Do EPL reduction and hiring subsidies promote standard employment for young workers?

A Counterfactual Evaluation of 2015 Italian Labor Market Policies

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1 | 3 – Labour Market Policies in Italy in 2015

• Policies
  1. New Open Ended Contract (OEC) → Graded security (FC)
     ▪ Abolishes reinstatement clause for unjust dismissals → severance payment, proportional to tenure
     ▪ Applies to firms w/ more than 15 employees
     ▪ Starting 07 Mar 2015
     Explicit goal: reduction of uncertainty of FC → from trials to algorithmic rule of compensation
  2. Hiring Subsidies (HS)
     ▪ Applies to conversion to OEC and new OEC
     ▪ Time window: 01 Jan 2015 – 31 Dec 2015
     ▪ Total rebate of social security contributions for 3 years (up to a ceiling of €8,060/y).
     ▪ Eligibility by previous experience (no OEC for 6 months, including apprenticeship)
     Explicit goal: increase the diffusion of the new OEC. Total cost: €16 bln

• Literature
  ▪ Centra & Gualtieri (2018) 50% of OEC hires in 2015-2016 can be attributed to HS and FC.
  ▪ Sestito & Viviano (2018) HS and FC increase new OEC. HS effects are larger. FC generates new hires.
  ▪ Ardito et al. (2019) Small firms substitute TC with OEC. No gender effects. Larger effects for young workers.

• Our contribution
  ▪ Refinement of the identification strategy of short-term effects (conversions to OEC) → only young workers.
  ▪ Further exploration of gender dimension.
2 | 3 – Identification, sample selection and specification

- **Identification:**
  - HS: Eligible workers – w/out OEC in previous 6 m. Monthly. → COB → ITT
  - FC: Target firms (size ≥ 15) w/ threshold at 17. Yearly, lagged. → ASIA Imprese 2015 + PIM → ATT

- **Sample selection**
  - Geographical area: Piedmont region
  - Age: [15-35]
  - Include workers with at least 1 Fixed-term contract or Apprenticeship in 01 Jul 2012 – 31 Dec 2014
  - Time window for estimates: 01 Jan 2013 – 30 Jun 2015

- **Individual probability of conversion to OEC** - Linear probability model, clustered st.errors at individual level

\[
\pi_{wm} = \beta I^{FC}_{(firm size\geq 17)(y,m\geq 2015,03)} + \delta I^{HS}_{(eligible=1)(y,m\geq 2015,01)} + \theta I^{FC}_{(firm size\geq \_)(y,m\geq 2010,03)} * I^{HS}_{(eligible=\_)(y,m\geq 2010,01)} + \\
+ \gamma_{worker} + \gamma_{month} + \gamma_{firm size} + \varepsilon_{wm}
\]

\[FE\]
### Preliminary Results

<table>
<thead>
<tr>
<th></th>
<th>Full sample (1)</th>
<th>Male (2)</th>
<th>Female (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FC: β</strong></td>
<td>-0.004**</td>
<td>-0.003</td>
<td>-0.006**</td>
</tr>
<tr>
<td></td>
<td>[-0.007,-0.001]</td>
<td>[-0.007,0.002]</td>
<td>[-0.011,-0.000]</td>
</tr>
<tr>
<td><strong>HS: δ</strong></td>
<td>0.019***</td>
<td>0.023***</td>
<td>0.015***</td>
</tr>
<tr>
<td></td>
<td>[0.016,0.023]</td>
<td>[0.018,0.028]</td>
<td>[0.010,0.020]</td>
</tr>
<tr>
<td><strong>FC*HS: ϑ</strong></td>
<td>0.005*</td>
<td>0.003</td>
<td>0.007*</td>
</tr>
<tr>
<td></td>
<td>[-0.000,0.010]</td>
<td>[-0.004,0.010]</td>
<td>[0.000,0.015]</td>
</tr>
<tr>
<td><strong>Adj.R2</strong></td>
<td>0.12</td>
<td>0.12</td>
<td>0.12</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>392,069</td>
<td>213,678</td>
<td>178,391</td>
</tr>
</tbody>
</table>

**Interpretation:**
- HS drives the increase in conversions – stronger for male (2.4pp)
- FC reduction reduces conversions – look at new hires?
- Substitution of workers because of standardised tasks? See occupations?

### Future work
- Extension to Italy: homogenous policy over idiosyncratic local labour market – heterogeneity?
- Long-term effects: what happens when the HS expires?
- Announcement effect: which employment policies do firm enact to maintain the benefit of HS?
- Social Security Data to improve ITT to ATT for HS – data are yet to be released.
Thank you!

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References

