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Alexander Hijzen, Leopoldo Mondauto, Stefano Scarpetta



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# The impact of employment protection on temporary employment: Evidence from a regression discontinuity design

Alexander Hijzen<sup>a</sup>, Leopoldo Mondauto<sup>b</sup>, Stefano Scarpetta<sup>a</sup>

<sup>a</sup>OECD and IZA

<sup>b</sup>Italia Lavoro and IMT Lucca

## Abstract

This paper analyses the impact of employment protection (EP) on the composition of the workforce and worker turnover using a unique firm-level dataset for Italy. The impact of employment protection is analyzed by means of a regression discontinuity design (RDD) that exploits the variation in EP provisions in Italy across firms below and above a size threshold. We present three main findings. First, EP increases worker turnover, defined as the sum of hires and separations, thereby reducing rather than increasing worker security on average. Second, this can be entirely explained by the fact that firms facing more stringent EP make a greater use of workers on temporary contracts. Our preferred estimates suggest that the discontinuity in EP increases the incidence of temporary work by 2-2.5 percentage points around the threshold. Moreover, the effect of employment protection persists well beyond the threshold and may account for about 12% of the overall incidence of temporary work. Third, EP tends to reduce labour productivity. This is partly due to the impact of EP on worker turnover and the incidence of temporary work.

**Keywords:** worker turnover, temporary contracts, labour market duality

**JEL Codes:** J42, J63, J65

## 1. Introduction

Over the past two decades, the effects of employment protection (EP) legislation on labour market outcomes have attracted a lot of attention with a rapidly growing number of theoretical and empirical studies and often tense policy debates. EP is generally justified by the need to protect workers from unfair behaviour on the part of their employers, the fact that imperfections in financial markets limit workers' ability to insure themselves against the risk of dismissal and by the need to preserve firm-specific human capital by preventing the destruction of jobs that are viable in the longer-term (e.g. Pissarides, 2010). But by imposing implicit or explicit costs on the firm's ability to accommodate its workforce to the evolution of demand and technological

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