

Working Paper no. **201**

**Relaxing fixed-term contracts: evaluating the effects of the
Decreto Poletti on job and employment security**

Lia Pacelli
University of Torino and LABORatorio R. Revelli

Marina Zanatta
University of Torino and IRCCs – FPO Candiolo

July, 2026

Relaxing Fixed-Term Contracts: Evaluating the Effects of the Decreto Poletti on Job and Employment Security

Lia Pacelli ^{a,b}, Marina Zanatta^{a,c}

^a University of Torino, Lungo Dora Siena 100/A, 10153, Torino, Italy

^b LABORatorio Riccardo Revelli,

^c INOC - Istituto Nazionale Oncologico Candiolo; IRCCS

lia.pacelli@unito.it

marina.zanatta@unito.it

Abstract

Does relaxing the regulation of fixed-term contracts improve workers' subsequent employment prospects? We evaluate the effects of the Italian Decreto Poletti (2014), which abolished the causality requirement for fixed-term contracts, extended their maximum duration and increased the number of permitted renewals. Exploiting the reform as a quasi-natural experiment, we compare workers exposed to the new legislation with propensity score matched workers observed under the previous regulatory framework and estimate discrete-time hazard models for job and employment duration. We find no systematic evidence that the reform affected either job security or employment security, either on average or across demographic and firm-specific subgroups.

Keywords: Italian Decreto Poletti; duration model; propensity score matching; temporary contracts; employability.

JEL codes: J08, J41, J64, J68.

Highlights

- We evaluate the effects of Italy's 2014 *Decreto Poletti*.
- We estimate matched discrete-time hazard models of employment duration.
- Relaxing fixed-term contract regulation has no detectable average effect.
- Null effects persist across worker and firm characteristics.
- Greater contractual flexibility does not improve employment security.

1. Introduction

Fixed-term contracts are frequently reformed to increase labour market flexibility under the premise that lower hiring costs and fewer regulatory constraints encourage firms to recruit and ultimately improve workers' employment prospects. Empirical evidence, however, has concentrated primarily on comparing fixed-term and open-ended contracts or on reforms affecting employment protection for permanent workers. Considerably less attention has been devoted to reforms that modify the regulation of fixed-term contracts themselves, and even less to their consequences for workers' subsequent employment stability.

This paper evaluates the effects of the Italian *Decreto Poletti* (Decree Law No. 34/2014), which substantially relaxed the regulation of fixed-term contracts. The reform removed the requirement to provide a justification for their use, increased the maximum duration from 24 to 36 months, and raised the maximum number of renewals from one to five. By lowering regulatory constraints, the reform was intended to facilitate firms' use of temporary employment.

Whether greater contractual flexibility translates into higher employability remains an open empirical question. A more flexible regulatory framework may encourage hiring but may also increase turnover, producing ambiguous effects on workers' job and employment security. Assessing these competing mechanisms is particularly relevant because the reform affected all fixed-term contracts simultaneously, making standard treatment-control comparisons infeasible.

We exploit the introduction of the reform as a quasi-natural experiment. Since no contemporaneous untreated group exists, we compare workers exposed to the new legislation with observationally similar workers hired one year earlier under the previous regulatory framework. After matching treated and control workers on a rich set of individual characteristics and labour-market histories through propensity score matching, we estimate discrete-time hazard models for both job duration and employment duration.

Our findings provide no evidence that the increased flexibility introduced by the *Decreto Poletti* improved workers' employment prospects. We detect no systematic change in either job security or employment security, and the absence of significant effects persists across a range of worker and firm characteristics. These findings complement the evidence from our companion analysis of the subsequent *Decreto Dignità*, suggesting that relaxing the regulation of fixed-term contracts does not necessarily improve workers' labour market outcomes.

2. Institutional framework

Before the *Decreto Poletti*, fixed-term contracts could last up to 24 months, but only the first 12 months could be used without stating a specific justification for adopting a fixed-term rather than an open-ended contract. Moreover, contracts could be renewed or extended only once.

The *Decreto Poletti* (Decree Law No. 34/2014), enacted in April 2014, substantially relaxed these restrictions. It abolished the causality requirement for the entire duration of the contract, increased the maximum duration from 24 to 36 months, and raised the maximum number of renewals from one to five.

The reform therefore expanded employers' scope to use fixed-term contracts and reduced the regulatory constraints governing their renewal.

A distinctive feature of the reform is that it also applied to contracts already in force when the new legislation entered into effect. Consequently, workers holding a fixed-term contract in April 2014 immediately became subject to the new rules regardless of when their contract had started. This retroactive application prevents the use of a standard evaluation design, and motivates the identification strategy described in the next section.

Our analysis necessarily focuses on the short-run effects of the reform. From January 2015, the introduction of generous hiring subsidies for open-ended contracts substantially altered firms' hiring incentives (Ardito et al., 2023), making it difficult to isolate the consequences of the *Decreto Poletti* over a longer horizon.

3. Methods

3.1 Data and identification strategy

We use administrative data from *Comunicazioni Obbligatorie* (CO) for the Piedmont region, which record the universe of labour market flows, including hirings, contract transformations and job terminations. We retain fixed-term contracts excluding seasonal, replacement and temporary agency jobs, workers younger than 16 or older than 60, and sectors not affected by the reform (agriculture, public administration and entertainment). Job spells lasting fewer than seven days are also excluded.

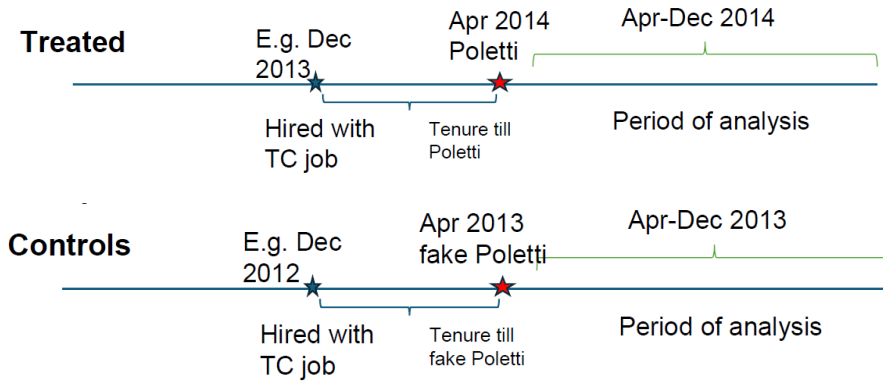
Identifying the causal effect of the *Decreto Poletti* is complicated by its retroactive application, as the reform modified the legal framework not only for newly signed contracts but also for fixed-term contracts already in force in April 2014. Consequently, treatment status depends on whether an ongoing contract is exposed to the new regulation rather than on the hiring date alone.

To address this issue, we compare workers holding a fixed-term contract when the reform entered into force with observationally similar workers in the corresponding period one year earlier, who faced the previous legislation. Since job tenure strongly affects the probability of contract termination, treated and control workers are compared at the same elapsed tenure.

More precisely, for each calendar month between September and the following August we select workers whose fixed-term contract started in that month and survived until April. Treated workers are observed from April to December 2014, whereas matched controls are selected using the same criteria one year earlier and followed from April to December 2013. Thus, each estimation compares workers hired in the same calendar month and so with identical elapsed tenure but operating under different regulatory regimes. This strategy allows to account for tenure as well as for seasonal effects that might arise over the different months of the year by contrasting comparable groups of workers. When a worker is eligible more than once, either because multiple contracts satisfy the selection criteria or because the worker could belong to both treatment and control samples, one eligible spell is randomly retained.

Figure 1 illustrates the sampling design for workers hired in December.

Figure 1: example of the sampling scheme – entry month December (month17, elapsed tenure 4 months, horizon 9 months till December)



3.2 Estimation

The analysis is performed separately for each elapsed tenure at the time of the reform. Since workers hired after April 2014 can only be followed until December 2014, the observation window becomes progressively shorter for later hiring cohorts. Consequently, we estimate separate models for contracts starting between September and the following August, with follow-up horizons ranging from nine to five months.

For each cohort, treated and control workers are first matched using propensity score matching and then analysed through a discrete-time hazard model. The propensity score is estimated on a rich set of pre-treatment characteristics, including age, gender, sector, occupation, part-time status, firm size, nationality, commuting status, workplace location, previous labour-market experience, employment interruptions, number of past jobs, occupational and sectoral mobility, and previous exposure to part-time and high-skilled employment¹. We implement one-to-one nearest-neighbour matching without replacement using a caliper of 0.02. Balance diagnostics are reported in the Online Appendix.

We estimate separate hazard models for job duration and employment duration. Job duration is defined as the time from the beginning of the sampled fixed-term contract until its termination or conversion into an open-ended contract. Employment duration extends the observation across employers and ends only when the worker experiences more than 30 consecutive days without employment.

The discrete-time hazard model is:

$$\text{logit}\{h(t)\} = \alpha + \sum_{t-1}^9 \beta_t 1(T = t) + \gamma D + \sum_{t-1}^9 \delta_t [1(T = t)D] + X\theta \quad (1)$$

where (X) contains the same pre-treatment covariates used in the matching procedure. We compute odds ratios where δ_t measure the change in exit odds relative to the baseline period for treated workers:

¹ To be precise here is the list of Xs: entry age, gender, 2 digit sector, 2 digit occupation, part-time dummy, log firm size, commuter, native, work in Torino, dummy if sampled job is the first job in the last three years, total non-employment days in the last three years, total jobs held in the last three years, share of part time employment in the last three years, share of days in high skill occupations in the last three years, number of different 2 digit sectors in the last three years, number of different 2 digit occupations in the last three years.

$$e^{\delta_t} = [OR_{\{t|D=1\}}]/[OR_{\{t|D=0\}}] \quad (2)$$

Throughout the paper we plot e^{δ_t} and 95% confidence intervals.

4. Results

4.1 Main results

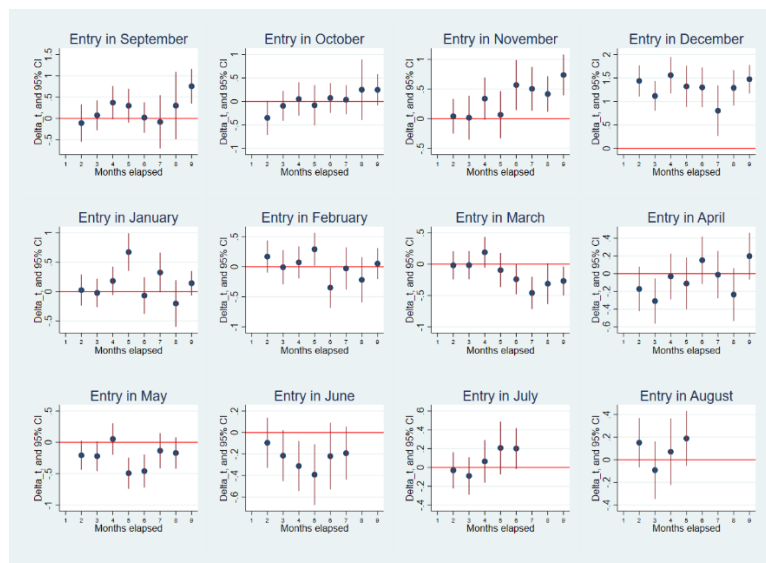
Figures 2 and 3 report the estimated effects of the *Decreto Poletti* on job and employment security, respectively. Since the reform applies to workers with different elapsed tenures, separate hazard models are estimated for each tenure group. We therefore focus on whether a consistent pattern emerges across tenure group rather than on isolated statistically significant estimates.

No systematic evidence indicates that the reform affected job duration. Although a few monthly estimates differ significantly from zero, they do not display a coherent sign or timing across tenure groups, suggesting that they reflect sampling variability rather than a structural effect of the reform.

The results for employment duration closely mirror those obtained for job duration. This similarity is expected because most employment spells consist of a single job spell², so the two outcomes largely overlap. Overall, relaxing the regulation of fixed-term contracts does not appear to have altered workers' probability of remaining employed.

Taken together, the evidence provides no indication that the *Decreto Poletti* improved workers' job or employment security. If anything, the estimated effects fluctuate around zero without exhibiting a systematic pattern across cohorts or over time.

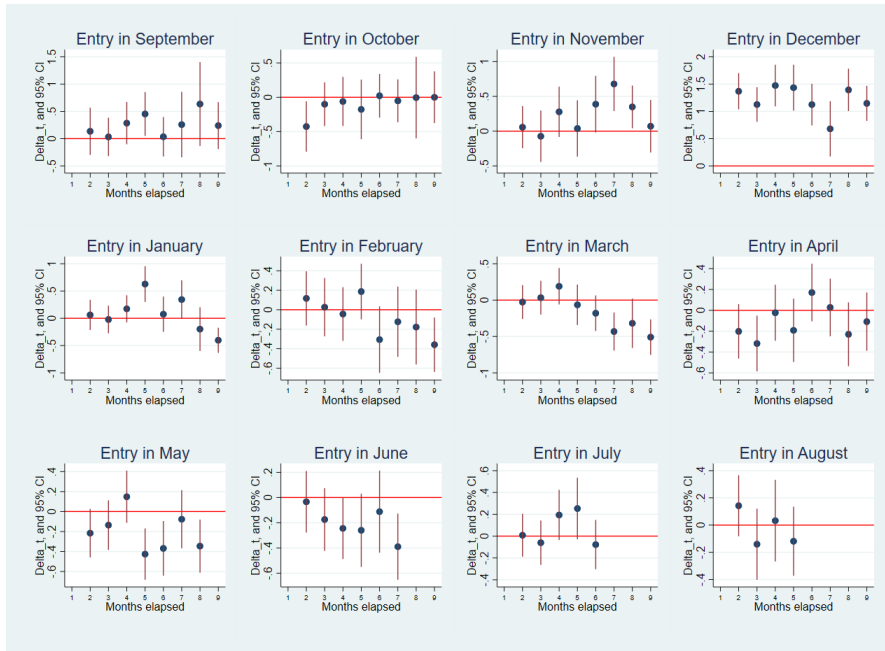
Figure 2: Estimated treatment effects on job security



Note: estimated increase in exit odds relative to baseline, by elapsed tenure at April. Elapsed month 1 is always April, elapsed month 9 is always December (see Figure 1).

² About 83% of spells on average across entry month and treatment.

Figure 3: Estimated treatment effects on employment security



Note: estimated increase in exit odds relative to baseline, by elapsed tenure at April. Elapsed month 1 is always April, elapsed month 9 is always December (see Figure 1).

4.2 Heterogeneity

The absence of average effects may conceal heterogeneous responses across groups of workers or firms. We therefore re-estimate the model separately by gender, nationality, age, firm size, sector and skill level.

None of these dimensions reveals a robust or systematic impact of the reform. Point estimates remain centred around zero and no subgroup exhibits a consistent improvement or deterioration in either job or employment security³. The evidence therefore suggests that the null average effect is not driven by offsetting positive and negative effects across different segments of the labour market.

5. Conclusions

This paper evaluates whether relaxing the regulation of fixed-term contracts improves workers' subsequent labour-market outcomes. Exploiting the introduction of the *Decreto Poletti* as a quasi-natural experiment and comparing treated workers with matched controls observed under the previous regulatory framework, we find no evidence that the reform affected either job security or employment security. The absence of significant effects is remarkably consistent across workers with different contract tenures and across a wide range of demographic and firm characteristics.

Our findings contribute to the limited empirical literature on reforms targeting fixed-term contracts. Evidence from Spain suggests that similar deregulation measures increased overall employment but also labour turnover (Aguirregabiria and Alonso-Borrego, 2014), facilitated labour-market entry for some disadvantaged

³ Detailed estimates are available upon request.

groups while producing less favourable longer-run outcomes (García-Pérez et al., 2016), and altered unemployment dynamics (Güell, 2015). Somehow consistently, our results indicate that the substantial relaxation of fixed-term contract regulation introduced in Italy did not translate into measurable improvements in workers' employment stability over the short run.

Taken together with the evidence on the subsequent *Decreto Dignità* (Pacelli and Zanatta 2026), which tightened the regulation of fixed-term contracts, our findings point to an asymmetric relationship between contractual flexibility and workers' employment outcomes. While increasing firms' scope to use fixed-term contracts does not appear to improve job or employment security, reducing such flexibility may strengthen workers' employment stability. Although the short observation window imposed by the introduction of hiring subsidies in 2015 prevents an assessment of longer-run effects, the evidence suggests that greater contractual flexibility alone is unlikely to enhance workers' employability.

References

- Aguirregabiria, V., Alonso-Borrego, C., 2014. Labor contracts and flexibility: Evidence from a labor market reform in Spain. *Economic Inquiry* 52, 930–957.
- Ardito, C., Berton, F., Pacelli, L., 2023. Combined and distributional effects of EPL reduction and hiring incentives: An assessment using the Italian Jobs Act. *The Journal of Economic Inequality*.
- García-Pérez, J.I., Vall Castelló, J., Marinescu, I., 2016. Can fixed-term contracts put low-skilled youth on a better career path? Evidence from Spain. NBER Working Paper No. 22048.
- Güell, M., 2015. Fixed-term contracts and the duration distribution of unemployment. Barcelona School of Economics Working Paper No. 105.
- Pacelli, L., Zanatta, M., 2026. Relaxing fixed-term contracts: Evidence from the Italian *Decreto Poletti* on job and employment security. Mimeo.

Artificial intelligence use disclosure

OpenAI's ChatGPT was used during manuscript preparation to support language editing, organization, and citation-formatting checks. The authors retained full control over the research design, empirical analysis, interpretation of results, citations, and final wording, and take responsibility for the accuracy and integrity of the manuscript.