

Abstract

This paper uses industry-level data to examine the economic effects of employment protection legislation (EPL) in a sample of developed and developing countries. Implementing a difference-in-differences approach we assess whether EPL is more binding in sectors of activity exposed to higher volatility in demand or supply shocks. The results indicate that stringent EPL slows down job turnover and reduces employment and value added in highly volatile sectors relative to less volatile ones by a significant amount. We also find a weak negative effect on labor productivity. These effects are driven by a decline in the net entry of firms, while employment per plant is not significantly affected.