Employment Protection, Technology Choice, and Worker Allocation
(joint paper with P. Gautier and J. de Wind)

Abstract:

We show empirically that high-risk innovative sectors are relatively smaller and less productive in countries with strict employment protection legislation (EPL). We develop a two-sector matching model where firms endogenously choose between a safe technology and a risky technology. With strict EPL it is more costly to shed workers upon receiving a low productivity draw. Consistent with our empirical findings, in our calibrated model low and high-EPL countries respond differently to the arrival of new risky technology associated with the adoption of information and communication technologies. This helps explain the slowdown in productivity in the EU relative to the US since the mid-1990s.