

Temporary job protection and productivity growth in EU economies

Mirella Damiani*, Fabrizio Pompei* and Andrea Ricci

The present paper analyses productivity disparities in EU economies over a period (1995-2007) which has witnessed a marked slow-down in average European efficiency growth and significant intra-Europe cross-country diversities.

From the mid-1990s onwards, large-scale liberalisations of labour markets have been recorded in Europe and, among the main policy turnarounds, new regulatory frameworks for temporary contracts have been introduced. These kinds of reform have characterised various countries, albeit at different speeds, and have been more frequently adopted than changes in rules for regular jobs. The main aim of this paper is thus to ascertain the role of these institutional changes in explaining the ample differentials in Total Factor Productivity (TFP) recorded in EU economies. This is done by making industry-level cross-country estimates which verify whether provisions regulating employment contracts are more stringent in those sectors where the propensity to use temporary arrangements is higher.

We find that deregulation of temporary workers negatively influences TFP growth rates in European economies, while changes in the restriction of regular jobs have no significant effect on efficiency. Within sectoral analysis, greater effects of employment protection liberalisation policies have been found in industry where firms are more used to making staff changes by opening short-term positions, whereas excessive product market regulation negatively influences TFP growth.