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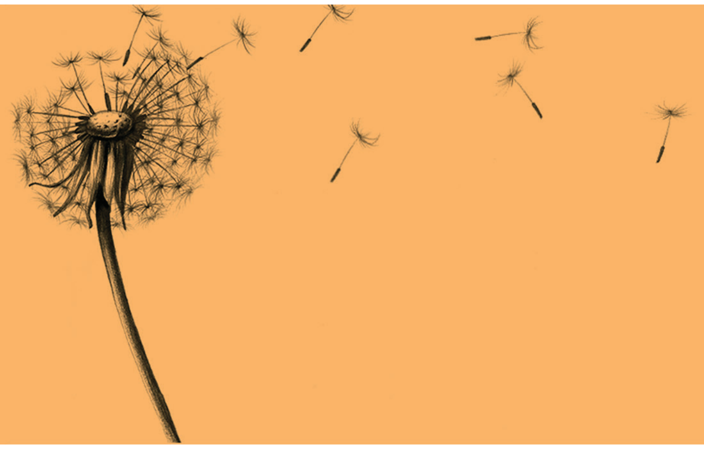
THE EFFECT OF TRIAL PERIODS IN EMPLOYMENT ON FIRM HIRING BEHAVIOUR



An Executive Summary by Nathan Chappell and Isabelle Sin

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INTRODUCTION

In March 2009, an amendment to the Employment Relations Act (2000) came into effect that introduced 90-day trial periods in employment for firms with fewer than 20 employees. A worker new to a small firm could be hired on a trial period, and for the first 90 days of his employment the legal requirements for dismissing him would be much reduced.

The policy was intended to stimulate employment by small firms by reducing the cost to them of hiring a person who turned out to be a bad fit for the job. Supporters of the policy claimed disadvantaged jobseekers would disproportionately benefit because employers would be more willing to take the risk of hiring them. Opponents anticipated costs such as a decrease in job stability, particularly for marginal workers. The policy was deemed a success, and in April 2011 the option of using trial periods was extended to firms of all sizes.

METHODOLOGY

In this research we ask how the option of using trial periods has affected the quantity of hiring by firms, the types of individuals hired, and the stability of employment relationships. We use individual-level linked employer-employee data from Statistics New Zealand's Integrated Data Infrastructure, and take advantage of the natural experiment offered by the two policy changes. In particular, we look for a discrete difference in behaviour between firms above and below the 20-employee cutoff that opened up after the 2009 policy change, and closed again after the 2011 change.

RESULTS

We find no evidence that the ability to use trial periods significantly increases firms' overall hiring; we estimate the policy effect to be a statistically and economically insignificant 0.8 percent increase in hiring on average across all industries. However, within the construction and wholesale trade industries, which report high use of trial periods, we estimate a weakly significant 10.3 percent increase in hiring as a result of the policy.

We also find no evidence that the policy increased the probability that a new hire by a firm was a disadvantaged jobseeker for a range of definitions of disadvantaged jobseeker: beneficiaries, jobseeker beneficiaries, non-workers, recent migrants, youths under 25 years old, Māori or Pasifika under 25 years old, or education leavers. This result holds both over the economy as a whole, and in the high-use industries.

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Trial period policy also does not appear to have affected the probability that a newly hired worker remained with her employer for at least two, five, 12 or 24 months; the policy seems not to have substantially increased short-term hiring.

Finally, we do not find any evidence that workers moving between employers were less likely to move to a trial period-eligible firm; the policy does not seem to have made workers less willing to change jobs.

We conclude that the main benefit of the policy was a decrease in dismissal costs for firms, while many employees faced increased uncertainty about their job security for three months after being hired.

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