

The effects of temporary contract regulations on workers' employability

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Policy makers promote reforms that increase flexibility of temporary contracts claiming that this would support labour demand, firms' performance and workers' employment probabilities. On the other hand, empirical literature usually compares temporary contracts (TC) to open-ended contracts (OEC) to assess the effects of increased labour market flexibility, while very seldom it can focus on different degrees of flexibility of TC. A further unanswered question is whether the effects are symmetric, i.e. what happens when decreasing TC flexibility.

Our paper contributes answering the following question: what happens to individuals' future employability after being hired with a stricter or with a more flexible TC? Employability is defined as the probability of retaining the current job (job security), or the probability of being employed across different firms with short (i.e. 30 days) intervening unemployment spells (employment security). To do so we focus – separately - on two Italian reforms: the Poletti reform implemented in April 2014, producing a more flexible setting of TC; the Decreto Dignità implemented in July 2018, producing a stricter regulation of TC.

To be more specific, before the Poletti reform TC had a maximum duration of 24 months (12 months with no justification needed to open a temporary position instead of a permanent one), and only one possible renewal/extension. After the Poletti reform TC had a maximum duration of 36 months, all with no justification needed, and 5 possible renewals/extensions. After the Decreto Dignità TC had a maximum duration of 24 months, but only 12 with no justification, and 4 possible renewals/extensions. We keep a short run perspective, as both reforms have been followed shortly by events (Jobs act, COVID) that changed the Italian labour market environment significantly, making a consistent longer run perspective difficult to justify.

We use an administrative source known as Compulsory Communications (CO) jointly managed by the national and regional labor authorities. It records the population of labour market flows (hirings, extensions, terminations, temporary to permanent conversions) from 2008 onwards. We have access to CO for the Piedmont region, that accounts for about 7% of the national GDP and workforce. CO are merged with the archive of active firms (ASIA) maintained by the national statistical office using social security data to get the size of the enterprises (i.e. the stocks).

The econometric approach exploits the richness of the CO-Piedmont dataset to perform a convincing matching between workers exposed to the reform and workers not exposed, the second being workers employed before the reform came into force, as both reforms are universal and rolled out at the same point in time for everybody. We then estimate a duration model of the hazard of terminating a job or employment spell, comparing treated to twin-control individuals; we do so with the full sample and for subsets of workers, searching for heterogeneous effects. Notice that GDP was almost constant in the relevant pre/post periods in Piedmont, posing no significant threats of confounding elements at the macro level to our analysis.

In short, results on the Poletti reform show no systematic effect on both job and employment security in the 9 months following its implementation. This holds both for the full sample and for subsets by high/low human capital, gender, nationality, manufacturing/services, age, small/large

firms. On the contrary, results on the Decreto Dignità reform are quite clear cut. Both job and employment security increase on a 12 months horizon as Decreto Dignità is implemented. Heterogeneity analysis shows that women, migrants and workers in small firms benefit more. The hazard of moving to an OEC within the same firm increases significantly at the end of the first year of tenure, when the law requires a justification to prolong the TC.

Overall, we can say that while increasing flexibility of TC does not show significant improvements in workers' employability perspective, decreasing TC flexibility does so. Our results are consistent with the (scant) literature on the topic focussing on similar reforms in European countries.