Is Eurosclerosis a myth? The magnitude and nature of adjustment costs in Germany

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Estimation of adjustment costs are subject to errors due to regional and temporal aggregation. In plant panels employees at two points of time are observed but the gross flows into and out of the plant are not. I use the LIAB data of the IAB to identify the exact number of hirings and separations to estimate the costs that an establishment incurs when adjusting its employee pool. I find robust evidence for modest hiring costs for all sectors and, perhaps surprisingly, no evidence for separation costs.