

In the last ten years, dismissal regulation has been the focus of increased policy concern in the EU, mainly due to its alleged influence on a number of national economic aggregates (such as employment levels and economic growth). Several European countries experienced an increased frequency of reforms addressing the dismissal regulation for permanent contracts, in particular countries with relatively stringent legislations before the crisis, notably Spain, Italy and France.

While the idea, openly declared, behind this deregulation wave is that employment and economic growth can be stimulated by reducing hiring and firing costs, a more thoughtful analysis of the data shows that weaker dismissal constraints may hamper the effectiveness of worker participation mechanisms (such as consultation and co-determination devices), through which a direct voice in management is given to employees in order to encourage their effort and the development of firm-specific human capital, crucial to the repositioning of firms in the most innovative and dynamic market segments and to take the high road of the long-term competitiveness.

Let me start by taking a step back, to trace the general logic that underlies the labour market reforms introduced in Southern European countries (like Italy) in recent years.

The interaction between employee and employer, in standard economic models, is analysed by assuming that the two contracting parties bargain within a principal-agent scheme, where the worker has an informational advantage compared with the employer. The worker, in fact, cannot be perfectly monitored and his effort cannot be fully ascertained, and this allows the employees to exert sub-optimal effort in the workplace. Moreover, the risk of an “unfair” behaviour (shirking) of the worker should tend to be larger if the latter is protected by a stringent discharge legislation reducing the risk of dismissal. The economic literature has produced a number of contractual solutions that alleviate the risk of shirking (starting from the theory of the efficiency wage of Shapiro and Stiglitz (*AER*, 1984)). The proposed conclusions are many. However, it is widely shared the view that to link workers’ remuneration to company’s results, under certain assumptions, encourages the productive effort of the workers. This conclusion is consistent with the policy choices made in several EU countries...

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