



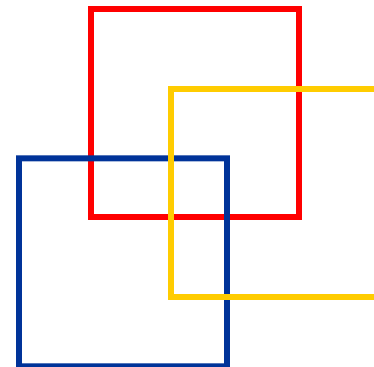
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**The Measurement and Economic Effects of Labour Legislation  
Second Workshop: "Measuring Law and Institutions"  
Amphi Curien- December 14<sup>th</sup>, 2007**

**Comments by:**

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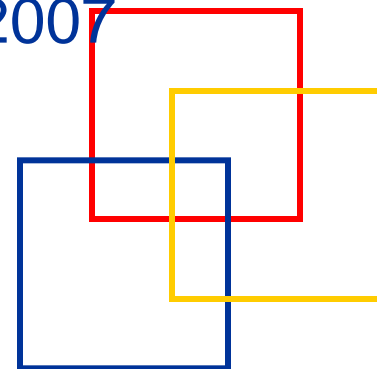




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# Employment Protection Legislation and Economic Outcomes

- Law and Employment: Lessons from LAC, by Heckman & Pagés (2003)
- The Economic Effects of Employment Protection: Evidence from International Industry Level-Data, by Micco & Pagés (2006)
- Are all labour regulations equal? Assessing the effects of Job security, labour dispute and Contract labour Laws in India, by Ahsan and Pagés, 2007

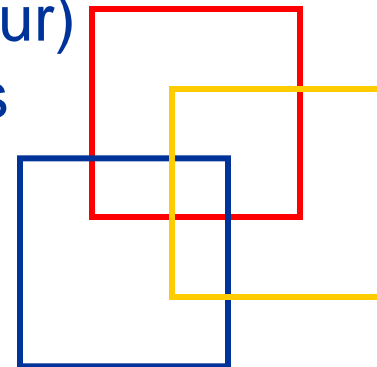




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# Main Findings

- (2003) *LAC*: less stringent JS increases JT; inconclusive effects on average E, but biased effects towards less advantaged workers
- (2006) *International*: More stringent EPL reduces JT; reduces E and VA & nbr of establishments
- (2007) *India*: De Jure Reforms reduce registered sector E & output but do not increase the labour share; de facto reforms (use of contract labour) outweighs the adverse effects of regulations

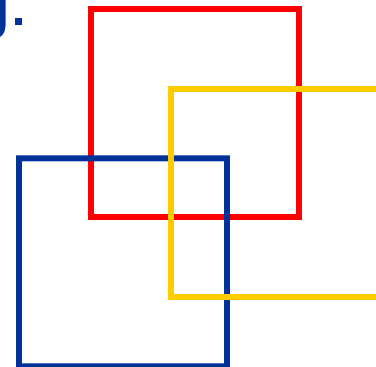




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## What theory tells us

- EPL generates a number of effects on labour costs, employment and productivity, some favourable and some unfavourable. The net impact seems likely to vary between size of firms, type of activity and according to the economic conditions.
- Theoretical models suggest rather clearly that **stringent EPL reduces hiring and firing.**

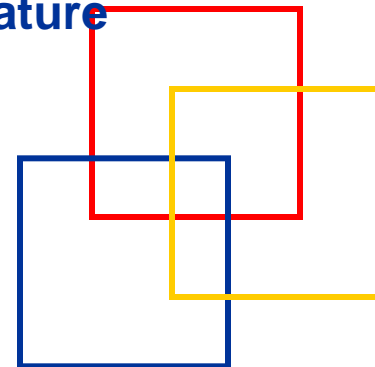




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## What evidence shows

- **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**

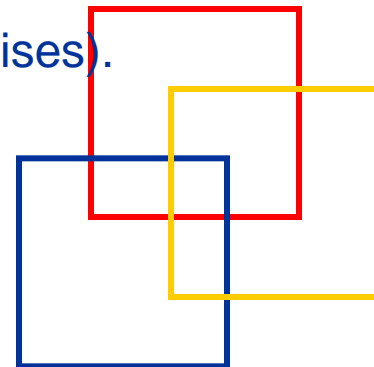




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## Is Measurement the issue?

- **LMI Indicators and studies to explain differences in economic performances through institutional variables have burgeoned over the last decade**
- **Pagés work innovative and rich**
- **Focus on dismissals costs**
- **How do you capture:**
  - Exemptions to the application of EPL (small enterprises).
  - Enforcement procedures.

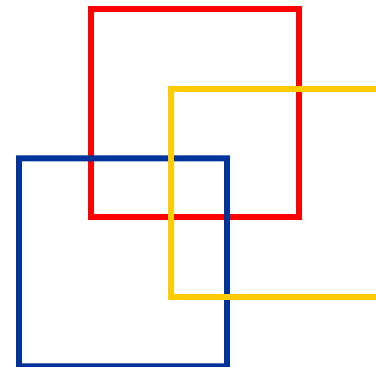




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## Partly, but not only...

- **Benefits of regulation?**
- **Other forms of flexibility: temporary work and FT contracts**
- **Interactions among features. LM regulation as a collective choice along trade-offs/ Avoid a fragmented approach**

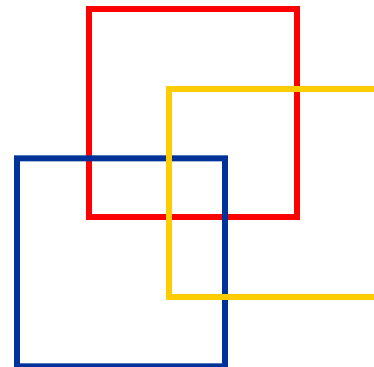




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# From results to policy focus

- **Interpretation of results « shaping by priors »**
- **Emphasis on specific results**
- **Be More cautious with the policy recommendations**







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# Conclusions

- Agree that regulations matter
- Micro analysis useful way forward in understanding the economics of LMI and flexibility
- Still room for improving measures
- Thus need to be more cautious with Policy CCL
- Need to capture the complexity of the institutional settings and their interactions
- Need a fine-tuning approach (ex. 2007 paper)

