

actions. Moreover, the estimated effects of firing restrictions on employment dynamics are large in magnitude and can account for observed cross-country differences in the cyclical patterns of job flows.

Our estimates further suggest that the impact of EPL on job turnover is closely related to trend growth in the sector. Accordingly, the burden of legislation falls on firms in declining sectors, implying that differences in reallocation across countries with different degrees of employment protection are likely to be more noticeable in contracting sectors, such as manufacturing, than in growing sectors, such as most service industries.

Our results have potentially important policy implications. Understanding the behaviour of gross job flows over the cycle and its determinants is fundamental for the assessment of the extent and need of stabilisation policies. Our findings strongly suggest a role for EPL in stabilising employment fluctuations along the business cycle. In countries with little protection of jobs, recessions are times of strong reallocation. On the contrary, when firing a worker is costly and time consuming the reallocation of labour is smoothed along the business cycle. The welfare impact of such insulation of job destruction to economic downturns will depend on several factors, including the availability of alternative insurance mechanisms and possible productivity losses due to legislation as those documented in Autor *et al.* (2007). A fully fledged cost benefit analysis of this stabilising device constitutes a promising line for further research.

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