The Effects of *Eliminating* Employment Protection for Older Workers

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Focal Areas:
Primary: Focal Area 3
Secondary: Focal Areas 1 and 6

Abstract:
In this project, we aim to provide compelling micro-empirical evidence on the causal effects of employment protection for older workers---and thereby also on the effectiveness of labor market policies that can support or inhibit working longer. Canonical models of lifecycle employment argue that workers are "overpaid'' when old, making them relatively unprofitable and hence making any employment protection for older workers particularly inefficient. At the same time, many countries provide a strong employment protection that favors older workers, such as "last in, first out" or seniority-based advance notice or other layoff rules. To answer this research question, the ideal experiment would eliminate or significantly reduce employment protection in a treatment group of older workers and keep it unaffected in the control group, and then measure effects on separations as well as the composition of separations. Hence, our project primarily relates to Focal Area 3: Economic Security of Program Applicants and Beneficiaries, but also Focal Area 6: Addressing Employment Barriers for People with Disabilities, and Focal Area 1: Disparities by Race, Ethnicity, and Sex.

In our project, we approximate the ideal design by exploiting the perhaps largest and sharpest variation in the stringency of employment protection analyzed to date: when Swedish workers turn 65, 67, 68 or 69 (the cutoff shifts across years), they lose *all* protections granted by the Swedish Employment Protection Act. Right before the cutoff, they are essentially guaranteed employment (they enjoy the "right to work"): they are protected by multi-month (up to 12) mandatory advance notice and various additional firm-level protections such as from "last in, first out" mandates and other restrictions on dismissals. Aging across the age threshold, they discontinuously fall from the maximal level of EPL all the way to a hire-and-fire employee akin to the US setting. This cutoff generates the largest and sharpest microempirical variation in all settings we have reviewed. While our first results are preliminary, we find a surprisingly small effect of this dramatic variation in employment protection for older workers. This finding would contrast with the predictions from a view that older workers are necessarily unattractive to employers and hence that older workers' employment is primarily supported by stringent employment protections in settings such as Sweden. Besides estimating average effects, a main goal is to shed light on heterogeneity: which workers are laid off once employers can, and which types of workers in which types of jobs remain attractive to employ even without any legal protection? What is the role of ethnicity and sex (Focal Area 1)? What is the role of disability (Focal Area 6)? We will also plan to relate our findings to the US setting and US policies.