EMPLOYMENT PROTECTION LEGISLATION AND INTANGIBLE CAPITAL INTENSITY

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The economics of innovation has investigated for long the role of factor market prices as a stimulus to the introduction of technological change. Changes in labour market regulations making the labour input more rigid and more costly prompt the response of the firms. In this paper, we hypothesize that policy reforms strengthening employment protection induce a knowledge-intensive direction of technological change. We test this hypothesis by exploiting the staggered adoption of three Wrongful Discharge Laws by US states during the late 1970s and the early 1990s, aimed at limiting the firm's option to dismiss employees. Our difference-in-difference strategy shows that firms headquartered in states passing the "good faith" exception, which prevented the firm to dismiss employees without a just cause, increase their intangible intensity. On the contrary, tangible capital intensity is not influenced by the introduction of the "good-faith" clause.