offered four responses--give notice, give notice “if possible”, “no definite policy”, and no advance notice. Later surveys changed response possibilities, partitioning practices by whether a definite time interval is specified, dropping the option of giving notice “if possible,” and including instead “no standard policy” (1940) and “give notice, other” (1943). For that reason the responses are not strictly comparable. In 1940, 36 percent of all companies responded that they had a definite notice time policy, another 29 percent that they gave notice but had no definite time policy, and 12.4 percent reported that they had no standard policy. A plausible conjecture is that many companies with “give if possible” policies categorized themselves as having no standard policy in 1940, while a smaller number categorized themselves as giving notice but with no definite time set. Category changes appear less striking between 1940 and 1943, and it is at least plausible that advance-notice-with-definite-time-set became 6 percent points (sixteen percent) more common in this interval. Scale effects are generally unstable across the more detailed notice categories.

The 1940 survey of personnel practices reveals the modest extent of severance coverage among hourly workers. In total, 6.4 percent of companies in the sample reported offering formal severance plans to hourly workers, with another 3.2 percent offered informal plans, Table 4A. Service-linked or gradient plans were more than 80% of these. Formal plans were substantially more common (19 percent) only in the largest firm size category--companies with 5,000 or more workers.

<table 4>

The 1948 and 1954 surveys of personnel practices used the same severance response format as the 1940 survey and provide the most reliable estimates of severance trends for hourly workers. In 1948, 9.3 percent of surveyed companies responded that they had a formal severance plan for hourly workers, Table 4B; by 1954 formal coverage had grown to 14.1 percent of companies, Table 4C. Slightly under 80 percent of these were gradient or service-plans. This would suggest a modest *absolute* increase in coverage for this group, but a large *percentage* increase, given the rarity of coverage in the mid-1930s.[27] The absence of severance pay plans of any type among the 48 companies in 1948 in the smallest firm size

[27] Recall again the possibility that the growth in hourly coverage may in part be the result of an increase in the number of clerical and sales workers categorized as hourly workers.

category, 1-249 workers, is implausible, but scale economies were also quite large in other size categories in 1948 as they were in 1940. In 1954 scale effects were in the expected direction, positive for formal plans and negative for informal ones, although the magnitude of effect was small.

As earlier, *uniform* severance plans were relatively more common in small companies, comprising one-third of all formal plans in companies with less than 250 employees, but less than 20 percent of plans in companies with a thousand or more employees, NICB (1954b, Table 114, p.40). In total 23 percent of the sample companies with formal plans offered uniform plans to hourly workers. For those offering *long-service* plans, benefit structure was quite diffuse, but the modal plan (9 of 55 plans) offered 8 weeks of pay at or beyond 10 years of service, NICB (1954b, Table 116, p.41).

In its 1943 survey of personnel practices, the NICB asked two distinct questions about dismissal compensation for hourly workers, the responses to which provide additional insight into the meaning of responses to standard questions on severance pay policies. In particular they first asked responding companies about “dismissal compensation when cause is beyond employee’s control,” and then about “dismissal compensation to long service hourly workers.” The response categories were the same in each, “dismissal compensation paid,” “dismissal compensation depends,” and “no dismissal compensation paid.” For the long service question the clarifying remark “each case decided on its own merit” was appended to the “compensation depends” category.

The responses to these questions are tabulated in Table 5. The first question, which is closest in content to both the 1940 question and what was later to be the standard severance pay question, revealed that 8.3 percent of companies offered severance benefits to hourly workers, with compensation probabilities significantly higher than average only in the largest firm size category. Another 7.9 percent reported that dismissal compensation “depends” though it is not clear upon what.

<table 5>

The second set of responses provides some insight into that issue. When asked if dismissal compensation is paid to long service hourly workers, 14.2 percent of companies responded positively, while only 2.9 percent reported that it “depends.” The stability of the sums of these two categories across the questions, in total and by company size, suggests that a primary conditioning factor in the “depends” response to the first, more general question was long-service. Long-service wage earners were covered more substantially than the simple prevalence response would indicate.

***Office/Salaried Workers*.** Presumably because severance pay was felt to be more common, severance pay questions were asked only of salaried workers in 1937, although the first surveys (1937 and 1940) also commingled questions on advance notice and severance pay. The responses to that question are reported in Table 6, Panels A and B for 1937 and 1940 respectively. Most companies reported some formal policy--advance notice or dismissal wages--for permanently separated salaried workers. Only 9 percent of responding companies in 1937 reported that they had no advance notice or dismissal policy, 4.5 percent in 1940. Muddling the comparability of responses across the two years, however, is the addition of a response category in 1940 of “no rule, depends,” chosen by 12.5 percent of the 1940 sample. A straight-forward reading of the responses would suggest a major shift in severance practices between 1937 and 1940, with the percent of companies reporting “dismissal wage only’ increasing from 15.9 percent to 24.7 percent, and the percent reporting “dismissal wage or advance notice” increasing from 6.2 percent to 30.3 percent. The simple policy of “advance-notice-only” shrunk from 69 percent to 28 percent, although again it is important to recall that an additional category introduced in 1940—“no rule, depends”--absorbed 12.5 percent of the responding companies.

<table 6>

In 1937, the modal advance notice period for salaried employees was two weeks in both the industrial sector and the financial sector, with 29 percent of plans in the industrial sector and 30 percent of plans in the financial sector with valid responses reporting precisely two weeks, NICB [Brower] (1937, p.129). Of the establishments that offered only dismissal pay, 59 percent of the industrial firms and 67 percent of the financial forms offered benefits of that same amount, two weeks pay. As among hourly workers, advance notice expectations were symmetric, with the majority of firms reporting that they expected two weeks' notice for salaried worker resignations, NICB [Brower] (1937, p.130).

Fortunately a direct question on severance pay plans, unencumbered by the advance notice issue, was also asked in 1940. The question is parallel to one asked of hourly workers in 1940 and both types of workers in 1948 and 1954.[28] The results for 1940 are tabulated in Table 7A. A total of 29.2 percent of all companies responded that they had a formal severance pay plan for salaried workers, with another 26.2 percent reporting that they had an informal plan. Scale effects were large, with companies in the smallest size category, 1 to 249 workers, covering workers at less than half the frequency of companies with 1,000 or more workers, 19.1 percent and 40.0 percent respectively.

<table 7>

The comparable 1948 and 1954 severance practice results for salaried employee are tabulated in Table 7, Panels B and C. The estimates suggest that formal severance pay coverage increased substantially between 1940 and 1948, from 29.2 percent of reporting companies in 1940 to 38.6 percent of reporting companies, but then decreased between 1948

[28] A 1943 personnel practices survey was also conducted, but included questions on the issue quite unlike earlier or later questions and the responses are not immediately useful. The 1953 severance practice survey by Forde and Brower, NICB (1954a), ignored the 1943 results in a discussion of severance prevalence estimates. Nonetheless the results suggest that dismissal pay for salaried workers was common in this period, with 53.1 percent of responding companies reporting that they paid dismissal compensation to salaried workers, NICB (1943a, p.36, Table 111).

and 1954, ending the fifteen-year period at 33.3 percent, only modestly above the 1940 level. Indeed total coverage, formal plus *informal*, would appear to have fallen over this interval, from 55.3 percent to 46 percent.

There is reason to believe that the 1940 and the 1948 coverage estimates are too high, although for quite different reasons. The 1940 response tabulations to the direct question on severance pay had a sharply lower company count than related questions before and after. A significant percentage of companies chose not to answer this question—or were not asked--for reasons that are not obvious. What is clear is that the nonrespondents were systematically smaller employers. Without knowing why the expected sample responses are absent, it is difficult to adjust the estimates for the low response rate. One possibility is that most of these nonresponses reflected "no plan," a lack of interest in the question. A less extreme possibility is that these nonresponses were random within company size groups, which would still affect the aggregate estimates, but obviously not the group averages, because the nonrespondents were disproportionately small companies with characteristically low coverage rates,. The 1940 coverage estimate of 29.2 percent drops to 28.3 percent if one assumes the nonreporting company had coverage rates equal to others in their size class, and to 21.6 percent if one assumes instead that the coverage rate was zero for nonrespondents.

This technical issue aside, both the 1940 and 1948 data for salaried workers appear to include upper level supervisors—"exempt salaried workers"—but the 1954 survey systematically does not, "To make sure that all of the data relating to salaried employees applies to the same class of workers, NICB decided to confine information to those in the non-exempt group—those whose job duties, hours of work and compensation are governed by regulations and rulings of the Fair Labor Standards Act." NICB (1954b, p.2). No mention was made of a nonexempt selection criterion in 1940 while in 1948 Seybold mentioned that some companies reported only exempt workers when reporting salaried worker estimates, having relegated all non-exempt workers to hourly status. "…some of the companies reporting on practices as related to their salaried employees have described only those practices applying to executive, administrative and professional workers." NICB (1948, p.8). The difficulty is that severance coverage of exempt workers was likely higher than nonexempt workers, introducing a downward bias in the estimates of growth in severance coverage between 1940/1948 when exempt workers were included in the estimates and 1954 when they were excluded.

The trends in total severance coverage between 1940 and 1954 for hourly and salaried workers are illustrated in Figure 13. Ignoring measurement concerns, it would appear that formal severance coverage of all types (notice plus gradient) among salaried workers increased somewhat during the war years, then receded by 1954 to end only modestly higher than in 1940. Coverage of hourly workers was sharply lower than that of salaried workers but increased modestly over this time. The general sense is one of stasis.

<Figure 13>

What upward drift there is in coverage may be due to increase in company sizes. Changes in coverage by company size appear quite stable across the three time periods (1940-1948-1954) for the two occupational groups, Figure 14. Across all company sizes, salaried workers are 15-20 percentage points more likely to have coverage, with the company size differential similar in magnitude for the two occupational groups.

<Figure 14>

VIII. Gradient Severance Plan Coverage

Of greater importance for job displacement insurance is the trend in coverage of gradient severance plans, those that vary with worker service. Though not quite the long-service plans that could be considered serious wage insurance plans (because service limits or caps may be low), gradient plans are a necessary element of such plans. The date-of-adoption data from the 1937 survey, Figure 6 above, reveal that early plans were largely notice plans, with few surviving gradient plans from before 1920 and relatively fewer gradient plans from the 1920s. Indeed more than half (53.4%) of all gradient plans uncovered in 1936 were established between 1930 and 1934.

Gradient plans throughout the period were more common in large companies, In the 1936 survey, Brower found substantially more formal service-linked plans (38 percent) than formal uniform plans (16 percent)—the other categories are informal plans and discontinued plans--Table 1--but that may have been because the more modest uniform plans often went unnoticed and unsurveyed. Recall that the 1936 survey was limited to hourly workers. Informal plans, of which we will have more to say below, were almost as common as service-graduated plans, while about 10 percent of the companies surveyed had discontinued their plans. Plan type varied systematically by company size, with informal plans declining in importance as company size increased, although perhaps more modestly than one would expect, Figure 15. Within formal plans, there was more radical change, with service-graduated plans increasing substantially and uniform plans decreasing sharply. Indeed in the (small) number of companies surveyed with 5000 or more workers, more than 60 percent offered a graduated severance plan, none a uniform plan.

<figure 15>

The 1954 survey reported the same breakdown of plan types for both hourly workers and salaried workers, with the general pattern of scale effects similar to that of wage earners in 1936. Although the fraction of companies who offered severance plans of any type was small, those that did primarily offered gradient plans, Figure 16, Panel A. Formal graduated plans comprised more than 80 percent of plans offer hourly workers in work places with more than 5000 employees. A comparison of plan-type prevalence with the 1936 data suggests that gradient plans had become relatively more common among hourly workers, perhaps the result of union efforts. More companies offered salaried workers severance protection, but a somewhat smaller share of these offered graduated plans, Figure 16, Panel B.

<figure 16>

The NICB personnel surveys permit us to estimate trends in gradient-plan coverage for the 1940-1948-1954 period. Key estimates are reported in Table 7, Panels A through C, for the three survey years respectively. The basic gradient-plan trend patterns between 1940 and 1954 are similar to those for severance coverage of any type, though definitionally lower. It would appear that slightly under 25 percent of salaried workers had gradient-plan severance coverage in 1954, approximately the same likelihood that prevailed in 1940, Figure 17. The surveys appear to indicate that serious displacement insurance for salaried workers did not grow between 1940 and 1954, although again note the caveats above. Over the same interval, gradient coverage among hourly workers had doubled but only to 10 percent

<figure 17>

The data (Table 7) also permit the investigation of scale effects in total and by type of severance plan. As found in other surveys, uniform payments were disproportionately more frequent in small establishments. Scale effects were substantial in all years. Among salaried workers in 1954, for example, the company size gradient for uniform plans ran from 11-12 percent among companies with less than 1,000 workers to 2.4 percent among firms with 5,000 or more workers. The size structure is quite stable over the period. The negative size effect on uniform payment prevalence disguises the much stronger and positive scale effect on service-linked severance plans. Among non-exempt salaried workers in 1954, for example, the aggregate company-size gradient for formal plans increased from 25 percent to 41 percent for establishment sizes of less than 250 workers and 5,000 or more respectively, while the formal, service-linked plan gradient increased from 14 percent to 39 percent, Table 7.

IX. Alternative Estimates of Severance Coverage and Design

The various NICB surveys are broadly internally consistent, but there remains the concern that the NICB samples, drawn first from its own members, were not representative of personnel practices in larger companies. Fortunately the American Management Association published the results of a survey of company severance plans in 1957 drawn using a clearly specified method, Haas and Floyd (1957). The AMA survey, which was designed to provide a random sample of companies with 400 or more employees, is vulnerable to the usual criticisms that accompany all voluntary responses; that employers inclined to cooperate with surveyors may be unrepresentative of the population (119 of 250 questionnaires were returned).[29] Nonetheless the survey confirmed in broad outline the NICB results, and also provided some insight into the difficulty of isolating a single coverage number for a heterogeneous product.

The percent of companies with *some* type of severance payment plan was estimated to be 44.5 percent, Table 8, but that fraction included both plans that Haas and Floyd considered to be serious severance pay plans, namely multipurpose plans that provide coverage over a broad range of permanent separation contingencies, and more narrowly focused plans, including those that provided payment for special purposes, for example military service. Included were plans that are essentially an alternative to pensions, paying benefits only upon retirement. Depending on the stringency of the definition one could argue that the severance coverage rate in 1957 was 26.1 percent (multipurpose plans only), 32.8 percent (multipurpose plans plus special plans that cover permanent plant closings), or 38.7 percent (multipurpose plans plus special plans for plant closings plus plans in lieu of notice). The estimate of 32.8 percent, reflecting multipurpose plans plus those limited to permanent plant closings only,

[29] Haas and Floyd (1957, p.8) note: "…the natural tendency of a firm which does not follow a certain practice is to refrain from replying to a questionnaire on the subject. In other words, the figures probably do not include as many "no" answers" as they should. Quite possibly, a majority of the 131 companies that failed to reply to the questionnaire do not make severance payments. On the other hand, many firms which have not no formal, written policies on severance pay are known to make such allowances on an individual basis."

seems like a plausible estimate of “severance plan coverage,” at least for some part of the company’s workforce.

<table 8>

Data on the occupational coverage rate of multipurpose plans, Table 9, reveal that these coverage figures apply to salaried employees; only one of the 31 plans covered wage earners but excluded office workers. One half of the plans explicitly excluded wage earners while a number of the “universal” plans were in companies that employed few wage earners. Ignoring the latter caveat and assuming that the same occupational proportions apply to the special plans for plant closings (the study reported on occupational coverage only for multipurpose plans), it is possible to construct coverage estimates that correspond in a rough way with the NICB estimates. More concretely it is possible to generate an estimate of company severance plan coverage of 31.7 percent for salaried workers and 16.4 percent for hourly workers, yielding a “total” coverage estimate of 22.7 percent using 1950 Census of Population weights. These can be compared with the 1954 NICB estimates above of 33.3 percent, 14.1 percent, and 22.1 percent respectively.

<table 9>

Even among the multipurpose plans, there was a great deal of structural heterogeneity in the AMA survey. For example, 41.9 percent offered benefits graduated by service and another 6.5 percent benefits graduated by service and age, Table 10. About one half of the graduated plans had benefit or service ceilings. The remaining plans were largely notice payments, offering benefits of one or two weeks pay upon permanent separation. Extending these estimates to include plant closing plans, one can estimate a coverage rate of service-linked plans for salaried employees in 1957 of 18.3 percent, with coverage of wage earners less than one half of that (9.5 percent), yielding an occupationally weighted total estimate of 13.1 percent for coverage of service-linked plans. An additional ten percent of the work force (9.6

percent) was eligible for notice payments (13.4 percent of salaried workers, 6.9 percent of wage earners).

<table 10>

X. Severance Pay Provisions in Collective Bargaining Agreements

An independent data source broadly confirms the limited severance coverage of hourly workers in this period, namely collective bargaining agreements. Beginning in the 1940s and continuing through 1980, the Bureau of Labor Statistics provided occasional summaries of the provisions of collective bargaining agreements, including severance pay provision. Early reports on severance pay provision were brief, but the reports became more detailed as plans became more prevalent, BLS [Abraham Weiss] (1945), BLS [Weiss and Howard Bloom] (1948), and BLS [Laura Chase and James C. Nix] (1951). By 1955/56, severance coverage in collective bargaining agreements is available by detailed industry, BLS [Dena Weiss] (1957). Early studies required the collection of large numbers of collective bargaining agreements, while later studies relied on the BLS's own publicly maintained file of major collective bargaining agreements, those that affected 1000 or more workers.

The collective bargaining agreement data (CBA-BLS) provide an important benchmark for the estimates derived from the broader, but less well documented private surveys conducted by the NICB. The BLS data differed in important ways from the typical NICB sample. The inclusion criterion of "major" agreements, 1000 or more workers, only crudely accords with the medium and large company focus of the NICB samples; collective bargaining agreements typically covered only a fraction of a company's employees, and conversely multi-employer contracts were common. The CBA-BLS data also were not partitioned by white collar and blue collar occupation, a distinction crucial in severance pay plans, and included a significant number of unionized clerical workers as well as the production and service workers likely to be found in the NICB "hourly worker" sample. Because office workers of all types were disproportionately covered by severance plans, the inclusion of clerical workers in the union sample was likely to yield CBA-BLS estimates somewhat higher than NICB hourly worker measures.

In interpreting trends, it is important to recall that this was a period of rapid unionization, and the observed trends in the NICB surveys of hourly workers reflects both changes in severance pay practices in the two sectors and changes in the union/non-union mix of workers. The BLS-CBA estimates may also reflect changes in the composition of the union sector with union growth.

By the mid-1950s almost all hourly workers in the medium and large companies that comprised the NICB samples were covered by union contracts, NICB (1954b, pp. 4-8). Moreover the vast majority of collective bargaining agreements were single employer agreements, so that the company/bargaining unit was likely to be relatively large. Trends for the NICB hourly worker samples should not deviate far from those reported in the collective bargaining studies.

A study of 9,500 collective bargaining agreements in force in 1944 found that only 450 or 4.7 percent representing 135,000 workers, had severance pay provisions, BLS [Abraham Weiss] (1945, p.50). Weiss summarized his findings,

> Dismissal compensation has not been common in American industry. When adopted, it has most frequently been applied to layoffs caused by technological improvements or to retrenchments involving consolidations. In only a few industries, notably newspaper publishing and railroad transportation, have such provisions been adopted to any considerable extent through collective-bargaining procedures." (p.48).
>
> Scattered examples of dismissal-pay clauses are found in agreements in other industries including the chemical, electrical machinery, gas, petroleum refining and production, radio and telegraph, rayon yarn, telephone, and textile industries." (p.49)

The American Newspaper Guild was party to 182 of these contracts representing approximately 20,000 workers, Weiss (p.50). Weiss reports that "The agreements most commonly specify a uniform relation between pay and service, such as 1 week's pay for every 6 or 8 months' or year's service." p.50.

BLS [Chase and Nix] (1951, p.12) reported that "A recently completed Bureau of Labor Statistics analysis of over 2,100 agreements showed that only 168, or 8 percent of the contracts studied, stipulated that workers losing their jobs through no fault of their own should receive separation allowances." (p.12). They summarize their own study of 2,137 collective bargaining agreements in effect in 1949-50 (74 percent or 1,584 in the manufacturing sector) as follows, "dismissal-pay provisions, although found in many industries, were relatively concentrated in the agreements of only a few." (p.12). The handful of industries with coverage in excess of 50 percent included communications, rubber, and printing and publishing. A more substantial number—iron and steel, petroleum and coal products, electrical machinery, chemicals, mining and crude petroleum, and banking and insurance—offered coverage in a small number of agreements,10 to 12 percent. Again the typical plan offered modest benefits:

> plans which scaled the amount of dismissal pay to the worker's length of service were most widespread, 150 of the 168 dismissal plans being of this nature….Such plans usually established minimum length of service standards of 6 months or 1 year. Of the 150 graduated plans, 91 set an upper limit to the amount of separation pay which could be earned over a time period span which ranged up to 35 years…Over half (54) of the 91 plans specified maximum payments of 8 weeks or more, some as much as a half-year or more…The amount of dismissal pay was not limited in 59 agreements…In this group, *a frequent relationship between pay and service was to grant 1 week's pay for each completed year of service*. [emphasis added] (p.13)

Of the few uniform plans, "The amount most frequently allowed under the 18 uniform plans was 2 weeks' pay." (p.14).

The BLS conducted a study of major agreements (exclusive of railroad and airline agreements) in effect in 1955 or the first half of 1956, covering 1,000 or more workers analyzed, BLS [Dena Weiss) (1957). Approximately two-thirds of the 1,693 agreements were negotiated by manufacturing companies (1142). The 7.3 million workers covered represented somewhat less than half of all workers under agreements in the United States, exclusive of railroads and airlines. BLS [Dena Weiss] (1957, p.1)

Almost 16 percent (266) of the 1955/56 agreements analyzed contained provisions for severance or "dismissal" pay. The study noted that adoption was concentrated in a few industry/unions:

> More than 90 percent of the major agreements in the communications industry contained dismissal pay clauses; they accounted for about a fourth of all contracts with such provisions. In the primary metals group, nearly two-fifths of the major agreements studied provided for dismissal pay. BLS [Dena Weiss] (1957, p.1#).

The industries, notably primary metals, were large ones, however, so that severance plan coverage of workers was substantially higher than average agreement coverage. The percent of *workers* in major agreements covered by such plans had increased sharply, to 24.3 percent, BLS [Dena Weiss] (1957). The study contrasted the modest growth in severance coverage relative to other fringe benefits in collective bargaining agreements:

> Comparisons with earlier Bureau studies made in 1944 and 1950, discloses [sic] a relatively slow growth in such plans in union contracts, as contrasted with the rapid spread of such practices as pension plans and health and insurance coverage. BLS [Dena Weiss] (1957, p.1).

XI. Conclusion

The public and private reactions to the job stresses of the Great Depression formed an odd earnings insurance system. The decade of the 1930s began with workers having only the most rudimentary job displacement protection, short periods of "advance notice." Out of this evolved first severance pay in lieu of advance notice and then free standing severance plans, often accompanied by vague advance notice promises. By 1953/54, many U.S. workers had (partial) public coverage of unemployment losses induced by either temporary or permanent layoff while a fraction of white-collar workers and a smaller fraction of blue-collar workers had fixed sum (scheduled) private coverage for permanent displacements losses.

Two types of formal severance coverage were common in this period, (i) small flat-benefit “notice” plans, often a week’s pay for hourly workers and two weeks pay for salaried workers, and (ii) long-service plans designed to offer more substantial payments to displaced long-service workers. Notice plans were more common in the high-end service sector, where long-service workers were rarely displaced. Long-service plans were somewhat more generous, the modal plan offering a week’s pay for each year of service. Long-service plans were far from standard products, with some firms offering nonlinear packages, either increasing and decreasing in generosity with service, others including age add-ons, and many imposing a maximum service.

Severance plans of either type were almost always targeted on involuntary separations (layoffs) made for restructuring and consolidations and for plant closings because of a deficiency in demand. Only half as common were eligibility rules that permitted payment for benign inefficiency situations in which a worker applied effort but was not capable of doing the job. In yet fewer companies, severance pay was a comprehensive insurance policy against long term disability and other earnings threats. In a few plans, severance was the sole source of retirement income, although in most companies retiring workers did not qualify. Benefits were typically paid in a lump sum, both for administrative convenience, and to speed worker qualification for public unemployment benefits once that program was in place. Few firms provided explicit reserves for severance plans; tax laws did not favor pre-funding and firms could in especially trying times renegotiate plans, which often were not widely circulated in advance for that reason.

Formal severance coverage, like advance notice before it, was not uniformly available across workers; office workers had twice the coverage of factory workers. Coverage was also much more common in large workplaces. Large numbers increase the value of rules-driven policies in general. Reputational effects of positive employment practices are also likely to be more important in large firms. The data suggest an additional factor, an apparent complementarity in coverage across skill groups. Low-skilled workers were more likely to be covered if they were a relatively small proportion of the work force and conversely for office workers. The tendency for the company to adopt plant-wide policies for the numerically dominant group may derive from economies of scale and scope in the provision of this insurance or from the morale cost of differential treatment of workers.

Contemporaneous investigators argued that severance pay plans grew rapidly in the early 1930s in medium and large companies, especially among office or salaried workers. Retrospective plan adoption data from severance practice surveys support that claim. Severance coverage for both office workers and hourly workers then grew modestly over the following twenty years, 1940 to 1954. Severance coverage of any sort of hourly workers increased slightly in absolute terms from 1940 to 1954, from 6 percent to 14 percent (5.4 percent to 10.9 percent among gradient plans), although some portion of that increase may arise from a measurement issue, the reclassification of previously covered office workers from salaried to hourly. Data from collective bargaining agreements confirm the slow growth of severance coverage among hourly workers in this period.

Data on the coverage of salaried workers is less complete, with the first full survey undertaken in 1940. The estimates at that time correspond roughly to the 1954 estimates, again Figure 13. By 1954 one third of all companies in the NICB survey of medium and large industrial firms offered some type of formal severance pay to nonexempt salaried workers. Gradient plans were offered at 23 percent of all surveyed companies in both 1940 and 1954.

Even recognizing the limitations of this market, the absence of coverage growth between 1935 and 1954 is puzzling, especially in light of the rapid growth in other fringe benefits, including pension plans. The introduction of the public unemployment insurance system, with payroll tax collections beginning in the late 1930's and benefit payouts in 1940, might explain the absence of growth in the severance pay market, but severance pay targeted a distinct market, the permanently displaced, while the public system offered benefits to both temporary and permanent layoffs. Few employers with plans in the early NICB surveys reported that the introduction of the public system adversely affected subsequent coverage. Across detailed industries, coverage changed little after 1935; the correlation of severance coverage among hourly workers across detailed industries between 1935 and 1953 was a surprisingly high 0.78.

Gradient plans, which form the basis for long-service plans that might provide serious (reemployment) wage insurance, followed a similar pattern, with salaried workers alone, not hourly workers, having substantial coverage, and that a response to the onset of the Great Depression. After the 1930s, little progress was made over the next two decades in extending coverage to the bulk of the work force. Severance pay policies would appear to be rarely revisited by the firm. Rarely is not never, however, and subsequent NICB surveys reveal a second period of rapid adoption of long-service severance plans--union-led among hourly workers in the next decade, Parsons (2017a).

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Table 1
Severance Plans by Type, 172 Companies Known to Have Plan
By Company Size, 1936

	FORMAL	*FORMAL, GRAD-UATED*	*FORMAL, UNIFORM*	INFORMAL	DISCON-TINUED	TOTAL
TOTAL	54.1% (93)	*38.4% (66)*	*15.7% (27)*	34.9% (60)	11.0% (19)	100% (172)
100-999	54.7% (29)	*24.5% (13)*	*30.2% (16)*	37.7% (20)	7.5% (4)	100% (53)
1000-4999	50.0% (35)	*35.7% (25)*	*14.3% (10)*	37.1% (26)	12.9% (9)	100% (70)
5000+	63.4% (26)	*63.4% (26)*	*0% (0)*	26.9% (11)	9.8% (4)	100% (41)

Source: NICB [Brower] (1937a, p.4)

Table 2
Companies with Active Economic Security Plans
For Hourly Workers, 1935

	Percent	Number
TOTAL SAMPLE		
Dismissal Compensation	12.9	317
Employment Guarantee	1.6	39
Relief Fund	10.8	266
TOTAL	100.0 %	2,452
MANUFACTURING		
Dismissal Compensation	9.2	191
Employment Guarantee	1.6	34
Relief Fund	10.1	210
SUBTOTAL	100.0 %	2,075
NONMANUFACTURING		
Dismissal Compensation	33.4	126
Employment Guarantee	1.3	5
Relief Fund	14.9	56
SUBTOTAL	100.0 %	377

Source: NICB [Browne] (1936, p.11).

Table 3
Companies with Advance Notice for Hourly Workers
By Company Size, 1937-1943 (in percent)

Panel A: 1937

	Give Notice	Give If Possible	No Definite Policy	No Advance Notice	Sample Size
TOTAL	51.3 %	15.5 %	3.5 %	29.7 %	343
1-249	60.6	2.8	7.0	29.6	71
250-999	47.8	17.2	0.6	34.4	157
1,000-4,999	47.8	21.9	5.2	25.0	96
5000 and More	63.2	15.8	5.3	15.8	19

Source: NICB [Brower] (1937b, p. 75).

Panel B: 1940

	Give Notice, Definite Time Set	Give Notice, No Definite Time Set	No Standard Policy	No Advance Notice	Sample Size
TOTAL	36.0 %	29.2 %	12.4 %	22.4 %	250
1-249	35.7	31.0	4.8	28.6	42
250-999	37.5	27.9	9.6	25.0	136
1,000-4,999	35.2	29.6	22.2	13.0	54
5000 and More	27.8	33.3	22.2	16.7	18

Source: NICB [Donovan] (1940b, p.15).

Panel C: 1943

	Give Notice, Definite Time Set	Give Notice, Time Varies	Give Notice, Other[A]	No Advance Notice	Sample Size
TOTAL	41.6 %	31.2 %	6.9 %	20.3 %	231
1-249	27.1	39.6	0.0	33.3	48
250-999	50.0	26.0	6.2	17.7	96
1,000-4,999	42.6	30.9	8.8	17.7	68
5000 and More	31.6	36.8	21.1	10.5	19

Source: NICB [Earl] (1943b, p.19). [A] "Layoff—not discharge."

Table 4
Companies with Formal Severance Plan for Wage Earners
By Plan Type and Company Size, 1940, 1948 and 1954 (in percent)

Panel A: 1940

	Formal, Total	*Formal, Service Linked*	*Formal, Uni-form*[A]	Informal [B]	No Plan	Sample Size
TOTAL	6.4 %	*5.4 %*	*1.0 %*	3.2 %	90.4 %	312
1-249	7.8	*5.9*	*2.0*	2.0	90.2	51
250-999	5.5	*4.3*	*1.2*	3.7	90.9	164
1,000-4,999	3.9	*3.9*	*0*	3.9	92.1	76
5000 and More	19.0	*19.0*	*0*	0	81.0	21

Source: NICB [Donovan] (1940b, p. 15). Percentages are adjusted for nonresponses.
[A] "Uniform amount, 1 week's pay."
[B] "No standard policy."

Panel B: 1948

	Formal, Total	*Formal, Service-Linked*	*Formal, Uniform*	Informal [A]	No Plan	Sample Size
TOTAL	8.7%	*5.9%*	*2.8%*	1.8%	89.5%	389
1-249	0	*0*	*0*	0	100.0%	48
250-999	9.6	*6.2*	*3.4*	1.2	89.2	176
1,000-4,999	6.6	*4.4*	*2.2*	2.9	90.4	136
5000 and more	27.6	*20.7*	*6.9*	3.4	69.0	29

Source: NICB [Seybold] (1948, p. 13). Percentages are adjusted for nonresponses.
[A] "No definite policy" and "Formal, unspecified."

Panel C: 1954

	Formal, Total	*Formal, Service -Linked*	*Formal, Uni-form*	Informal [A]	No Plan	Sample Size
TOTAL	14.1 %	*10.9 %*	*3.2 %*	2.6 %	83.3 %	504
1-249	11.9	*7.9*	*4.0*	5.0	83.2	101
250-999	12.9	*9.7*	*3.2*	1.4	85.7	217
1,000-4,999	17.0	*14.3*	*2.7*	3.4	79.6	147
5000 and more	15.4	*12.8*	*2.6*	0.0	84.6	39

Source: NICB [Seybold} (1954b, p.40). Percentages are adjusted for nonresponses.
[A] "No definite policy."

Table 5
Companies with Dismissal Compensation
Hourly Workers by Establishment Size, Alternative Measures, 1943 (in percent)

Panel A
Dismissal Compensation
When Cause is Beyond Employee's Control

	Dismissal Compensation Paid	Dismissal Compensation Depends	No Dismissal Compensation Paid	Sample Size
TOTAL	8.3 %	7.9 %	83.8 %	216
1-249	10.9	13.0	76.1	46
250-999	2.2	5.6	92.2	90
1,000-4,999	12.7	9.5	77.8	63
5000 and More	17.6	0.0	82.4	17

Source: NICB [Earl] (1943b, p.19, Table 44B).

Panel B
Dismissal Compensation
To Long Service Hourly Workers

	Dismissal Compensation Paid	Dismissal Compensation Depends[A]	No Dismissal Compensation Paid[B]	Sample Size
TOTAL	14.2 %	2.9 %	82.5 %	239
1-249	20.0	4.0	76.0	50
250-999	9.2	3.1	87.8	98
1,000-4,999	17.1	2.9	80.0	70
5000 and More	14.3	0.0	85.7	21

Source: NICB [Earl] (1943b, p.19, Table 44B).
[A] Includes one case in 1000-4999 category of "paid only to draftees."
[B] "Each case decided on own merit"

Table 6

Companies with Advance Notice and Dismissal Pay in Lieu of Notice
For Salaried Workers by Company Size, 1937 and 1940 (in percent)

Panel A: 1937

	Advance Notice Only	Dismissal Wage or Advance Notice	Dismissal Wage In Lieu of Notice	No Definite Policy	No Advance Notice or Dismissal Wage	Sample Size
TOTAL	49.9 %	6.2 %	15.9 %	19.1 %	9.0 %	435
1-99	63.6	9.1	0.0	9.1	18.2	11
100-999[A]	50.9	6.8	15.7	16.5	10.6	236
1,000 and More	47.9	5.3	17.0	22.9	6.9	188

Source: NICB [Brower] (1937b, p. 129).

[A] The percentage sum exceeds 100.0 because the cell sum exceeds the total by one (237 versus 236).

Panel B: 1940

	Advance Notice Only	Dismissal Wage or Advance Notice	Dismissal Wage in Lieu of Notice	No Rule/ Depends	No Advance Notice or Dismissal Wage	Sample Size
TOTAL	28.0 %	30.3 %	24.7 %	12.5 %	4.5 %	465
1-99	36.8	27.6	22.4	10.5	2.6	76
100-249	24.2	32.5	30.0	12.5	0.8	120
250-999[A]	24.4	32.3	26.2	12.2	4.9	164
1,000-4,999	27.6	28.7	19.5	16.1	8.0	87
5,000 and More	50.0	16.7	11.1	5.6	16.7	18

Source: NICB [Donovan] (1940b, p. 27).

Table 7
Companies with Severance Plan for Salaried Employees
By Type and Establishment Size, 1940, 1948, and 1954 (in percent)

Panel A: 1940

	Formal, Total	*Formal, Service Linked*[A]	*Formal, Uniform*	Informal Plan[B]	No Plan	Sample Size
TOTAL	29.2%	*23.4%*	*5.7%*	26.2%	44.7%	367
1-249	19.1	*11.0*	*8.1*	19.8	61.0	136
250-999	27.0	*20.4*	*6.6*	35.0	38.0	137
1,000-4,999	48.7	*47.3*	*1.4*	17.6	33.8	74
5000 and more	40.0	*40.0*	*0*	40.0	20.0	20

Source: NICB [Donovan] (1940b, p.27). Percentages are adjusted for nonresponses.
[A] "Graduated on basis of service"
[B]..“Dismissal compensation given on an individual basis” and “Formal, unspecified”

Panel B: 1948

	Formal	*Formal, Service-Linked*[A]	*Formal Uniform*	Informal Plan[B]	No Plan	Sample Size
TOTAL	38.6 %	*31.0 %*	*7.6 %*	11.1 %	50.3 %	316
1-249	27.6	*19.0*	*8.6*	17.2	55.2	58
250-999	37.3	*28.6*	*8.7*	8.0	54.8	126
1,000-4,999	39.3	*29.8*	*9.5*	10.8	50.0	84
5000 and more	54.2	*54.2*	*0*	12.5	33.3	48

Source: NICB [Seybold] (1948, p.43). Percentages are adjusted for nonresponses.
[A] “Type of allowance: increased according to length of service.”
[B] “No definite plan” and “Formal, unspecified”.

Panel C: 1954

	Formal, Total	*Formal, Service-Linked*[A]	*Formal, Uniform*	Informal Plan[B]	No Plan	Sample Size
TOTAL	33.3 %	*23.2 %*	*10.1 %*	12.7 %	54.0 %	496
Less Than 250	25.2	*14.4*	*10.8*	10.8	64.0	111
250-999	33.8	*21.6*	*12.2*	16.0	50.2	213
1,000-4,999	36.6	*28.2*	*8.4*	8.4	55.0	131
5000 and more	41.4	*39.0*	*2.4*	14.6	43.9	41

Source: NICB [Seybold] (1954b, p.94). Percentages are adjusted for nonresponses.
[A] “Allowance increased according to length of service.” [B] “”Informal”

Table 8
Companies with Severance Plans, By Type, 1957

Total and By Types of Employees Covered	Number	Per Cent Of Responses	Per Cent Of Plans
Questionaires	**250**		
Responses	**119**	**100 %**	
No severance payments	66	55.5 %	
Some form of severance payments	53	44.5 %	
Type (if pay severance)			**100 %**
Multipurpose	31	26.1 %	58.5 %
Special Purpose (SP)	20	16.8 %	37.7 %
SP-permanent plant or office closing	*8*		
SP-in lieu of notice	*7 (2)*		
SP-retirement	*3*		
SP-military	*2 (2)*		
Individual-Special Hardship	2	1.7 %	3.8 %

Source: Columns 1 Haas and Floyd [American Management Association] (c1957, p.7). The original 250 sample was random sample of all companies with 400 or more workers. The sample was collected by questionnaire. Two companies reported payment in lieu of notice and for entry into military.

Table 9
Companies with Multipurpose Severance Plans,
Occupational Coverage, 1957

	c1957	
Total and By Types of Employees Covered	Number of Plans	Per Cent Of Plans
	(1)	
Multipurpose Plans	31	100.0 %
All Employees (some have few wage earners)	14	45.2 %
Salaried Employees Only[A]	15	48.4 %
Wage earners only (Union/foreman)	1	3.2 %
Information lacking	1	3.2 %

Source: Haas and Floyd (c1957, p.12).
[A] Includes one company with exempt workers only.

Table 10
Companies with Multipurpose Severance Plans,
Payment Formulae, 1957

	c1957	
Total and By Types of Employees Covered	Number of Plans	Per Cent Of Plans
	(1)	
Multipurpose Plans	31	100.0 %
Graduated (service)	13	41.9 %
No ceiling on benefits or service	*7*	
Ceiling on benefits or service	*6*	
Graduated (mixed formula/age and service)	2	6.5 %
One week/short-service, two weeks/long	9	29.0 %
Two weeks' pay to all	2	6.5 %
Program varies by occup.	2	6.5 %
No Information	3	9.7 %

Source: Haas and Floyd (c1957, p.12).
[A] Includes one company with exempt workers only.

Appendix Table
Survey Sample Size and Characteristics
National Industrial Conference Board, 1935-1954

Panel A
Wage Earners[A]

	Survey Type[C]	Sample Size[D]	Percent Manu-facturing	Estab. Size less than 250	Estab. Size 5,000 or more	Comments
1935 [1936a]	Checklist	2,452	84.6%	33.2%	5.6%	Simple checklist of practices.
1936 [1937a]	SEV ONLY	172	NA	NA	23.8%	
1937 [1937b]	PPFO	343	91.1%	20.7%	5.5%	Advance notice practices only. Industrial dist. for full sample.
1939 [1940a]	Checklist	2,700	82.0%	31.9%	6.2%	Simple checkoff of practices.
1940 [1940b]	PPFO	312	81.0%[D]	16.3%	6.7%	Separate notice and severance questions asked.
1942 [1943a]	SEV ONLY	104	60.6%	NA	28.1%	Industry and size shares for all 160 companies asked.
1943 [1943b]	PPFO	216	97.7%	20.5%	10.6%	Multiple but nonstandard severance questions asked.
1948 [1948]	PPFO	400	99.7%[E]	13.0%	5.8%	Standard severance question plus others.
1953 [1954c]	Checklist	422	91.0%	14.0%	7.0%	Checklist. Limited detail on severance; size distribution for full sample
1953 [1954a]	SEV ONLY	103	61.2%	NA	34.0%	
1954 [1954b]	PPFO	515	96.1%[F]	20.4%	7.8%	Standard question plus others.

Panel B
Salaried Workers[B]

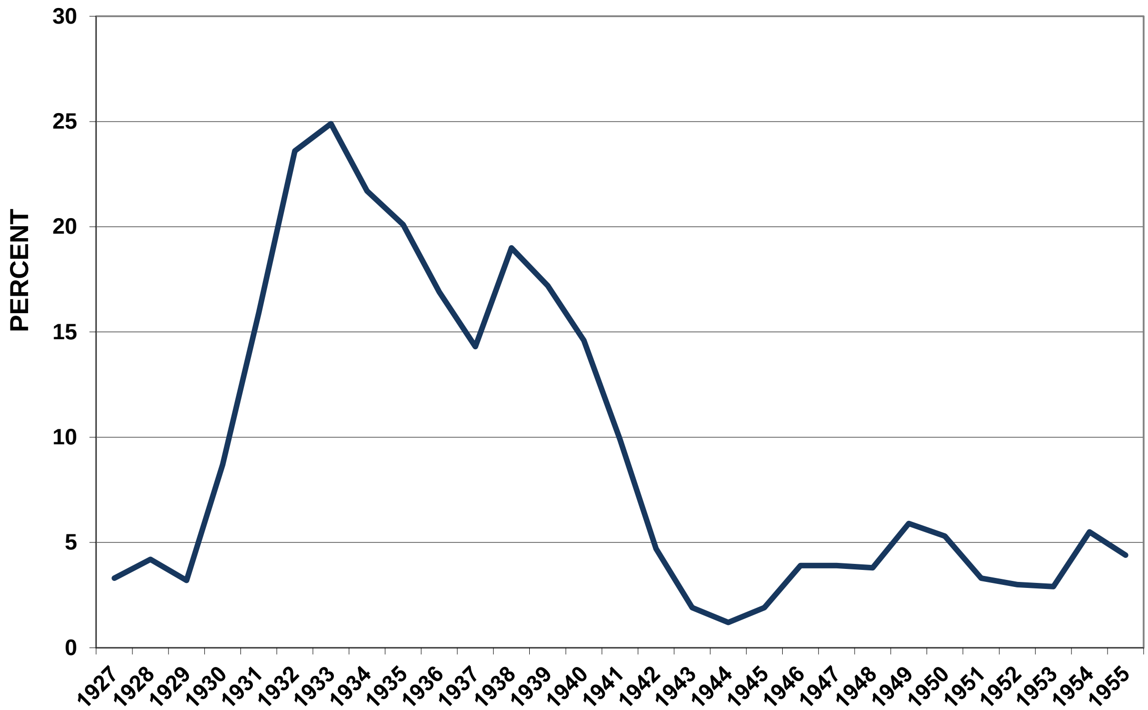
	Survey Series	Sample Size[C]	Est. Manufac -turing	Estab. size less than 250	Estab. size 5,000 or more	Comments
1936 [1937a]	SEV ONLY	172	NA	NA	23.8%	
1937 [1937b]	PPFO	435	91.1%	24.7%	5.3%	Severance question combined with advance notice practices. Size dist for full sample.
1940 [1940b]	PPFO	367	81.0%[D]	37.1%	5.4%	Standard severance questions plus others.
1943 [1943a]	SEV ONLY	104	60.6%	NA	28.1%	Industry and size shares for all companies asked.
1943 [1943b]	PPFO	260	74.5%	31.1%	6.8%	Severance question lacks usual detail.
1948 [1948]	PPFO	324	67.9%[E]	18.5%	15.1%	Standard severance question plus others.
1953 [1954c]	Checklist	428	87.6%	14.0%	7.0%	Simple checklist of practices; size distribution for full sample
1953 [1954a]	SEV ONLY	103	61.2%	NA	34.0%	
1954 [1954b]	PPFO	501	66.9% [F]	22.6%	8.2%	Standard question plus others.

NA denotes not available.

[A] Wage earners 1935-1940, hourly workers 1943-1954
[B] Salaried employees 1937-1948, Nonexempt salaried employees 1953-54
[C] SEV ONLY, surveys of companies believed to have severance plans; PPFO, Personnel Practices in Factory and Office; CHECKLIST, checklist enumeration of personnel practices.
[D] Percent of all personnel surveys conducted, not only those related to severance pay.
[E] Companies that answered key severance pay questions. The full company sample was often much larger, but all questions were not asked of all sample members. In a number of surveys questionnaires were sent to separate companies for office workers and factory workers.
[F] Percent industrial.

Figure 1

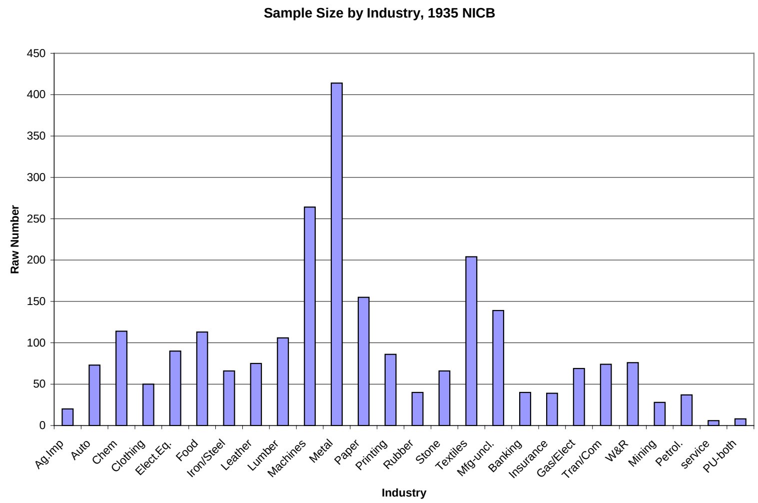
Civilian Unemployment Rate U.S. 1927-1955
(Age 14 and Older through 1946, Age 16 and Older after 1946



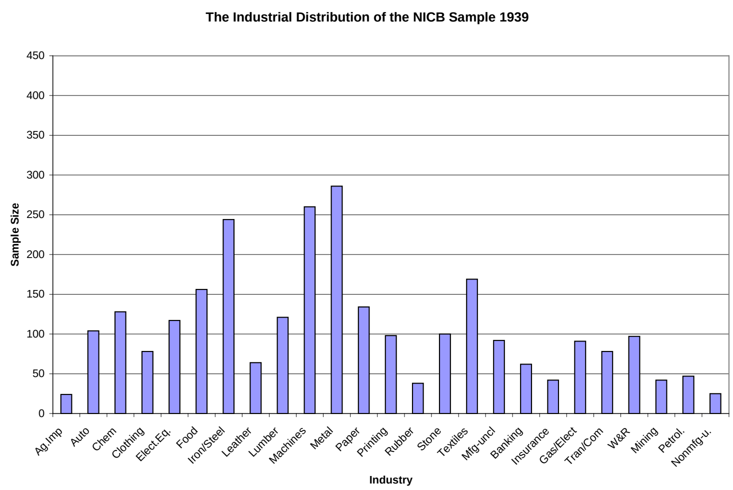
Source: U.S. Bureau of the Census (1975, Series D84-86, p.135).

Figure 2

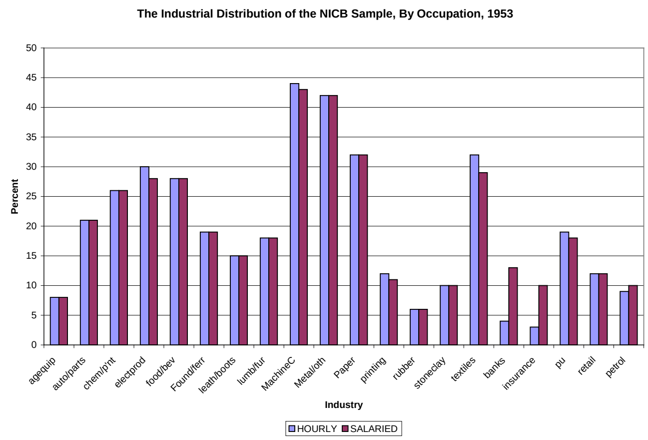
Panel A: 1935



Panel B: 1939



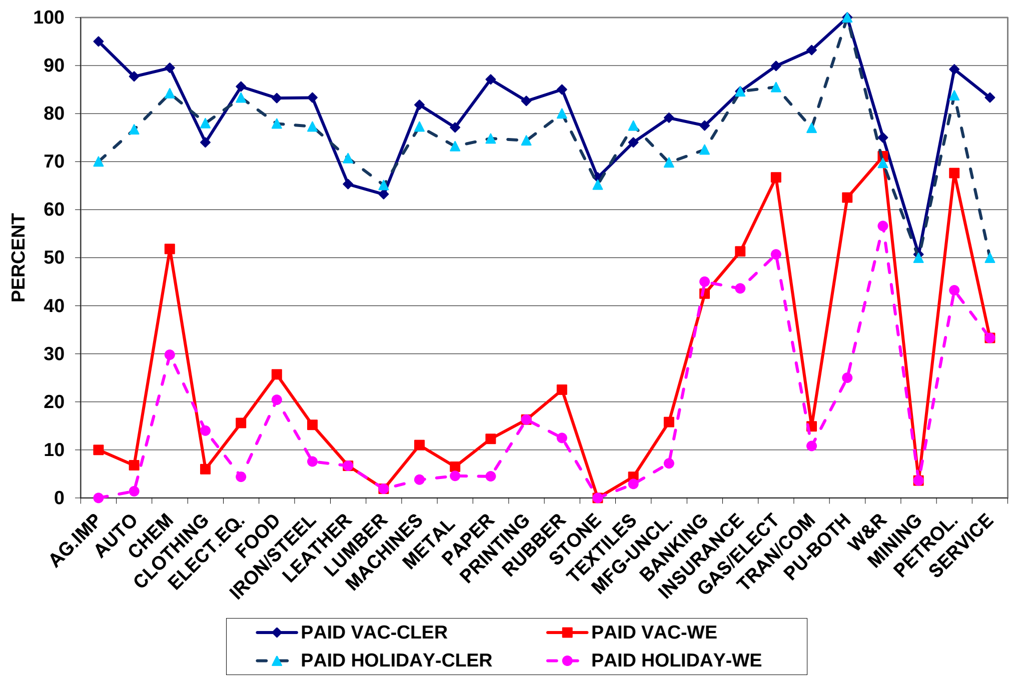
PANEL C: 1953



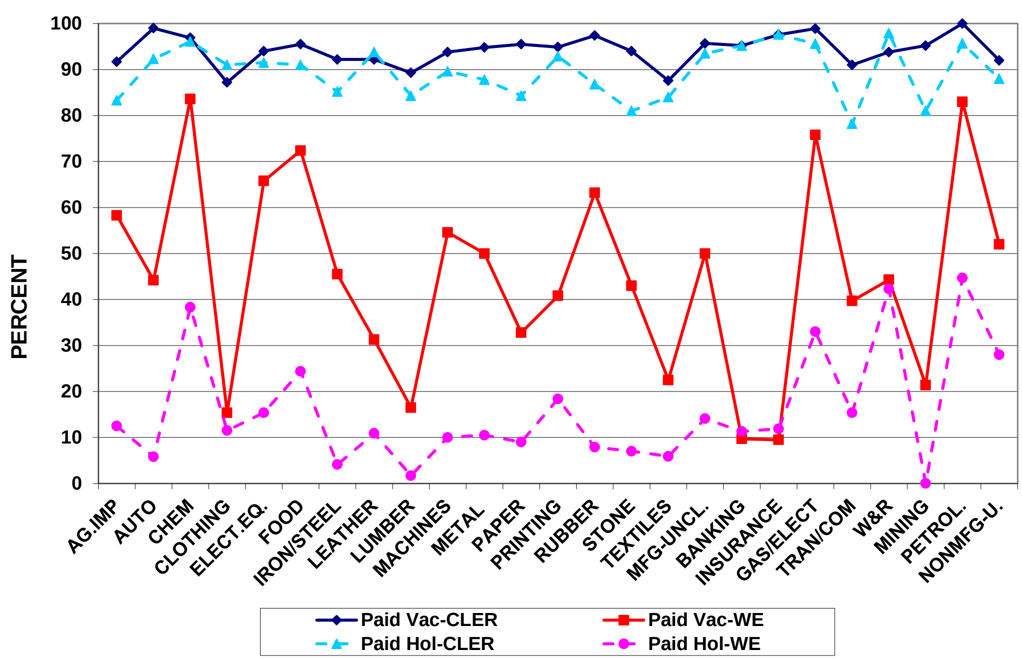
Sources: Panel A: NICB (1936, p.6); Panel B: NICB (1940a, p.5); Panel C: NICB (1954c, pp. 8,10)

Figure 3
Companies with Paid Vacation and Holidays,
By Industry and Worker Occupation, 1935 NICB Sample

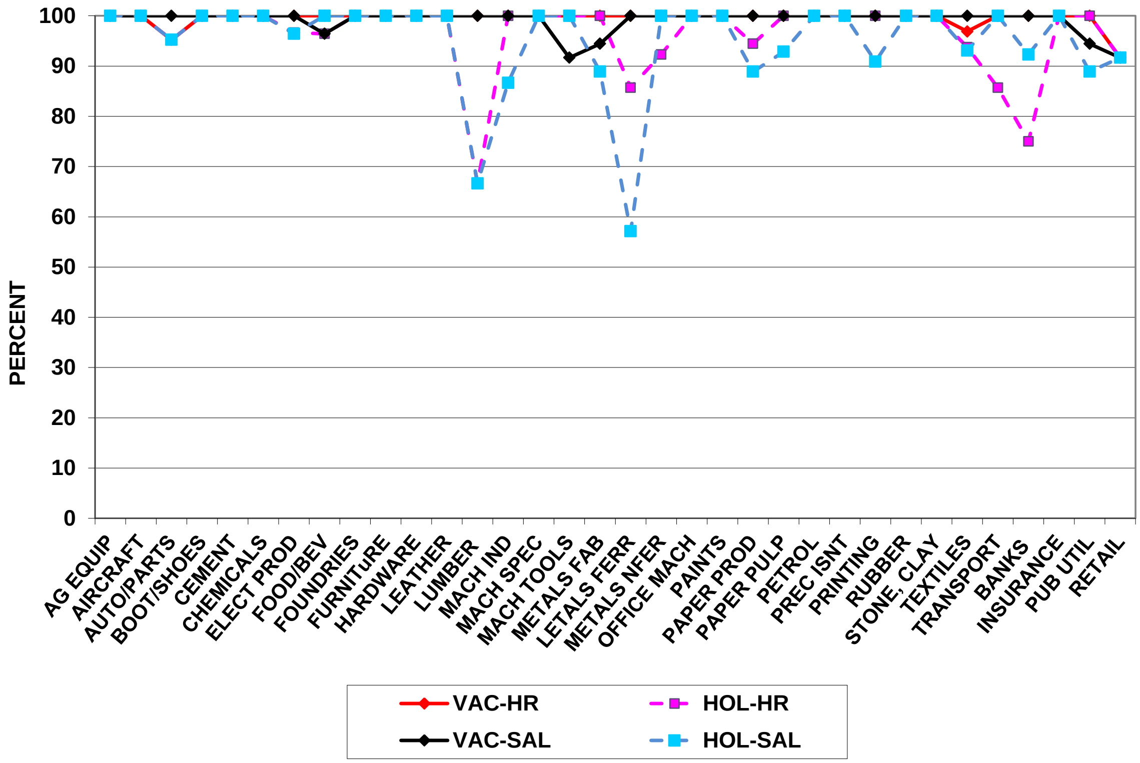
Panel A: 1935



Panel B 1939



Panel C: 1953

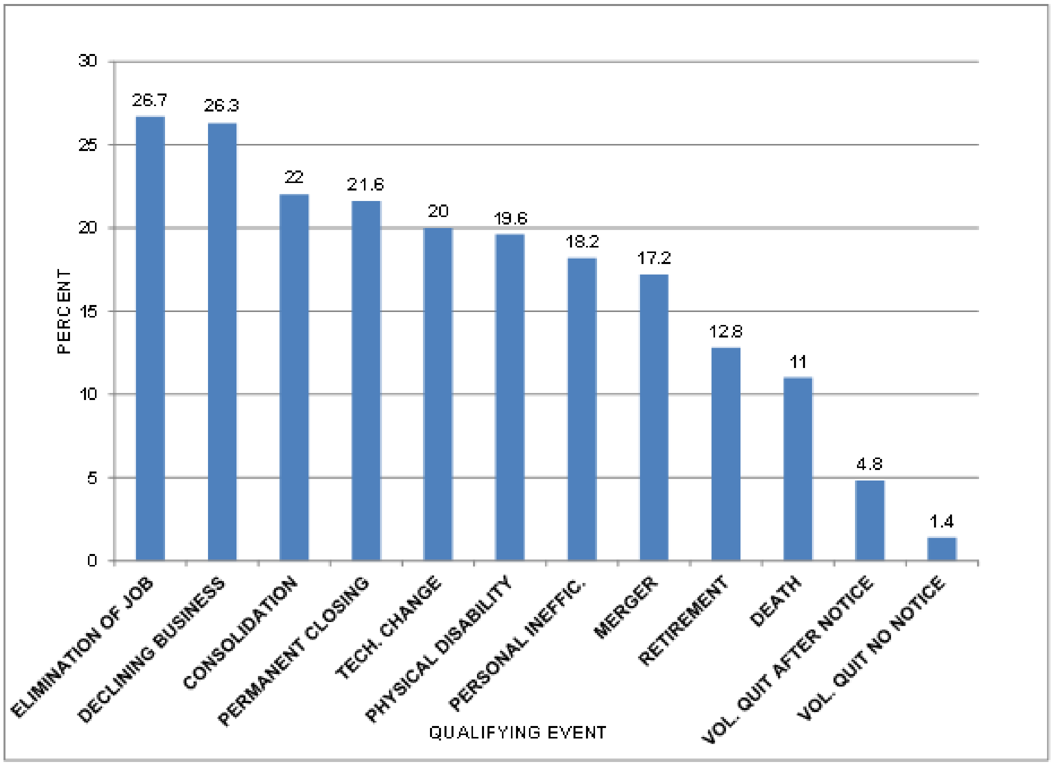


Sources: 1935: NICB (1936, p.56); 1939: NICB (1940a, p.18); 1953: NICB (1954c, pp.8, 10).

Figure 4

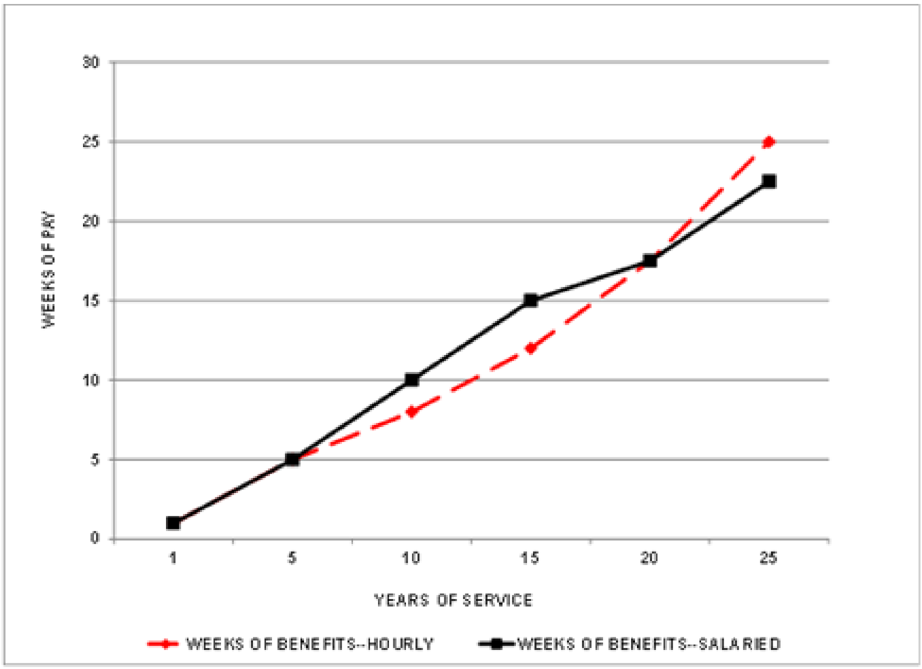
Qualifying Events for Severance Benefits

Companies with a Plan for Nonsupervisory (Nonexempt) Salaried Workers, 1954 NICB



Sources: NICB (1954b, Table 293, p.94).

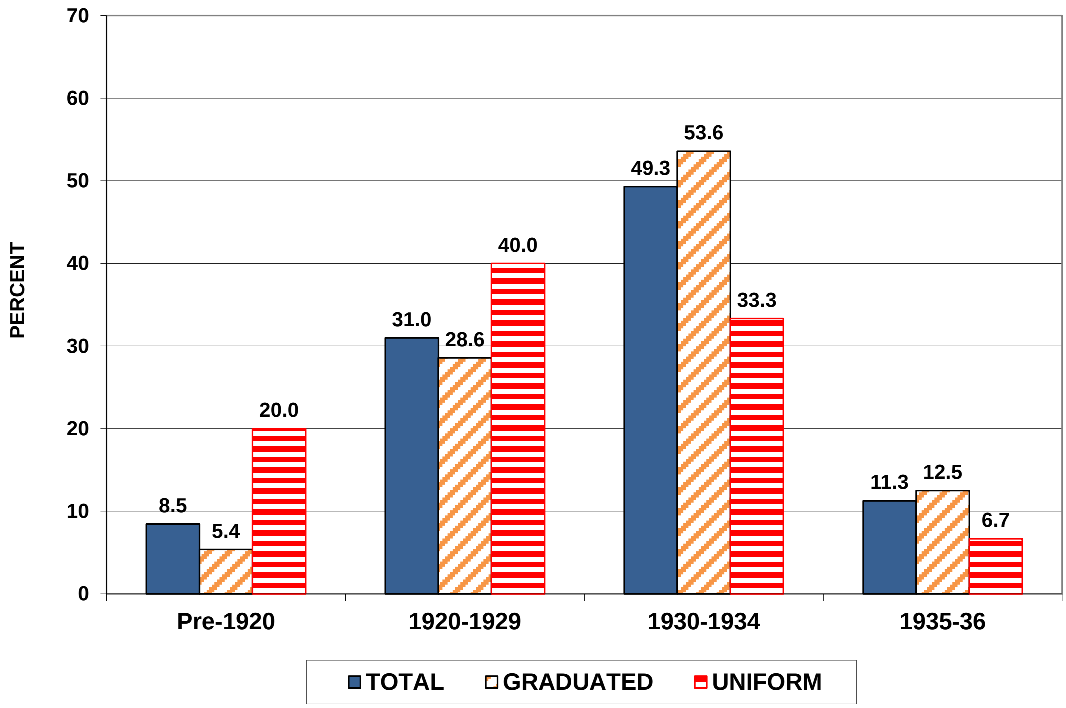
Figure 5*
Severance Generosity, Gradient Plans
Median Weeks of Pay per Year of Service, 1954



Source: NICB [Forde and Brower] (1954a, pp.17-18).

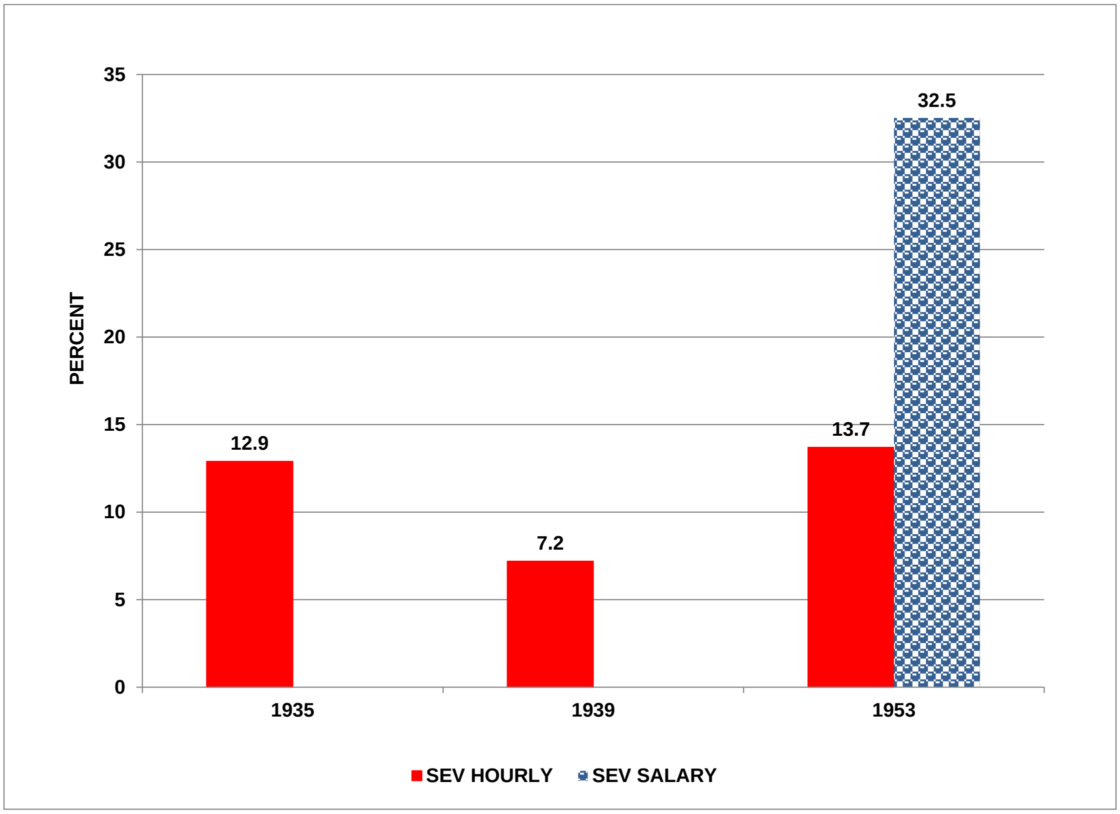
Figure 6

Date-of-Adoption of Severance Plans
By Plan Type and in Total, Plans in Place in Mid-1936



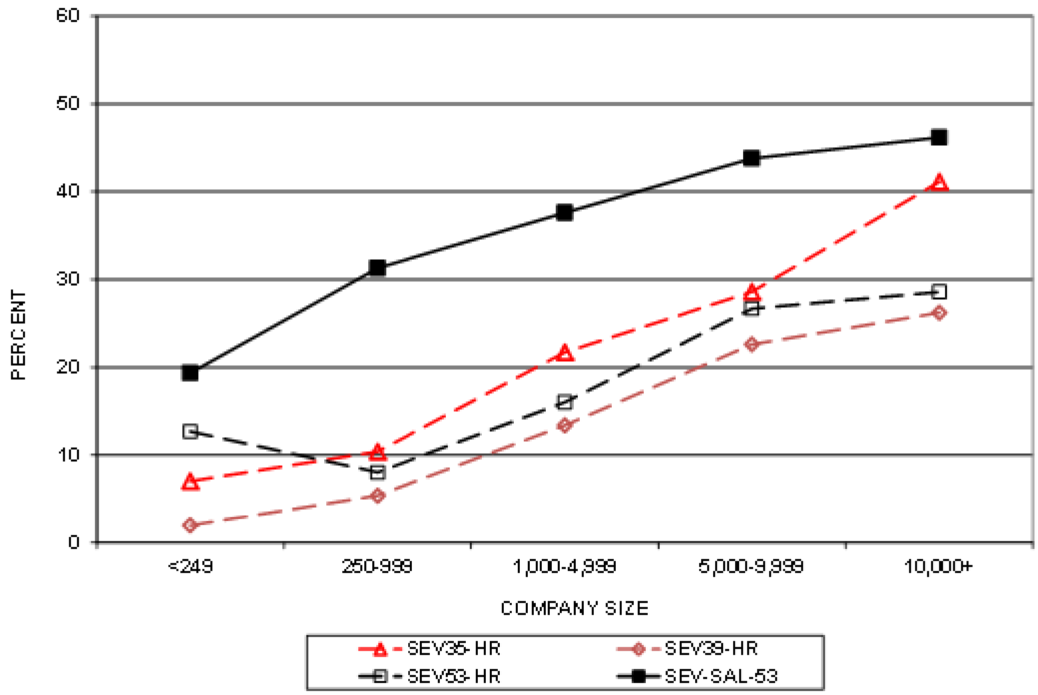
Source; NICB (1937a, p.5)

Figure 7
Companies with Severance Plan, By Occupation
1935-1939-1953 NICB Enumeration Surveys



Sources: 1935: NICB (1936, p.11); 1939: NICB (1940a, p.23); 1953: NICB (1954c, adjusted tabulations—see text).

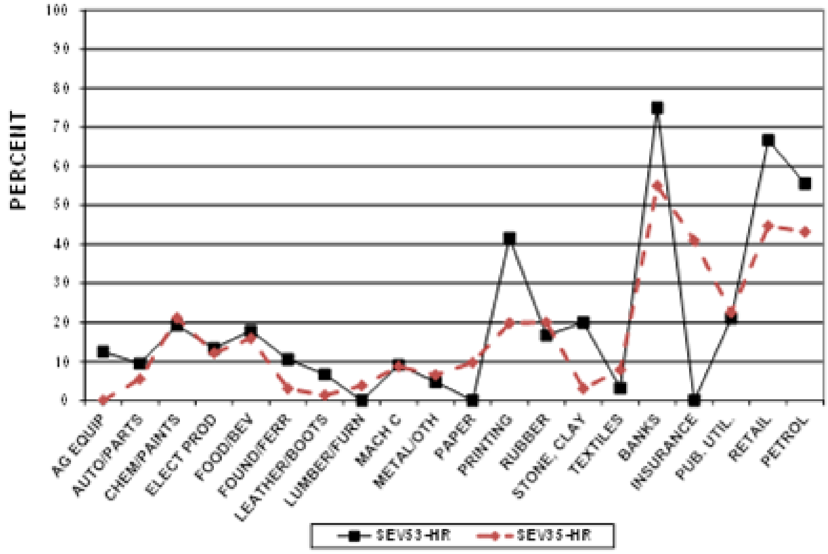
Figure 8
Companies with Severance Plan, By Occupation
And Company Size, 1935-1939-1953 NICB Surveys



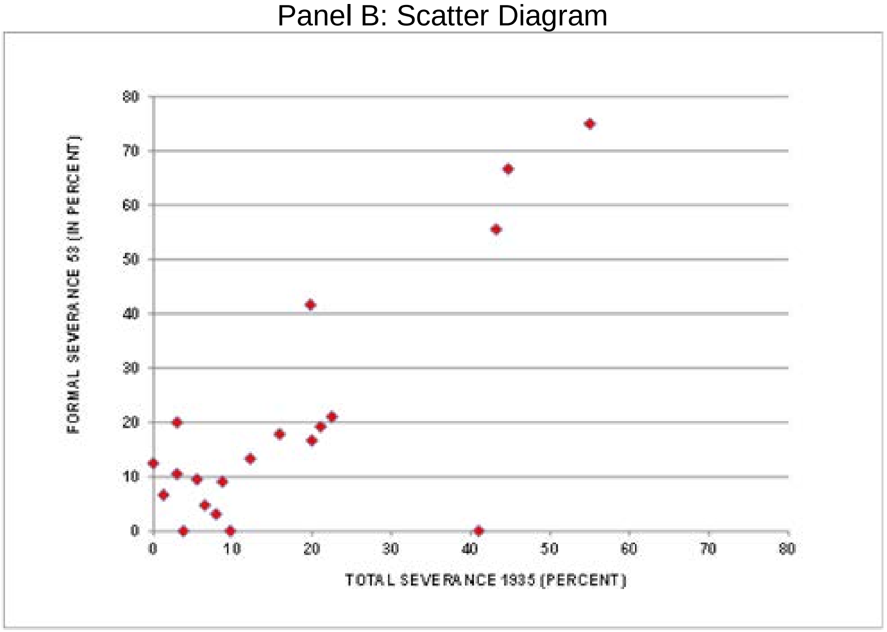
Sources: 1935: NICB (1936, p.34); 1939: NICB (1940a, p.23); 1953: NICB (1954c, adjusted tabulations—see text).

Figure 9
Companies with Severance Plans By Industry, Wage Earners 1935 and 1953
(1935 Industrial Classification)

Panel A: By Detailed Industry



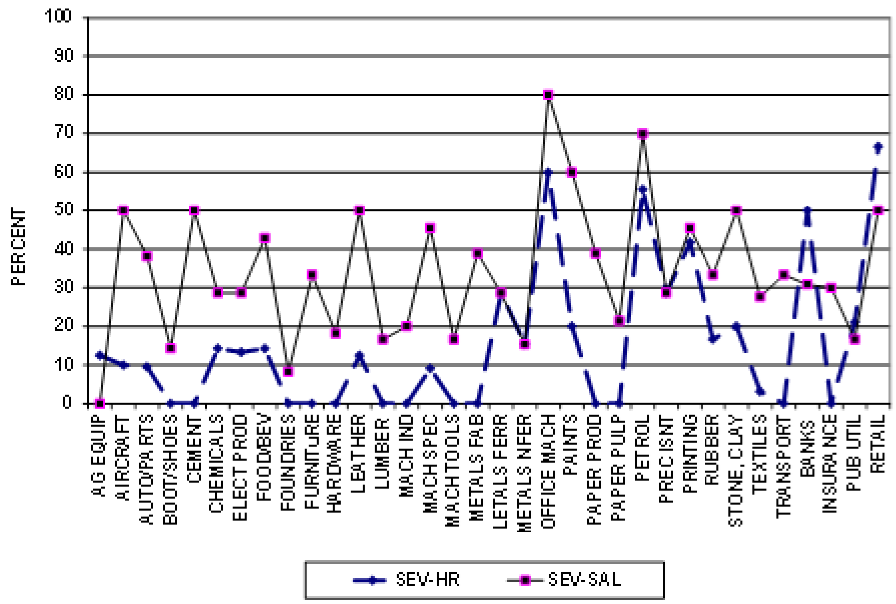
Panel B: Scatter Diagram



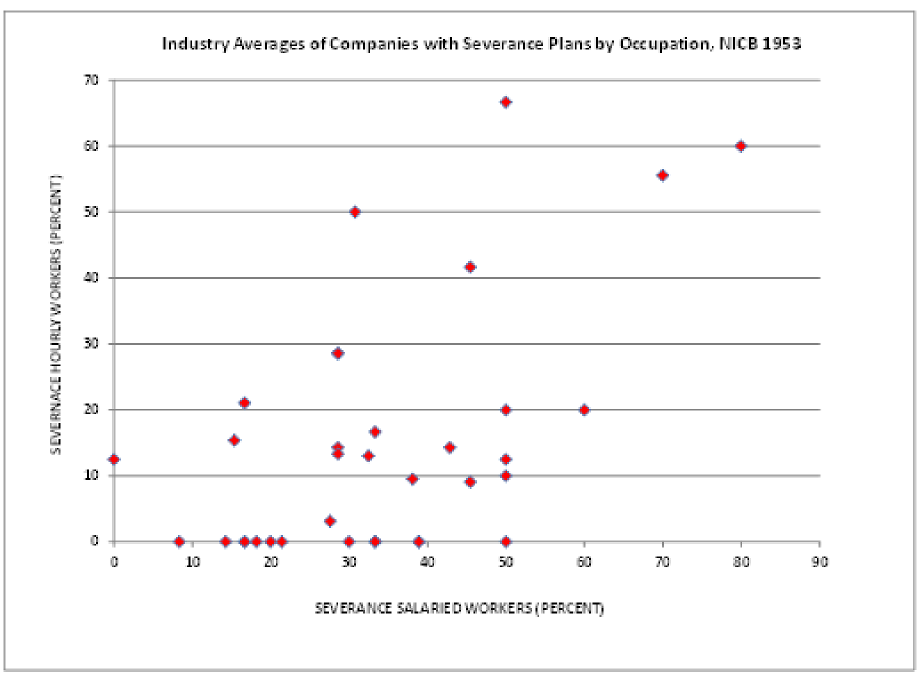
Sources: 1935: NICB (1936a, p.32); NICB (1954a, adjusted tabulations—see text).

Figure 10
Companies with Severance Plan. By Occupation and Industry, 1953 NICB Survey

Panel A: By Industry



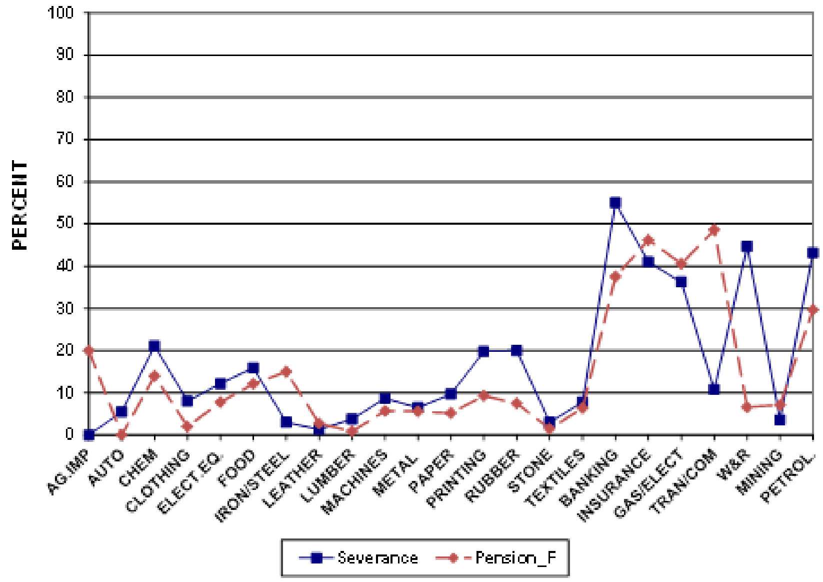
Panel B: Scatter Diagram



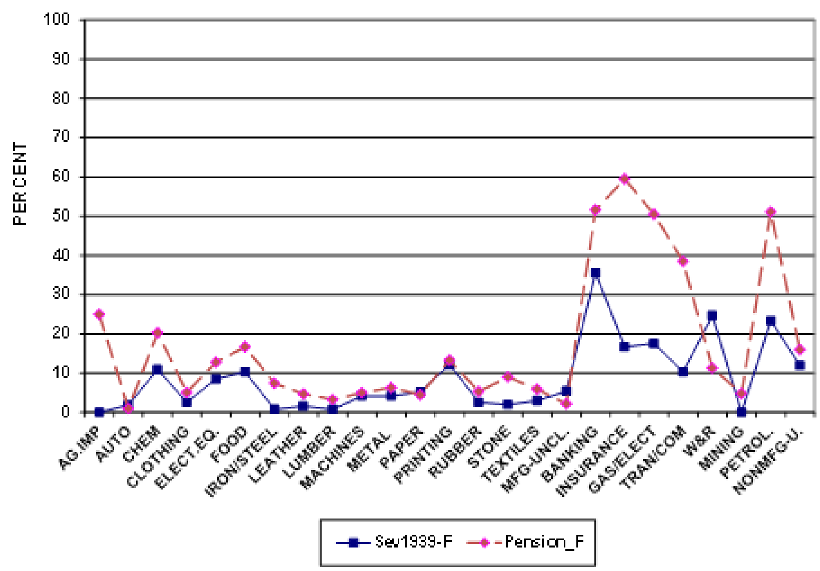
Source: NICB (1954a, adjusted tabulations—see text).

Figure 11
Industrial Distribution of Formal Severance and Formal Pensions

Panel A: 1935



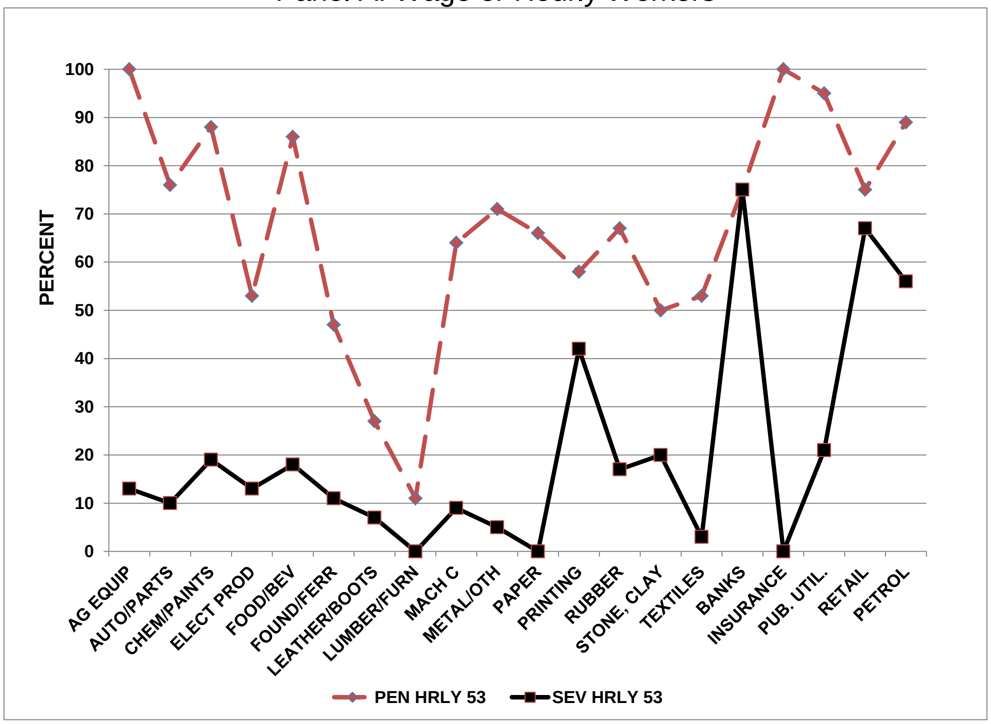
Panel B: 1939



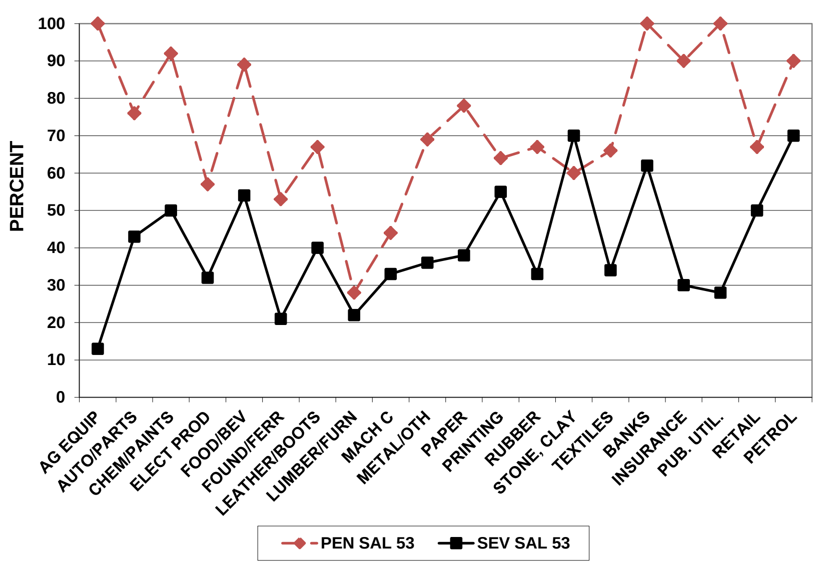
Sources: 1935: NICB (1936a, pp.32, 35); 1939: NICB (1939a, p.23).

Figure 12
Pension and Severance Coverage by Industry
Hourly Workers and Salaried Workers 1953

Panel A: Wage or Hourly Workers



Panel B: Salaried Workers



Source: NICB (1953a, pp.9-12 as adjusted).

Figure 13

Companies with Severance Plan By Occupation
1940-1948-1954 NICB Personnel Practices Surveys

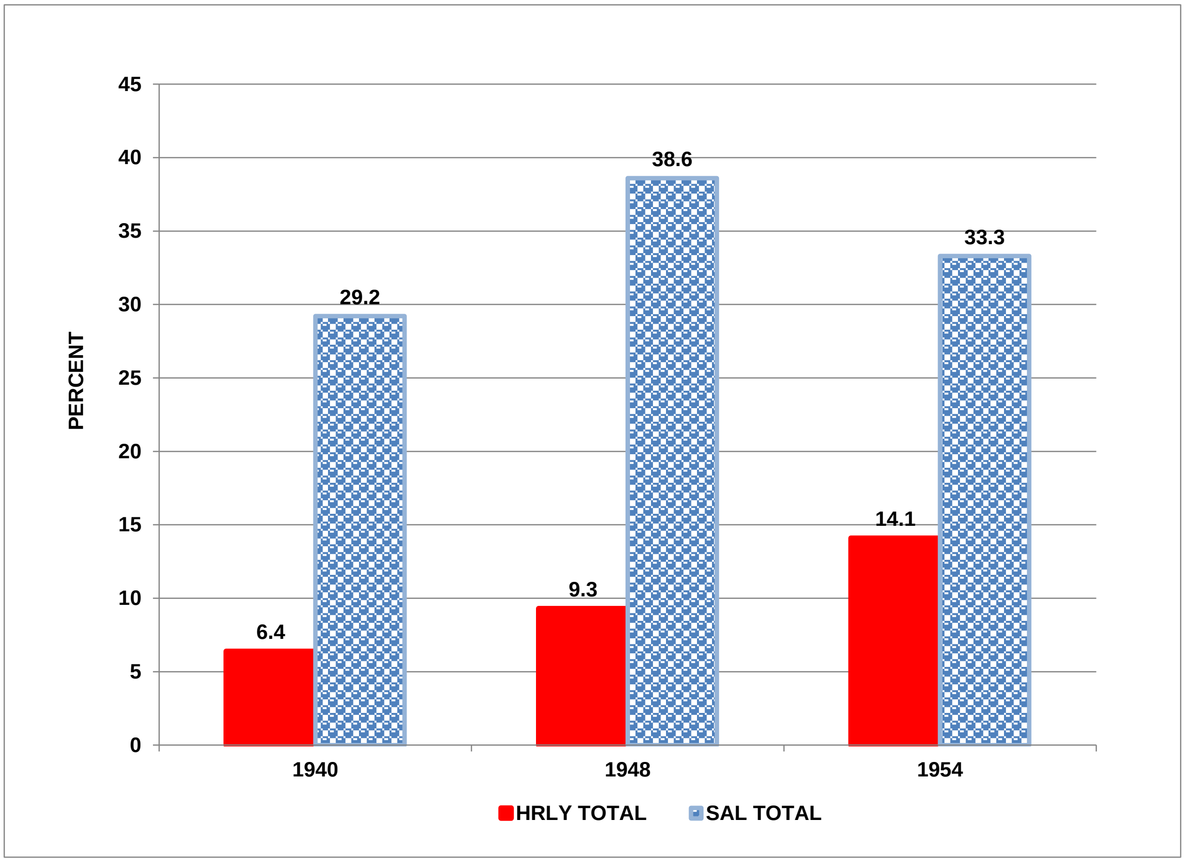
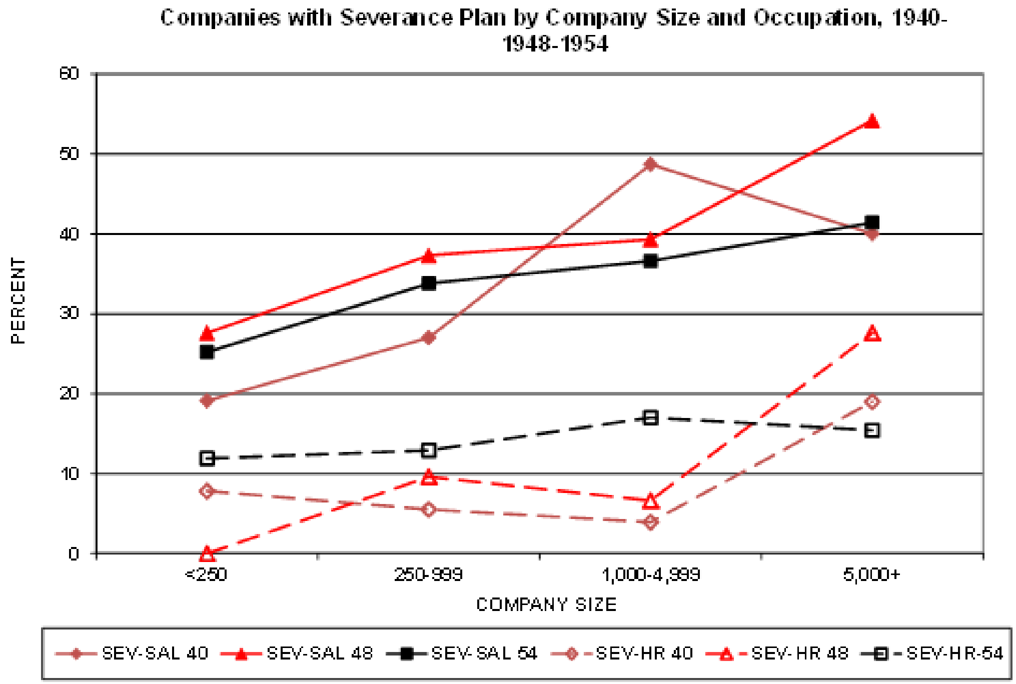


Figure 14

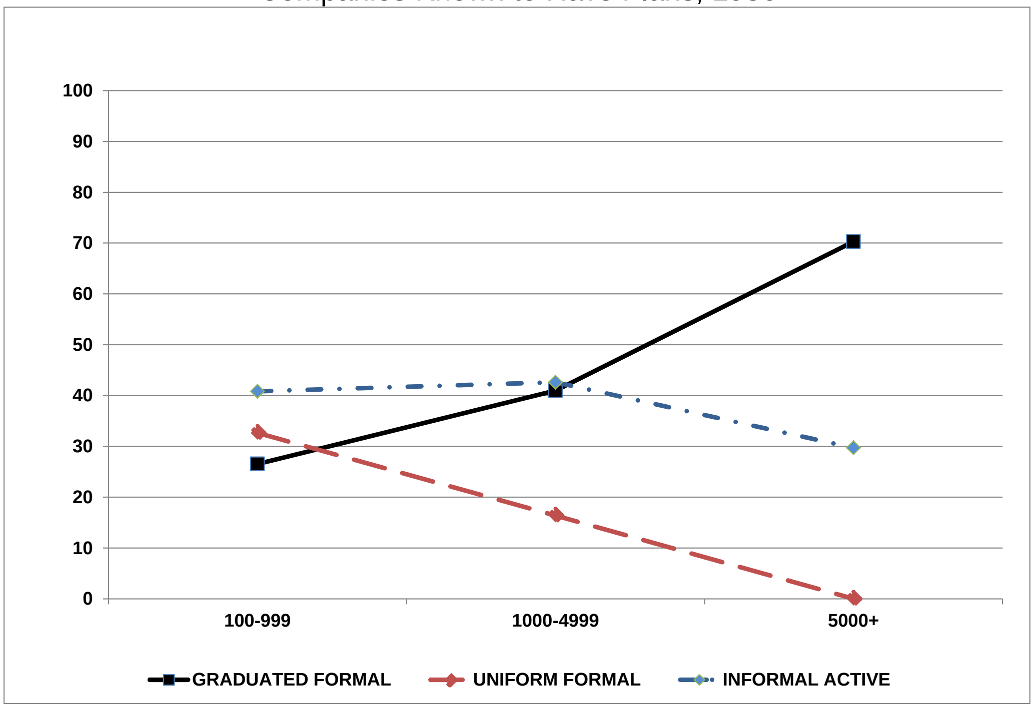
Companies with Severance Plan By Occupation
And Company Size 1940-1948-1954 NICB Surveys



Sources: Tables 3 and 6.

Figure 15

Severance Plans, By Plan Type and in Total
Companies Known to Have Plans, 1936

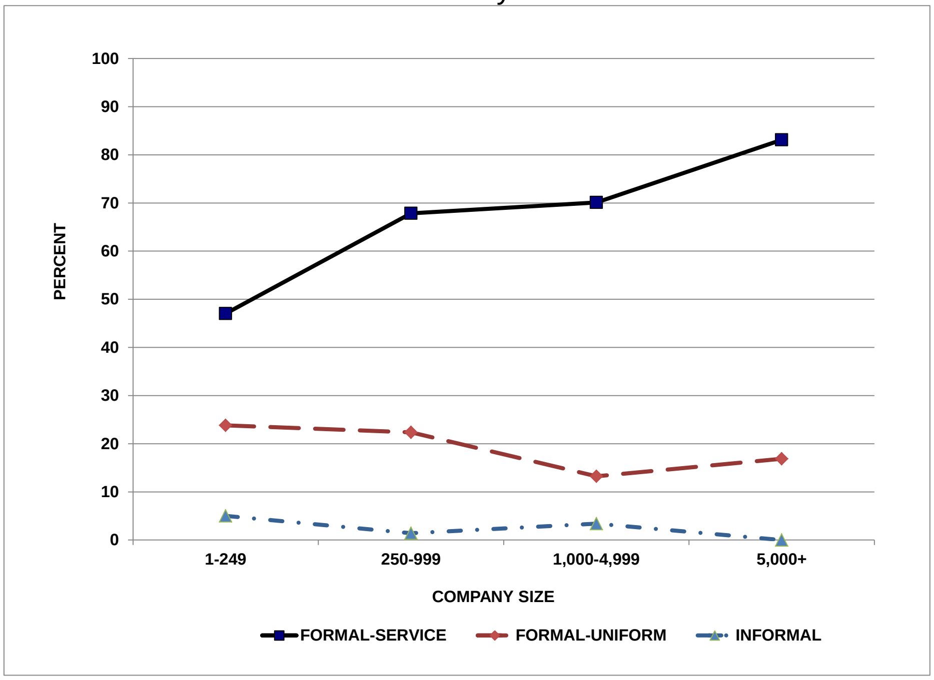


Source: NICB (1937a, p.4)

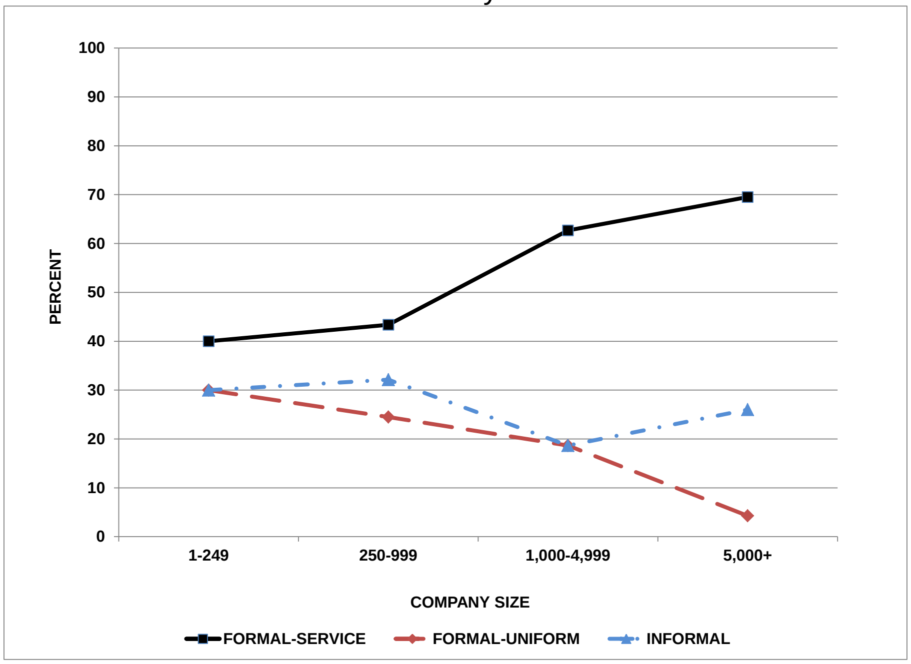
Figure 16

Severance Plans, By Plan Type, By Occupation and Company Size
Companies With Plans, 1954

Panel A: Hourly Workers

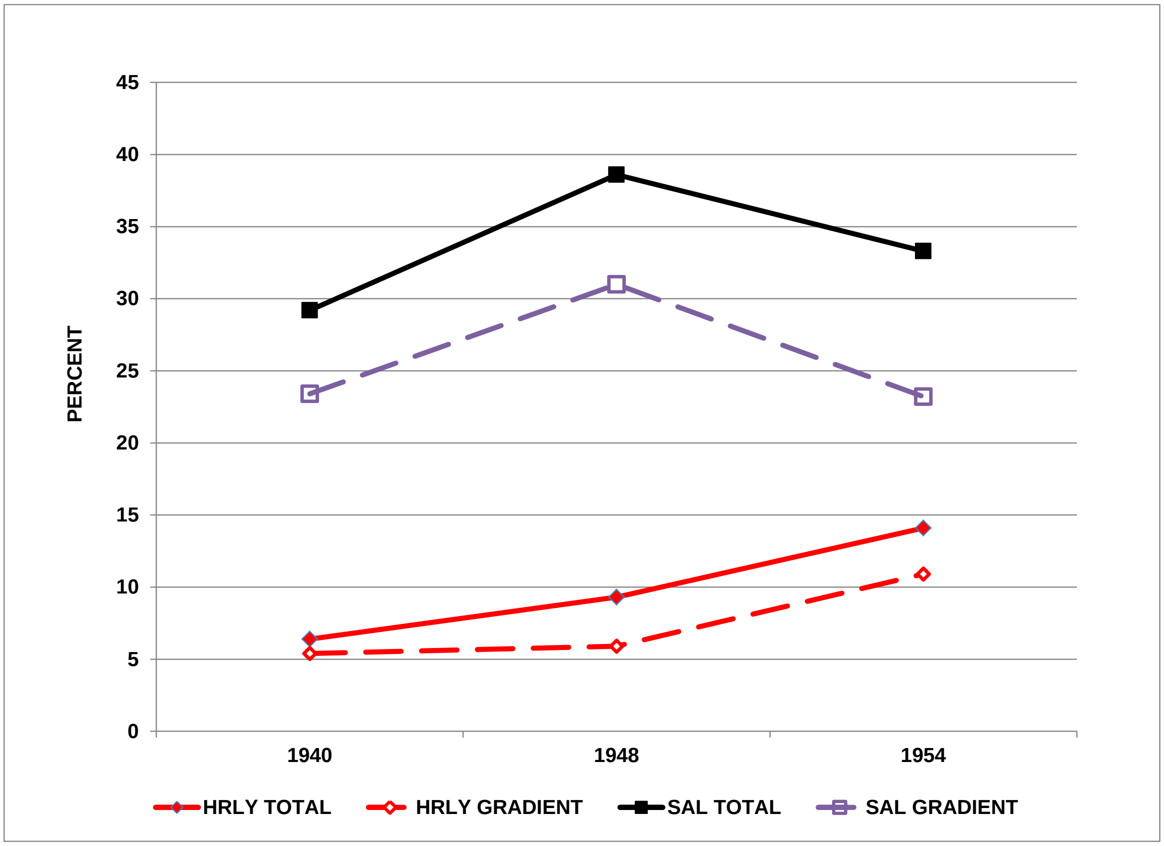


Panel B: Salary Workers



Source: Panel A: Table 3 and Panel B, Table 6.

Figure 17
Companies with Formal and Gradient Severance Pay Plans
Hourly and Salaried Workers, NICB Surveys 1940-1948-1954



Sources: 1940, 1948, and 1954, Tables 3 and 6.