

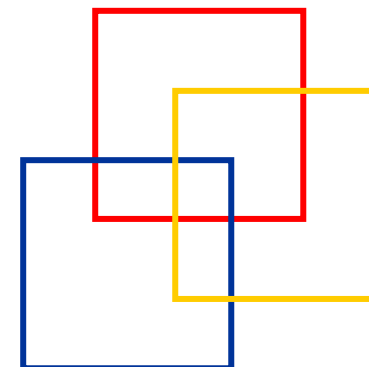


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The Economic Effects of EPL

Is Measurement the issue?

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ILO, EMP/ANALYSIS

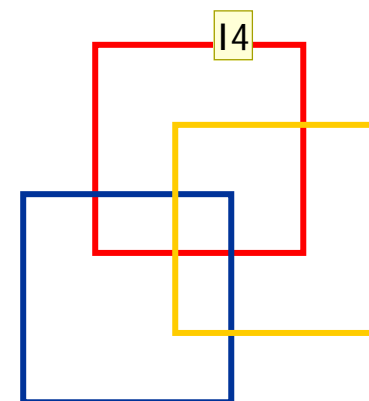




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Introduction

- Increasing Complexity of the Institutional Environment
- Frequent Labour Market Reforms
- Over the last decade, both Indicators & Studies trying to explain Differences in Economic/LM Performance through institutional variables have burgeoned
- Yet Debate still unsettled

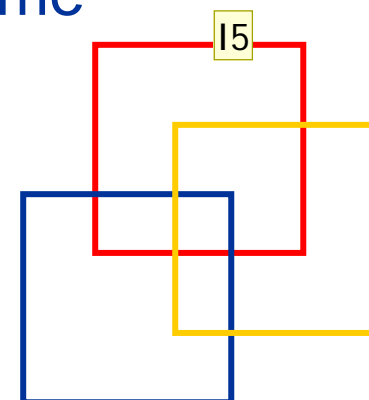




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Theory vs Evidence

- Theoretical models suggest rather clearly that stringent EPL reduces Hiring & Firing
- Macro/over time analysis (OECD Jobs study, Eo99, Nickell 97, Bertola 99, IMF WEO, 2003, etc.) tend to be inconclusive
- Micro-level studies (Heckman & Pagés, 2003, Micco & Pagés, 2006, etc.) not necessarily less ambiguous than cross-section of countries time series literature
- Is Measurement the issue?



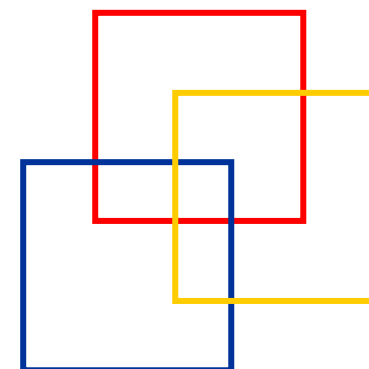


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Assessing EPL

(1)- General Remarks

- **Quantitative vs Qualitative information**
- **Ordinal (Rankings) vs Cardinal measures**
- **Single-dimension vs Composite indicators**
- **National legislation vs Survey-based**
- **Objective (?) vs Subjective Measures**
- **OECD vs non OECD countries (comparability)**



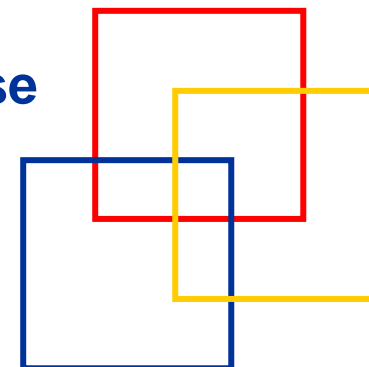


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Assessing EPL

(2)- Existing datasets

- **Research on EPL measurement initiated by Academics: Emerson (1988); Lazear (1990); Bertola (1990); Grubb & Wells (1993); Blanchard & Wolfers (2000); Heckman & Pages (2003); Nickell et al. (2003); Pierre & Scarpetta (2006); Amable et al. (2007), etc.**
- **Comparative Datasets developed by International Organisations: OECD (1999; 2004); World Bank (Doing Business Reports);**
- **Datasets on LM Reforms: Social Reforms database (FRDB); LABREF (EC);**



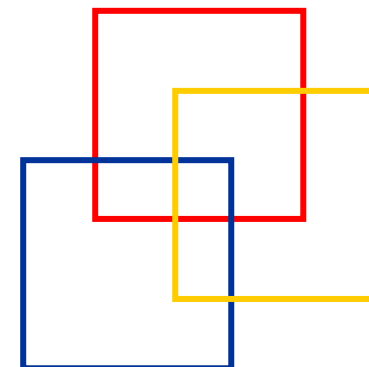


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Assessing EPL

(3)- Overall Assessment

- **Neglect enforcement procedures**
- **Arbitrary choices for weighting**
- **Omit exemptions to the application of EPL to small enterprises**
- **Quest for a time series**
- **Cross section issues**



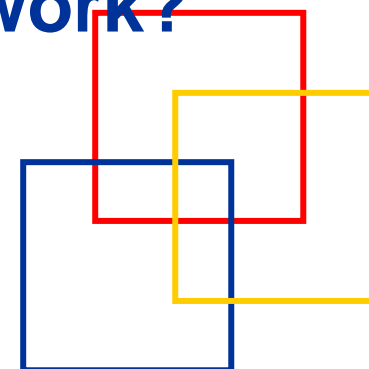


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Considerations when Designing New Indicators

**=> Recognizing that indicators reflect
normative views.**

- **Should this be avoided? Can it be?**
- **Should they be used as a vehicle to
promote social justice and decent work?**

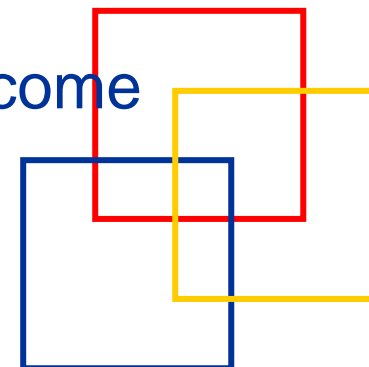




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Assessing to what extent institutions are achieving larger policy objective

- Better to measure whether pieces are in place for achieving objective rather than whether a law or policy exists.
 - Forces us to address challenges of informality, enforcement, non-regular workers
- *Example:* If objective is *worker security*
- How do we define worker security? EPL? Income security?



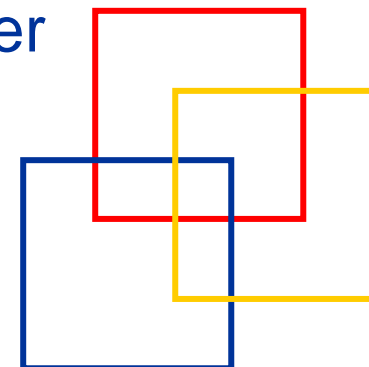


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Using Cost-Benefit Analysis

Example: *Worker Security*

- Costs: severance pay, dismissal notification, likelihood of tribunals; UI contributions, experience rating
- Benefits: LF coverage; percentage of income replacement; availability and use of job search assistance, training programmes; job turnover

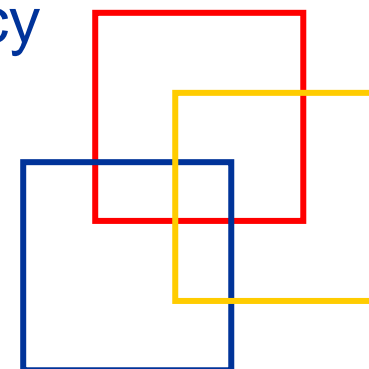




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Assessing the interaction of institutions and economy

- Other potential benefits (for example, on productivity or macro stability) left to ex-post assessments
- Yet endogeneity problems (Bertola, 2007; Rodrik, 2005); particularly severe in cross-country studies
- Importance of relying on theory in guiding assessments of the effects of a specific policy





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Conclusions

- Agree that LM institutions matter
- Room for improving EP measures; ILO has important role to play in their construction
- Further work should be devoted to theoretical refinement in order to capture the complexity of the institutional settings and their interactions
- Need to be more cautious with policy conclusions

