



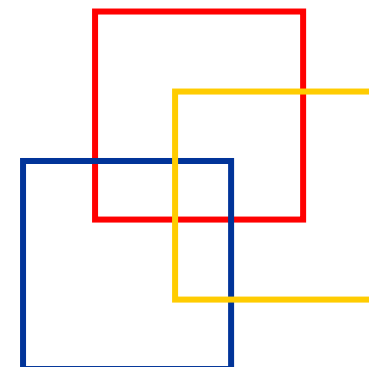
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# The Unemployment Effects of Labour Regulation around the world, by H. Feldmann

*Workshop: « The DB agenda and beyond »  
Bonn- 4-5 December 2008*

Comments by:

**Sandrine CAZES**  
**ILO, Employment Sector**

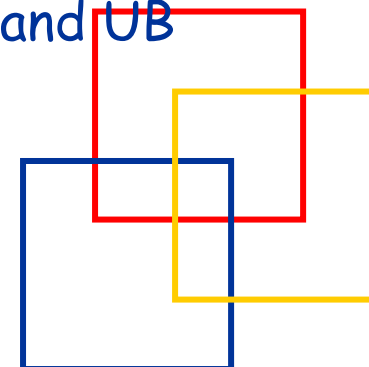




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## Main Findings

- Cross-country panel (73 economies) study; assess the effects of « labour regulation » on unemployment for the years 2000-2003.
- Stricter regulation generally appear to increase U
  - > more stringent EPL & military conscription have adverse effects
  - > more centralized CB seems to increase female unemployment
  - > size of effects more substantial among young people
  - > no statistically significant effects of min. wages and UB

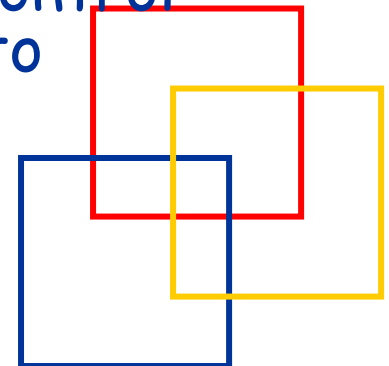




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## General Comments

- Great effort to broaden the geographical scope of research in this field (covers industrial, developing & transition countries)
- Innovative work (use of subjective measures of LM regulations + includes an indicator of military conscription)
- Assess the effect of LM regulations by gender and age (youth)
- Use labour regulation variables jointly & control for a large nbr of factors that are likely to affect LM performances

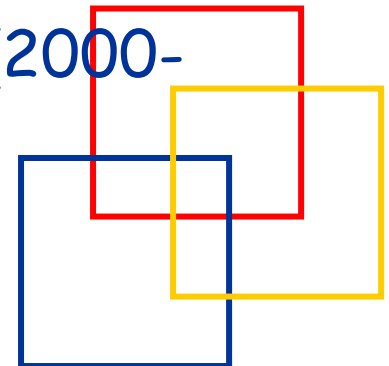




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## General Comments

- Choice of dependant variable: why focus on unemployment (LFP)
- Africa almost absent from the set of sample countries
- Theoretical background not provided; could be useful to recall what models generally tell us on the effect of the different LM regulation on LM outcomes (static & dynamic)
- Little time series variation in the sample (2000-2003)

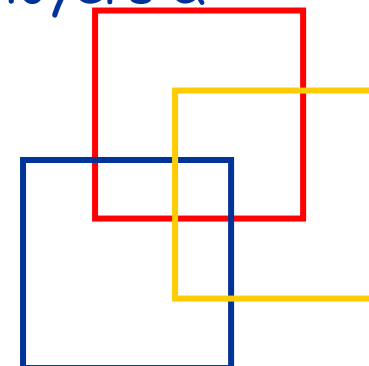




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## Measuring LM regulations

- EFW/ LM regulation subindex (Fraser Institute)
- Subjective indicators + objective benchmark
- Allow « diversity » (question companies of various size categories & types  $\neq$  EWI)
- However:
  - > supposed to measure extent to which LM regulation « infringe » upon the economic freedom of employers & employees? *Rather employers' perspective*
  - > inductive approach: based on statements (ex)

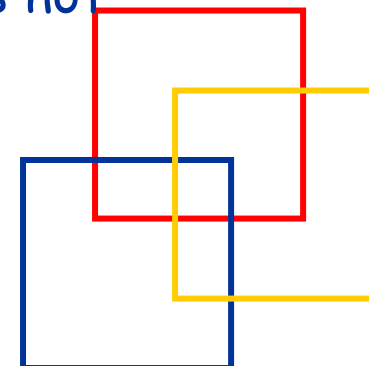




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## Measuring LM regulations (cont.)

- > miss information (for ex. question on CB does not differentiate between different forms of centralization; EPL does not consider temp work or TWA)
- > **Perception bias ?** subjective indicators important: bring additional info; likely to influence behaviour; but perception vs actual; need of an objective benchmark
- > mismatch between obj & subj.indicators does not necessarily mean that you are « capturing enforcement »

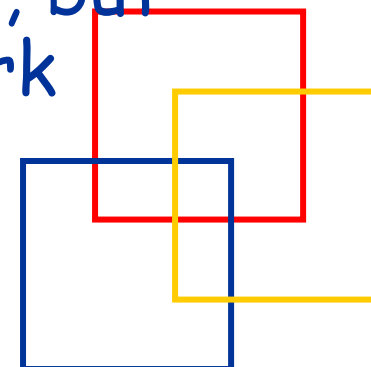




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## Dependant variables, CV & estimation

- Unemployment?
- Potential « omitted variables »: enforcement; TU density & CB coordination
- Tax wedge instead of « low top marginal tax rate »
- Interactions between LM regulation, but also with other regulatory framework (product market for ex.)

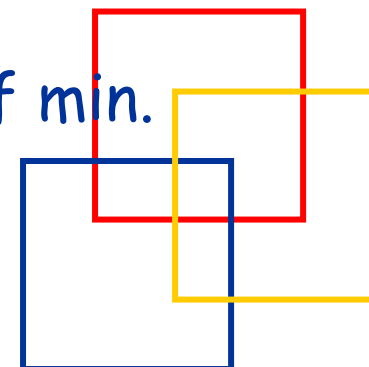




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## Results

- Refer to broader empirical evidence: studies also find no effect of EPL on overall unemployment rate (OECD, 2006; Heckman Pagés, 2003; Amable, Demmou & Gatti, 2007; Cazes & Nesporova, 2007)
- Hiring & firings rules have an impact on  $u$  « all over the world »: yes, but imperfect measurement; conceptual framework could be more comprehensive
- CB effect: why would it only affect women? And not youth?
- How to interpret the absence of effect of min. wages and UB? Heterogeneity of sample?



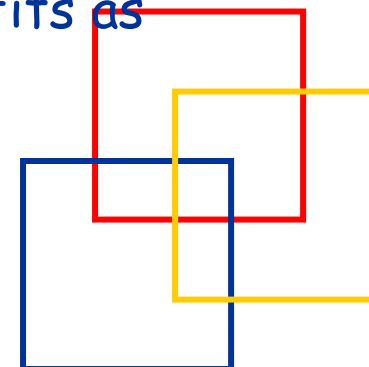




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## From results to policy focus

- Use of results should be made with cautious (US vs Italy illustration)
- Strong emphasis on hiring and firing rules, risk of « fragmented » policy recommendations
- Risk of generalization (« our results indicate that tight labour regulations increase u all over the world »)
- Be more cautious & specific with the policy recommendations: for ex. even if you admit that EPL should be liberalized, need fine tuning
- Acknowledge that regulations have potential benefits as well!

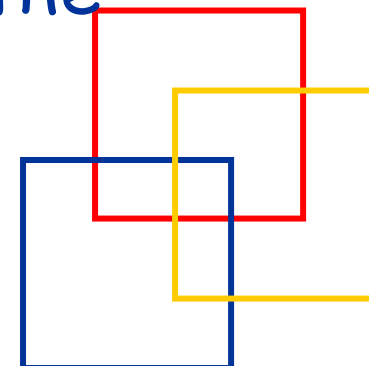




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## Conclusions

- Agree that regulations matter (but in a costs-benefits approach)
- Still room for improving LM regulation measures (in particular EPL)
- Thus need to be more cautious & specific with Policy CCL
- Need to capture the complexity of the institutional settings and their interactions

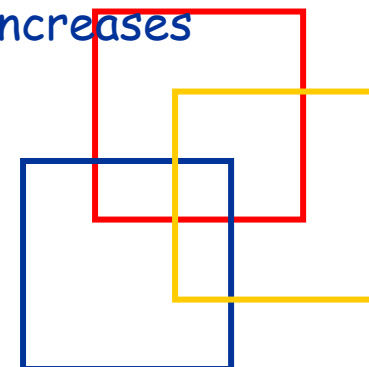




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## What Theory tells

- EPL (hiring & firing rules): effects on stocks likely to vary between firms size, type of activity & economic cycle; but models suggest rather clearly that **stringent EPL reduces hiring and firing**
- Role of TU (CB): theoretical model suggest that high unionization with wages bargained collectively may explain unemployment
- Minimum wages: theoretical considerations ambiguous (minimum wage could affect the composition of unemployment)
- UB: theory suggests that « generous » income support increases the reservation wage and tends to increase LTU





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## What evidence shows - hiring & firing

- Macro/over time analysis (OECD Job study, EO99, Nickell 97, Bertola 99, IMF WEO, 2003, etc.): ambiguous results.
- JS has little or no effect on overall unemployment, but may affect its demographic composition; EPL may have a positive effect on the employment rate for prime age men; stricter EPL is associated with higher rates of self employment and with lower turnover in the LM
- Micro-level studies also not necessarily less ambiguous than cross-section of countries time series literature

