



## **Firm downsizing, public policy, and the age structure of employment adjustments**

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This paper studies the structure of workforce adjustments when firms facing adverse demand conditions are offered public financial incentives for downsizing. In particular, we are interested in how the age composition of employee outflows is shaped by corresponding age-dependent institutional arrangements. Our simple labour demand framework, with stochastic product demand and firing costs heterogeneous in workers' early retirement eligibility, has as core prediction that distressed firms will dismiss with predilection those employees eligible to retire early. We test the model's implications on the entire set of mass layoff events in larger Danish private firms over 1980-2001, period covering several reforms to the early pension system. Firms behave as predicted by our model with regards to their lower-educated workforce, but not towards their higher-educated employees. An extension of our firm-level model to narrow within-firm employee categories with potentially asymmetric turnover responses to firm-level demand shocks can rationalize this finding."