

The Impact of Employment Protection Legislation on the Incidence of Work-Related Training

Thomas Bolli¹, Johanna Kemper²

Extant research has largely blamed employment protection legislation (EPL) for hampering job creation and increasing unemployment spells, thereby ignoring the potential benefits of EPL. By reducing job destruction, EPL increases job tenure and creates incentives for investments in work-related training. Increasing the present and future productivity of an employer-employee match, work-related training can potentially reinforce the positive effects of EPL on job tenure and offset its negative effects on job creation (cf. Wasmer, 2006).

The impact of EPL on the incidence of work-related training is however more complex and depends on the mechanisms driving the investment decisions of workers and/or employers. To analyse these mechanisms is the aim of this paper. Thereby, the main research question is, if the incidence of work-related training is an increasing function of EPL or not. Using survey data from the Continuing Vocational Education and Training Survey No. 3 (CVTS 3) for Finland, Italy and Spain from Eurostat and the Italian National Institute of Statistics (Istat), we want to test this empirically.

Since the use of cross-country data in the EPL literature has been criticized for capturing unobserved general equilibrium effects unrelated to that of EPL on the variable of interest, we try to circumvent these problems by restricting our empirical analysis to the country-level.

In a first step, our identification strategy builds upon the fact that small firms in Finland, Italy and Spain below a cut-off value of 19, 15 and 25 employees are (partly) exempted from EPL regulations. For firms below the cut-off, EPL is not (or less) binding than for firms above this value. Hypothesizing that that firms above the cut-off are more likely to train their workers (offer a larger amount of training), we use this exemption to conduct a regression discontinuity (RDD) analysis.

In a second step, we exploit the fact that, in some industries, the need to adjust their workforce due to technological characteristics or incidence of aggregate shocks is higher than in others. Consequently, worker reallocation in these industries should be higher and EPL more binding. In our paper, we relate this idea to the amount of training firms offer by assuming that in the presence of stronger EPL, firms in more volatile industries EPL should have a stronger incentive to train their workforce in order to make them more productive. Combining this identification strategy with that from the first step we run a difference-in-differences estimation, by assuming that the incidence of training is higher for firms above the cut-off and higher in more volatile industries.

To the best of our knowledge, our paper is the first which employs this identification strategy in order to analyse the effect of EPL on work-related training.

Our first results suggest that the extensive margin of training, that is whether a firm trains, increases in EPL, whereas the intensive margin of training, that is the amount of training offered, remains unaffected.

¹ KOF Swiss Economic Institute, Technical University Zurich (ETHZ), e-mail: bolli@kof.ethz.ch.

² KOF Swiss Economic Institute, Technical University Zurich (ETHZ), e-mail: kemper@kof.ethz.ch.