

A Comparison with the Loi Travail : What Can we Expect ?

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Plan

I will focus exclusively on firing costs

1. What do we know on the effects of firing costs?
 - In theory
 - In practice
2. Challenges to draw conclusions from Italy
3. Comparison of French and Italian reforms
4. Two concluding comments:
 - *De jure* employment at will versus ceilings on labor court payments
 - Family capitalism and job protection

Firing costs and employment

- Lowering firing costs has a direct positive effect on lay offs (!)
 - Firms can adjust workforce to business cycles, get rid off workers that do not put enough efforts or do not have adequate skills
- And an indirect positive effect on hiring
 - Can requires some degree of sophistication on the firm size: firms are aware of and internalize the future firing cost in their hiring decisions
- What's the net (equilibrium) effect on employment?
 - Theory: ambiguous but more positive if firms are risk averse
 - Empirical studies point to zero or slightly positive net effects
- Yes, but lowering firing cost on permanent contracts can limit labor market dualism (coexistence of short-term and permanent contracts)
 - Has been observed empirically. Obvious if unprotected permanent contract strictly dominates short-term contract. Not clear otherwise
 - Brings another question: is market dualism really bad?

Are young unskilled workers locked in short-term contracts or can they use them as a stepping stone for permanent positions?

Givord and Wilner (2013) and Couprie and Joutard (2017) provide mixed evidence for France.

From employment to total welfare

What about other outcomes?

- Workers' well-being and health:
 - Job protection may be good if workers are risk-averse (and even increase total welfare, see Bertola 2004)
 - Small probability of losing a strongly protected position (possibly with limited future employment prospects) versus larger probability of losing a job (but with better future employment prospects)
 - No direct evidence
- Workers' bargaining power
 - Threat of being fired is likely to limit workers' ability/desire to voice their concerns
 - This can lower workers' bargaining power: lower wages, worse working conditions, etc.
- Human capital and training
 - Lower incentive for workers to invest in firm-specific human capital when risk of dismissal is higher
 - Lower incentive for firms to offer training to workers when they can replace them
 - ⇒ Interaction with the organization of professional training are likely important
- Innovation: some evidence of negative effect (Griffith and Macartney, 2009)
- Productivity: negative effect (Autor, Kerr and Kugler, 2007) possibly driven by workers' lower wages or lower level of effort (Martins, 2009)

- Ccl 1 : Many unstudied dimensions and at best limited effects on employment
- Ccl 2 : We are very far from academic consensus on welfare impact of employment protection

From level of firing costs to uncertainty

What is uncertainty regarding firing cost?

- An attempt of definition: there is uncertainty if variations in amounts given in labor courts reflect arbitrary decisions rather than differences in workers' prejudice
- Uncertainty defined as such is unfair and lead to economic inefficiencies (e.g., limit hiring and firings, threaten firm survival unduly)
- Very hard to document uncertainty empirically
 - Cahuc, Carcillo and Patault (2019) show that there are differences in amounts given by judges for cases that are quasi-randomly assigned to them
 - Effect of exposition to uncertainty unknown
 - Effect of a negative shock (being allocated to a judge that is pro-worker or slower than average) is detrimental to future hiring or survival of small low-performing firms (Cahuc, Carcillo and Patault, 2019 ; Bamieh, 2017)
- Putting a cap on amounts given at labor cost will remove arbitrary negative shocks but also limit sanctions for firms that have caused a strong prejudice

2. Challenges to draw conclusions from Italy

- Lower firing costs only applied to newly hired workers (« grandfathering »): their effects on firings kick in slowly
- Challenge to separate effects of hiring subsidy and change in firing costs
 - Small firms have only the former while large firms have both
 - DiD small versus large firms should cancel out effect of HS...
 - But HS tend to be larger for small firms (due to cap)
 - And small firms that become large get a change in firing costs for all workers
 - Change in firing costs is applied (and announced) two months after hiring subsidy
 - If effect of hiring subsidy is constant over time, the time lag can be exploited
 - But large substitutions across periods for hiring subsidy (delays in late 2014 and anticipation in late 2015)



Source: Boeri and Garibaldi, April 2019

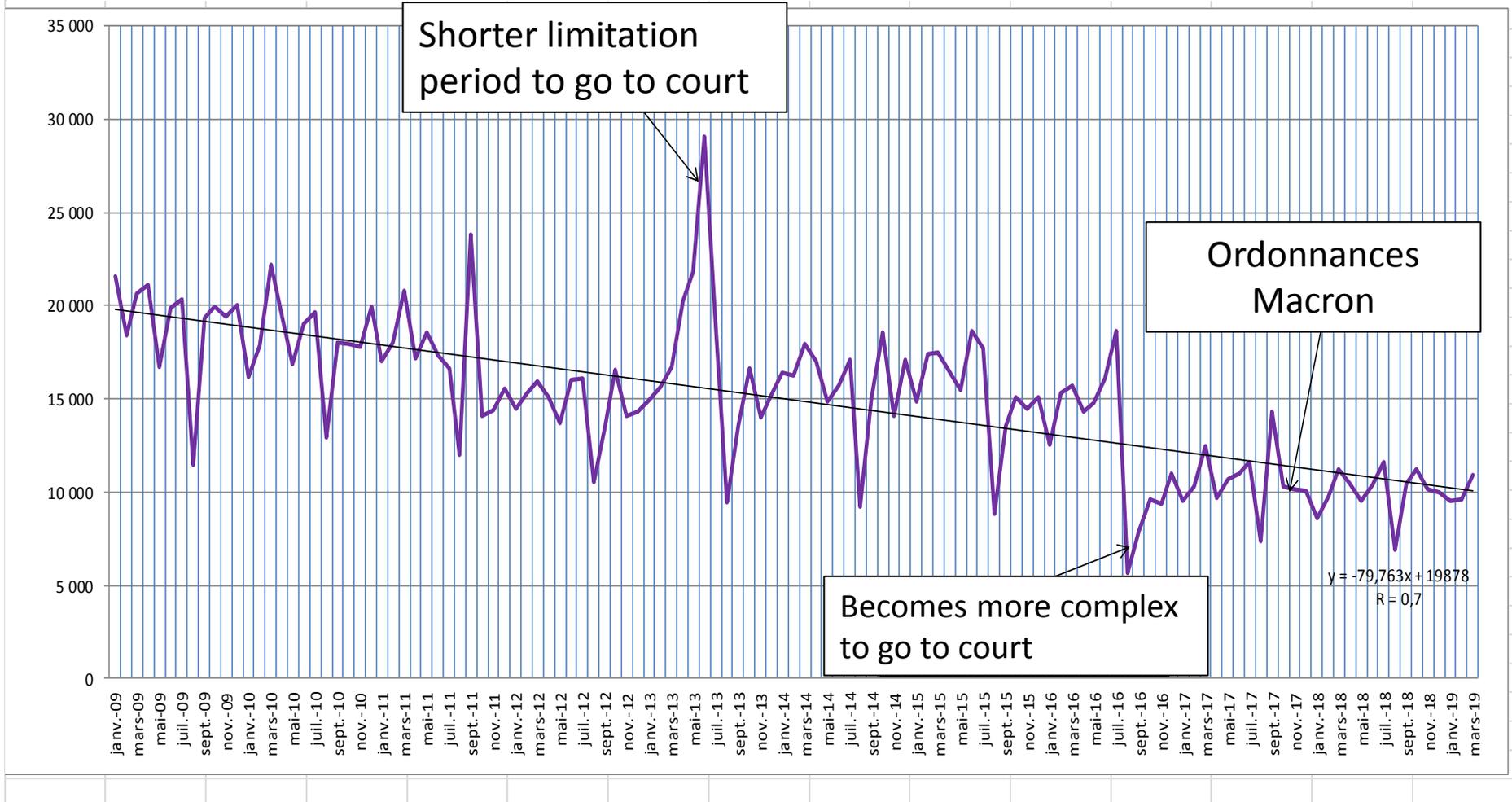
=> Visually, clear effect of hiring subsidy, no effect of lower firing cost

3. Comparison of Italian and French reforms

	Italy	France
<i>Legal settings before the reform</i>		
Reinstatement in case of unfair dismissal (and salaries paid during trial period)	Yes	No
Average time to get court decision	Around 16 months	13 months
Legal severance pay	0	Around one fifth of monthly salary per year of tenure (=2 months after 10 years)
Average appeal court compensation	?	5 month of salaries + half a month per year of tenure (= 10 months after 10 years)
<i>Changes induced by reform</i>		
Applies only to new hires	Yes	No
Suppress reinstatement and associated cost	Yes	No
Appeal court cap	About 2 months per year of tenure and at least 4 months	About 1 month per year of tenure and at least one month (= 10 months after 10 years)
Reform enacted in	March 2015	September 2017
Reform become unconstitutional?	Autumn 2018	?? a few appeal courts did not apply the reform because does not respect ILO convention 158 and European social charter

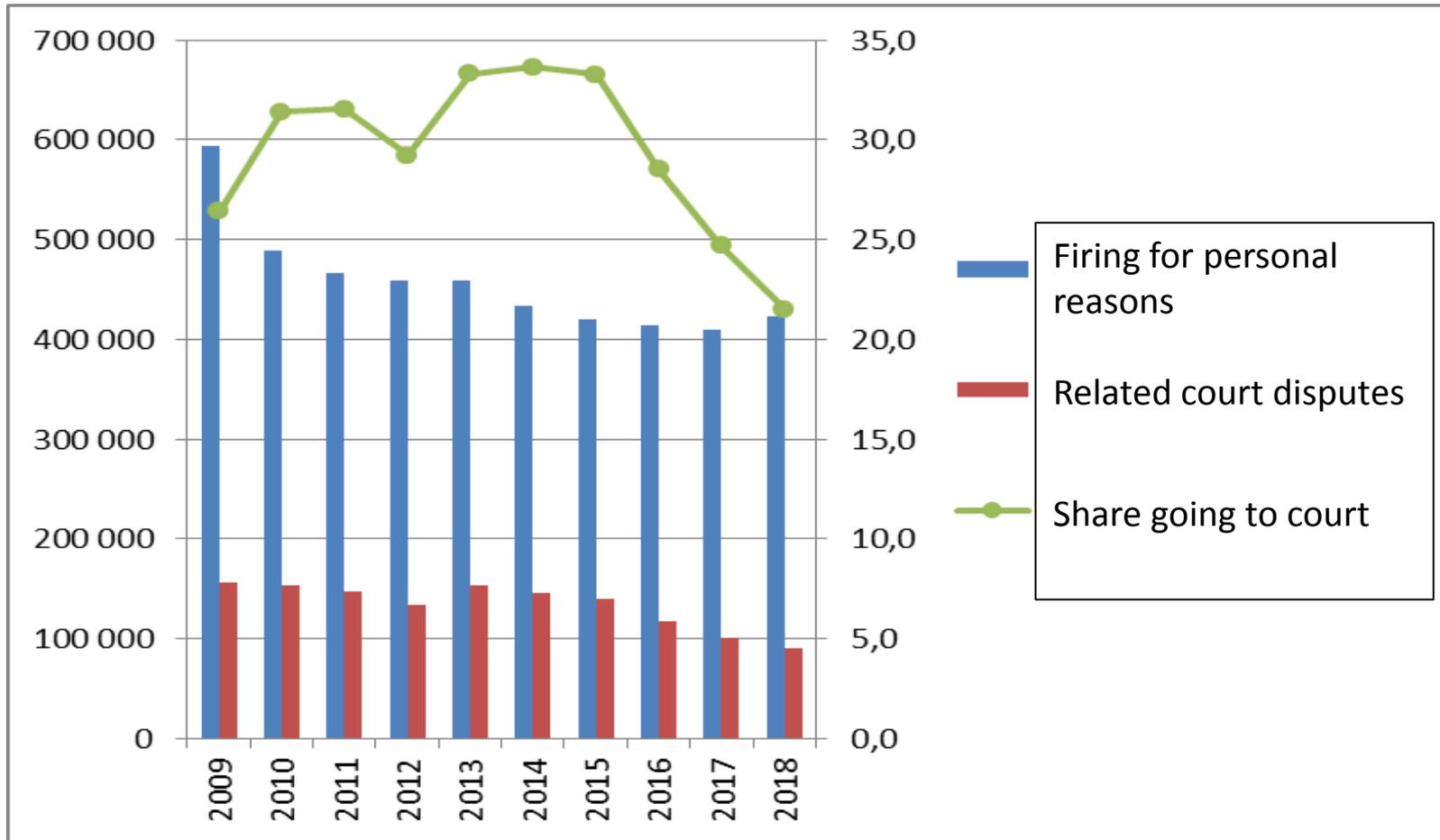
Long-run trend in France

Monthly evolution of workers going to Labour courts



Source: French Ministry of Justice

Share of workers going to court after being fired



Source: French Ministries of Labor and Justice

Conclusion for France

- Small decrease in expected cost of layoffs
 - Not always applied and possibly removed soon
 - Likely too small in any case to affect employment much (according to existing evaluation)
- Less uncertainty?
 - May help small low-performing firms to survive (Cahuc, Carcillo and Patault, 2019)
 - Effect on workers with large prejudice?

Comment 1 : Employment at will versus ceilings on labor court payments

- Under French (and many other) law, terminations of open-ended employment contracts are lawful if they are justified by a “real and serious cause”, either economic or personal
 - About a third of firings for personal reasons are challenged in labor courts
 - In about 3/4 of cases, workers win in front of courts
 - This implies that 20% (0.33×0.75) of firings of personal reasons are judged wrongful: many firms do not respect the law
- 2 possible logical conclusions from these facts:
 - The law is too strict, preventing employers to respect it: we should move towards employment at will (like the U.S. in the 19th century)
 - The law is not respected: we should increase sanctions so that employers respect it more.
 - But policy response is to lower sanctions for not respecting the law!
 - This can of course make sense from pure economic point of view, but way of proceeding likely send negative signal to workers/citizens and can have negative country-level consequences (e.g. trust in governments, etc.)

Comment 2: family firms versus legal employment protection

Family Firms = firms owned by a single individual or a family

- Large share of the economy: 30% of 50+ employees firms in the U.S, 55% in France
- Comparative advantage at offering job security: longer time horizons, can commit to long-term implicit contracts
 - Offer better job security but lower wages
 - Do not perform worse than other firms
- Family firms as a substitute for legal employment protection (Bennedsen et al., 2015)
 - They offer more job security and perform better in countries in which there is less employment protection
 - lowering employment protection might help family firms?
 - Family firms may mitigate the negative effect of low employment protection for risk averse workers