

Firing Costs and Unemployment: Evidence from a French Natural Experiment.
Luc Behaghel, Bruno Crépon et Béatrice Sédillot
Mai 2004

The impact of a firing tax on employment is theoretically indeterminate. One way to solve this problem is to look for evidence on the magnitude of the two offsetting effects of such a tax -- a positive labour hoarding effect and a negative labour cost effect. Such evidence is provided by a firing tax specific to older workers, introduced in France in 1987, and whose modifications present some features of a natural experiment. We find evidence that hiring decisions are more sensitive to the tax than firing decisions. The labour hoarding effect is low, if significant, whereas the indirect effect is sizeable: unemployed men affected by the tax see a reduction of their relative chances to get a job by about one third. This evidence for a particular group of workers in France points toward the importance of radical adverse shocks, for which employment protection may be ineffective.