

Dignity by Decree: the Occupational Consequences of Italy's Temporary Jobs Reform

Marco G. Palladino* & Matteo Sartori†

March 29, 2021

Abstract

Temporary employment contracts are controversial: supporters claim that they provide sizable employment gains; detractors maintain that they constitute a precarious form of work, with little security for the worker. We study the *Dignity Decree*, a 2018 reform that increased the strictness of Employment Protection Legislation (EPL) for temporary jobs in Italy. First, we use a regression model to show that firms that were more exposed to the policy displayed lower employment growth, lower turnover and a higher rate of substitution of temporary contracts for permanent ones. Then, to study the different channels of policy impact, we will rely on a model of the labor market in which firms hire workers either with a temporary or with a permanent contract to exploit production opportunities with random duration. In choosing the kind of contract, firms trade off the chance of exploiting each opportunity while it lasts with the risk of bearing dead-weight labor costs when an opportunity expires.

*Sciences Po, Department of Economics

†CEMFI