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Entry regulations and labour market outcomes: Evidence from the Italian retail trade sector

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Abstract

The paper analyzes the relationship between entry regulations and employment in the Italian retail trade sector. In Italy the opening of large outlets is regulated at the regional level. First, by using differences-in-differences estimators the paper presents evidence that in regions with less stringent entry regulations, retail trade employment does not decrease. Second, the paper focuses on the effects of the rules implemented in Abruzzo and Marche, two otherwise close and similar Italian regions which adopted very different policies: the first set tight restrictions on the opening of large stores; the second did not impose substantial entry regulations. The results show that in Marche after the inception of the flexible regulations the share of total retail trade employment in total population increased by 0.8 percentage points more than in Abruzzo. Fiercer competition also led to a recomposition of employment in small retail shops. These findings are robust to a number of checks.
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1. Introduction[1]

It is widely recognized that not only labour market regulation but also product market regulation have effects on the labour market. Product market regulation can be of many types. In this paper I focus on entry regulations, i.e. rules designed to limit the entrance of new firms.

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Many studies suggest that reducing the stringency of entry regulation has ambiguous effects on sectoral employment (e.g. Blanchard, 2005). Since deregulation increases productivity, it may lead to lower employment for a given level of output. However, fewer constraints and higher productivity may also lead to lower prices, greater demand and higher employment. Since the relationship between entry regulations and sectoral employment growth is controversial, whether allowing for free entry has a positive or a negative impact is ultimately an empirical question.

Bertrand and Kramarz (2002) evaluate the effects of a stringent retail trade entry regulation introduced in France in 1973 —the so-called Loi Royer— explicitly aimed at protecting small retail shopkeepers from the increasing competition of large establishments. They estimate that this policy had a sizeable negative impact on employment growth in the French retail trade sector.

In this paper I analyze the employment effects of a retail trade sector reform introduced in Italy in 1998, the Bersani law, named after the Minister promoting it. This law was explicitly designed to increase competition in the Italian retail trade sector. Before the law, opening a retail trade establishment required a permit issued by the local council where the establishment was located. Since the introduction of the law, a permit is no longer required for new small establishments but it has been retained for stores larger than 1,500 square metres. Large-store promoters have to apply to regional boards, which in turn process applications according to a commercial zoning plan issued by the regional authorities. The Bersani law does not set guidelines for regional zoning plans, giving local authorities broad scope to regulate entry. As a consequence of this decentralization, the Italian retail trade sector is currently regulated by a wide variety of regional laws that limit the expansion of the number of large stores to differing degrees.

The paper focuses on the effects of entry regulation on retail trade employment using regional variation in zoning plans to identify them. The analysis has two main purposes. I first consider the effect of entry regulations on total retail trade employment. The main contribution of the paper, however, is the analysis of how limiting the expansion of large stores affects employment in small shops. This is an important issue from a policy viewpoint, because political resistance to the entry of large stores typically stems from the opposition of owners of small shops. This is particularly true in Italy, where the retail trade sector has a very low level of concentration.[2]

I first present evidence that in regions with less stringent regulations total employment in retail trade does not decrease. In Italy, however, the opening of large stores is associated with a recomposition of employment in small shops in favour of salaried full-time workers. The number of shop owners decreases while the number of salaried full-time workers does not. This evidence suggests that higher competition may be associated with an increase in the size of shops.

Are these differences caused by differences in regulations? To answer a similar question, Bertrand and Kramarz (2002) estimate the elasticity of employment growth to the number of applications to open a large store. This strategy cannot be used for the Italian retail trade sector, since in Italy data on approved and rejected applications at the local level are not available. I then compare retail trade employment growth in regions in which the retail trade sector was very similar before the introduction of the Bersani law, but which adopted different regulations after the Bersani law. This exercise can be carried out by using a simple differences-in-differences (DID) estimator. However, the possibility of identifying the effect of regulation by a DID model is based on the very strong assumption that the “treatment”, i.e. the regulation, is not influenced by the characteristics of the retail trade sector. For instance, in regions with a very low degree of

[2] According to Eurostat data (2004) in 2001 there was 130 establishments per 10,000 inhabitants in Italy, compared with 71 in the EU and just 35 in Germany and the UK.

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