

Does Reducing Firing Costs Increase Job Destruction? Clean Evidence from the Italian Jobs Act

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Abstract

In a textbook dynamic model of labor demand, hiring subsidies and changes in Employment Protection Legislation (EPL) produce different and testable predictions. Whereas hiring subsidies increase job creation and labor demand independently of business conditions, a reduction in EPL increase job creation in good times and job destruction when business conditions are favourable. Since the Italian jobs act of 2015 introduced both an hiring subsidy and a sizeable reduction in EPL for firms above 15 employees, it represents an ideal setting for testing the previous predictions. We use a unique administrative data set of the population of Italian firms between 10 and 20 employees between 2013 and 2016 to test whether the reduction in EPL increased job destruction among italian firms. Since firms below 15 employees were not hit by the main reform we can identify the effect of lower EPL on firms above the treshold. Results show that the reduction in EPL induced an increased in job destruction by approximately [3] percent. Results survive a variety of robustness test