

Comparing indicators of labour market regulation: The relevance of how legal rules are effectively applied

Miguel A. Malo
(University of Salamanca, Spain)
Contact: malo@usal.es

Pilar García-Martínez
(World Bank)

IIRA 2009 – Sidney
Study Group ‘Labour Market Regulations: Rationales, indicators and impacts’

1. Measuring and comparing

- There is a broad literature proposing different indicators of labour market regulation quantifying different aspects of Labour Law.
 - Why? Because we want to compare the economic effects (growth, employment, unemployment, wage inequality, income distribution, etc.) of regulations from different countries.

2. Questions

1. What aspects should be considered?

- First 'wave': very focused on 'flexibility', firing costs, etc. (Emerson, 1988; Grubb & Wells, 1993).
- Second 'wave': a broader view, i.e., 'doing business', different economic outcomes (Botero et al., 2004; Deakin & Sarkar, 2008).

2. Time:

- Cross-section.
- Time series (Deakin & Sarkar, 2008)

3. What Labour Law?

- The wording of the law (the most common approach, at least explicitly)
- The practice (R. Freeman & D. Chor, 2005: Global Labour Survey; others implicitly)

3. Why is important the practice?

- Different rules can achieve the same functional outcome: this is crucial to understand the economic effects of regulation.
- Botero et al. (2004): This is not relevant, because “deviations from statutes are an exception not the rule”. (?)
- Deakin and Sarkar (2008) discuss this problem as an issue related to enforcement.
- HOWEVER, it is not only a matter of enforcement (closely linked to legitimacy), but also about the strategic use of the law, the incentives to bargain in the shadow of the law, and conflicts.

4. Dimensions of the practice

– Enforcement:

- Degree of enforcement (in each area considered in the index).
- Control and supervision:
 - Labour courts.
 - Labour inspectors.

– Strategic use of the law:

- Bargaining in the shadow of the law respect to ‘in the light of the law’ (are there public mediatory institutions jointly with private bargainings?).

– Conflicts:

- Strikes and beyond. (?)

4. How to measure 'the practice'

1. Asking to labour practitioners (Freeman & Chor, 2005):
 - Very powerful and direct way to obtain a lot of information.
 - But potentially affected by systematic biases (common wisdom, interpretation instead description, under-/overestimation of interactions, endogeneity, etc.)
2. A complementary way: *Collecting information on observable variables of different institutions related with key aspects on how Labour Law is used by workers and employers.*
3. It is important to remember that indicators usually attend to the wording of the law, because it is much difficult to obtain accurate (and homogeneous) information about how Labour Law works.
4. An additional (but *old*) question: How to weight the issues of the previous slide?
5. How to include complementarities inside Labour Law? Interactions in regressions?

5. Motivating discussion

- Any indicator of legal regulation will be incomplete and imperfect: coding in numbers the whole legal framework is very very very difficult (and a lot of arbitrary, although reasonable, assumptions are needed).
- But focusing on the practice is probably a good way to improve indicators (combining direct evaluations with statistical information?).
- Beyond: Are comparisons with many countries so useful? Should we compare smaller groups of more homogeneous countries? Using smaller groups allow to include the practice with a lower effort.