

Discussion of “Employment Effects of Restricting Fixed-Term Contracts: Theory and Evidence”

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Plan

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- 3 General equilibrium model

Key features

- **Research on a very important topic, with policy-relevant results**
 - ▶ Inefficient policies: e.g. taxing very short temporary jobs (Cahuc, Charlot, Malherbet, Benghalem, and Limon, EJ 2020)
 - ▶ Threshold policies: 2009 reform restricting fixed-term contracts (FTCs) in large firms (750 employees)
- **State-of-the-art.** Reduced form estimation and a general equilibrium model with directed search and multi-establishment, multi-worker firms, estimating:
 - ▶ General equilibrium effects
 - ▶ Bias in the reduced form estimates induced by overlooking the general equilibrium effects
- **Very well thought out, extremely clear, and thorough robustness checks**

Reduced form estimation

Regression Discontinuity Design

- No bunching below the threshold of 750 employees in 2010
- Could the threshold be fuzzy?
 - ▶ Código do Trabalho (556 articles! Spain's has 92) sets a threshold of 750 workers, with no time frame and regardless of contract types
 - ▶ But CT defines micro, small, medium, and large firms (art. 100) as a function of the average number of workers in the preceding calendar year
- Any evidence on actual enforcement?

Reduced form estimation results

“We find that, while the law reform was successful in **reducing the number of FTCs** created by ‘treated’ firms, this was partly driven by a **reduced number of new establishments**. Moreover, we do not find any evidence of substitution between FTCs and **permanent contracts**, as the number of the latter **also falls** in larger firms that face the additional FTC restrictions”

- Visual evidence for new permanent contracts (open ended, OECs) in new establishments is not strong (Figure 4) and similarly for new establishments (Figure 6)
- Effect of large firm on OECs in new establishments weakly significant ($p < 0.10$); somewhat stronger on the number of establishments by firm ($p < 0.05$ in quadratic specification only)

→ Alternative reading: a reduction only in fixed-term contracts

Figure 4: New hires under permanent contracts in new establishments

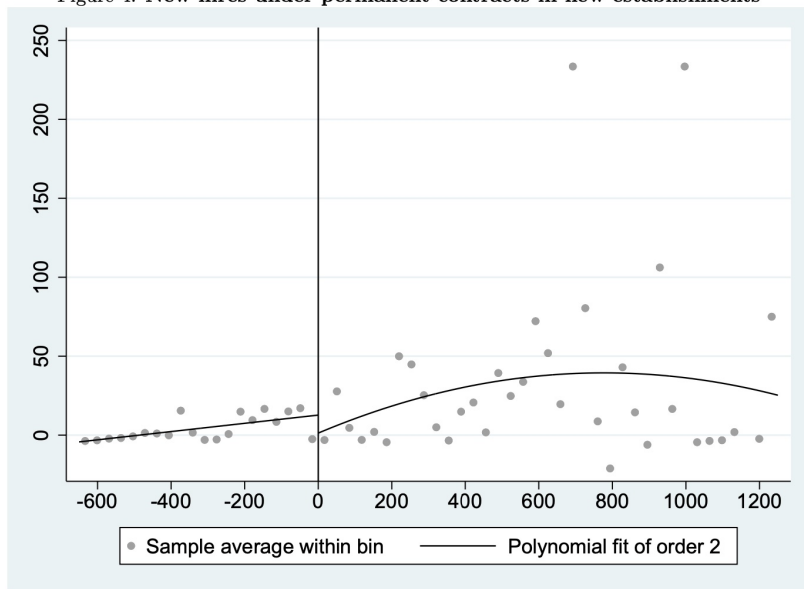
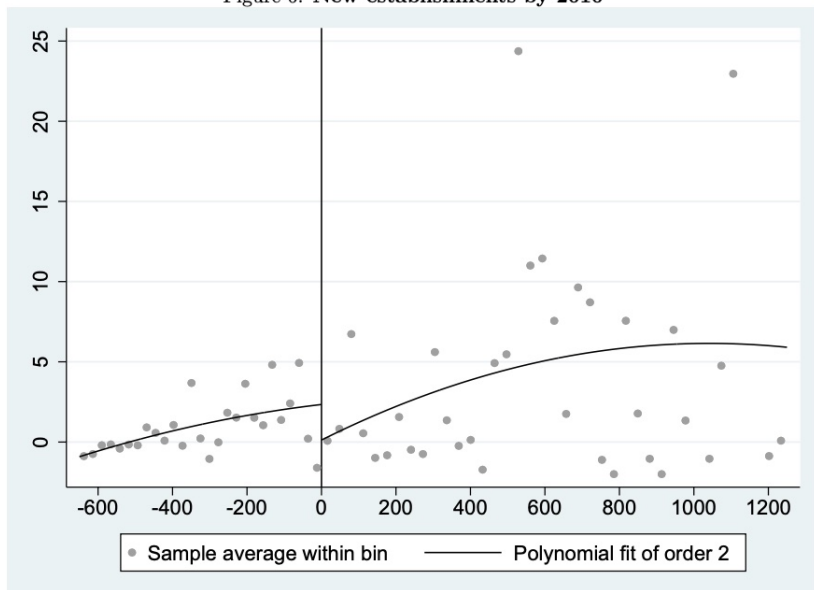


Figure 6: New establishments by 2010



Capturing the reform

- Firms do not want any OEC workers: the law forces hiring a share π of them in new jobs
 - ▶ No gains from tenure (e.g. firm-specific human capital, effort)
 - ▶ Workers don't value stability either (risk neutral)
- Establishments exogenously become old (ρ): then the probability of OEC new jobs jumps from π_l to π_h
- The reform raises π_h for new establishments of large firms
- Firms get opportunities of creating establishments O_i , $i = \{s, b\}$
- The reform (mostly) reduces creation of establishments by large firms
 - ▶ Small firms do not care about becoming large

Capturing the reform

The 2009 reform: Conditions to hire on FTCs

Estab./Firm	Small	Large		Estab./Firm	Small	Large
Young	Yes	Yes	→	Young	Yes	No
Old	No	No		Old	No	No

The 2009 reform in the model

Estab./Firm	Small	Large		Estab./Firm	Small	Large
Young	$\pi_{s/}=.12$	$\pi_{b/}=.29$	→	Young	$\pi_{s/}=.12$	$\pi_{b/}=.70$
Old	$\pi_{sh}=.21$	$\pi_{bh}=.33$		Old	$\pi_{sh}=.21$	$\pi_{bh}=.33$

Capturing the reform

- Identification: The π 's are informed by the distribution of the number of FTCs in the four types of establishments ex-ante
- Reform: jump of π_{bl} to .70 (chosen from post-reform share?)
 - ▶ It is not steady-state (would be closer to $\pi_{bh}=.33$), but the transition
 - ▶ The π 's not only capture the regulation, since they vary within size
 - ▶ Other π 's are constant, but from 2007 to 2010, new hires on OECs at small firms grow by 66% (not the share), which gets attributed to the GE effects. Too large?
 - ▶ Consistent with the borderline significant increase in hiring on OECs at large firms in the reduced form estimation?
- Do we care? Yes, if the estimated general equilibrium effects and bias in the reduced form estimate crucially depend on these values

Other issues

- Welfare: The unemployed like FTCs. Supported in Dolado, Felgueroso, and Jansen (2010), who showed that in a survey for the EU15, and especially in Spain, the unemployed marginally supported higher labor contract flexibility than the employed, especially if they had lost their job in the Great Recession
- No skill heterogeneity in the model, but the prevalence of FTCs falls with education: e.g. EU28, 1983-2017: 22.4% in primary education, 11.6% in tertiary education, and it varies with firm size. It might be interesting to capture this