

The Impact of Labour Laws on Employment, Productivity and Inequality: Evidence from a New Leximetric Dataset

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Economics of labour law

- World Bank (2008): ‘Laws designed to help workers often hurt them’
- World Bank (2016): ‘Employment regulations are unquestionably necessary’, not just ‘to protect workers from arbitrary or unfair treatment’ but ‘to ensure efficient contracting between employers and workers. They increase job stability and can improve productivity through employer-worker cooperation.’

Leximetrics

- Need for better data on law
- Measuring legal phenomena
- Index construction
- Issues of weighting and aggregation of data

The CBR-LRI dataset

- A new approach to coding labour laws
- 117 countries, 45 years (1970-present day)
- 5 categories: protection for different forms of employment (part-time, fixed-term, temporary agency work); working time; dismissal; employee representation; right to strike
- Available June 2016 at: www.cbr.cam.ac.uk

CBR Labour Regulation Index

A. Different forms of employment

1. The law, as opposed to the contracting parties, determines the legal status of the worker
2. Part-time workers have the right to equal treatment with full-time workers
3. The cost of dismissing part-time workers is equal in proportionate terms to the cost of dismissing full-time workers
4. Fixed-term contracts are allowed only for work of limited duration
5. Fixed-term workers have the right to equal treatment with permanent workers
6. Maximum duration of fixed-term contracts
7. Agency work is prohibited or strictly controlled
8. Agency workers have the right to equal treatment with permanent workers of the user undertaking

B. Regulation of working time

9. Annual leave entitlements
10. Public holiday entitlements
11. Overtime premia
12. Weekend working
13. Limits to overtime working
14. Duration of the normal working week
15. Maximum daily working time

C. Regulation of dismissal

16. Legally mandated notice period (all dismissals)
17. Legally mandated redundancy compensation
18. Minimum qualifying period of service for normal case of unjust dismissal
19. Law imposes procedural constraints on dismissal
20. Law imposes substantive constraints on dismissal
21. Reinstatement normal remedy for unfair dismissal
22. Notification of dismissal
23. Redundancy selection
24. Priority in re-employment

D. Employee representation

25. Right to unionisation
26. Right to collective bargaining
27. Duty to bargain
28. Extension of collective agreements
29. Closed shops
30. Codetermination: board membership
31. Codetermination and information/consultation of workers

E. Industrial action

32. Unofficial industrial action
33. Political industrial action
34. Secondary industrial action
35. Lockouts
36. Right to industrial action
37. Waiting period prior to industrial action
38. Peace obligation
39. Compulsory conciliation or arbitration
40. Replacement of striking workers

Leximetric coding protocol

2. Part-time workers have the right to equal treatment with full-time workers

Equals 1 if the legal system recognises a right to equal treatment for part-time workers (as, for example, in the case of EC Directive 97/81/EC).

Equals 0.5 if the legal system recognises a more limited right to equal treatment for part-time workers (via, e.g., sex discrimination law or a more general right of workers not be treated arbitrarily in employment).

Equals 0 if neither of the above.

Scope for scores between 0 and 1 to reflect changes in the strength of the law.

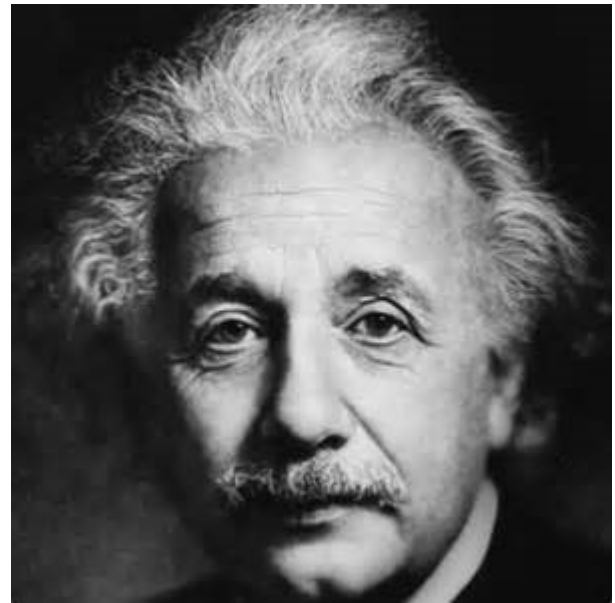
Leximetric data

France (1970-2006)...

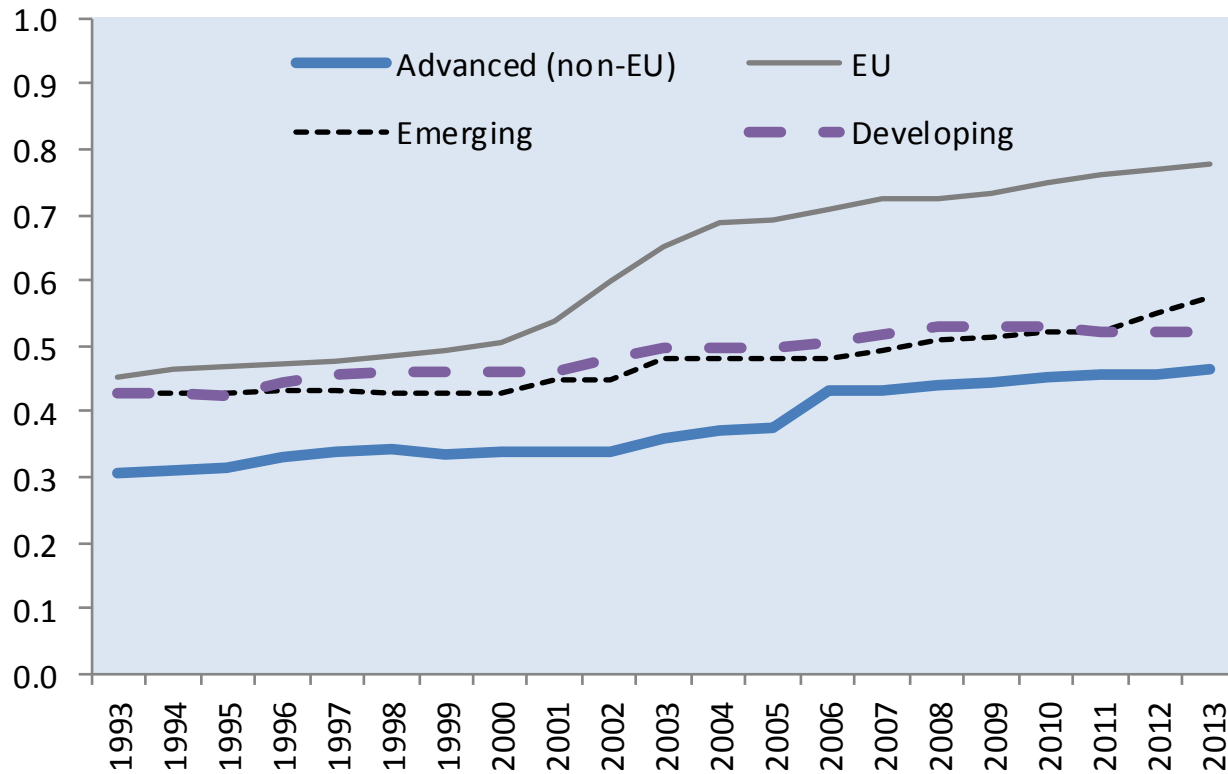
Variable/Year	1970	1971	1972	1973	1974	1975	1976	1977	1978
v1	1	1	1	1	1	1	1	1	1
v2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
v3	1	1	1	1	1	1	1	1	1
v4	0	0	0	0	0	0	0	0	0
v5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
v6	0	0	0	0	0	0	0	0	0
v7	0	0	0.25	0.25	0.25	0.25	0.25	0.25	0.25
v8	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
v9	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67
v10	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.61
v11	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
v12	1	1	1	1	1	1	1	1	1
v13	1	1	1	1	1	1	1	1	1
v14	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67
v15	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
v16	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67
v17	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
v18	1	1	1	1	1	1	1	1	1
v19	0	0	0	0.67	0.67	0.67	0.67	0.67	0.67
v20	0.33	0.33	0.33	1	1	1	1	1	1

Limitations of quantitative analysis...

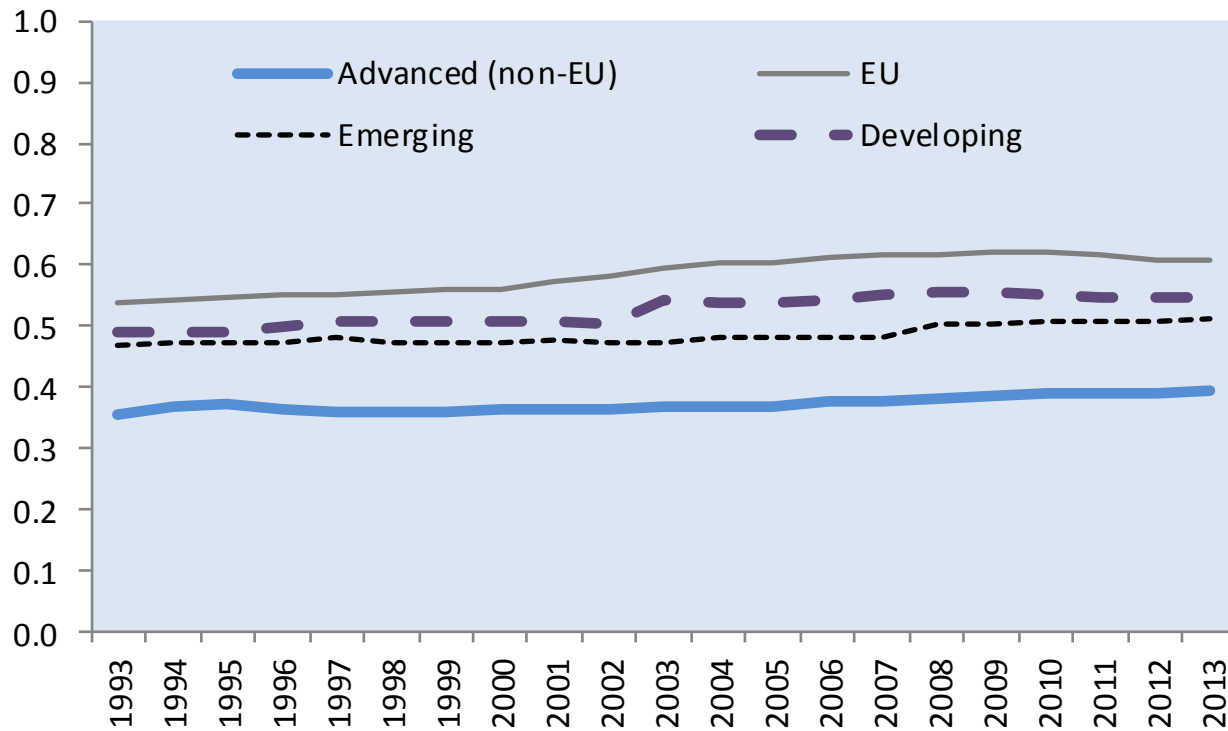
‘Not everything that counts can be counted, and not everything that can be counted counts’ (possibly said by Alfred Einstein)



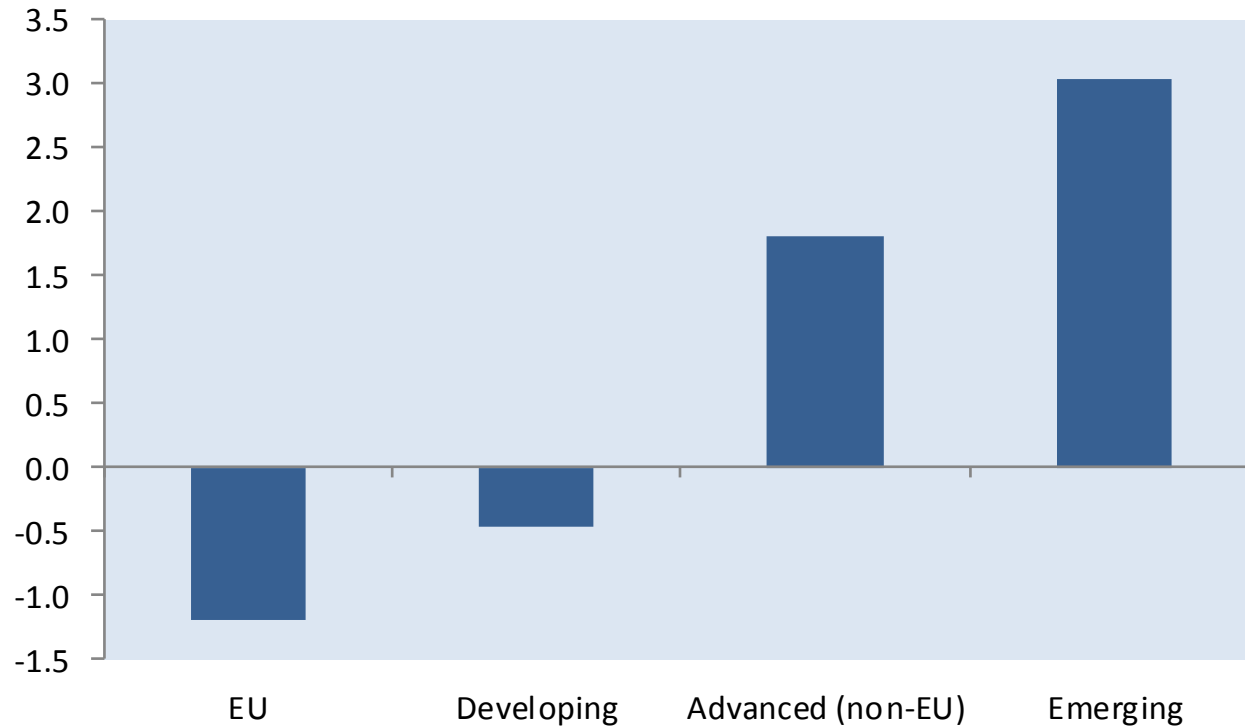
Trends in regulation of DFEs since 1993



Trends in EPL since 1993

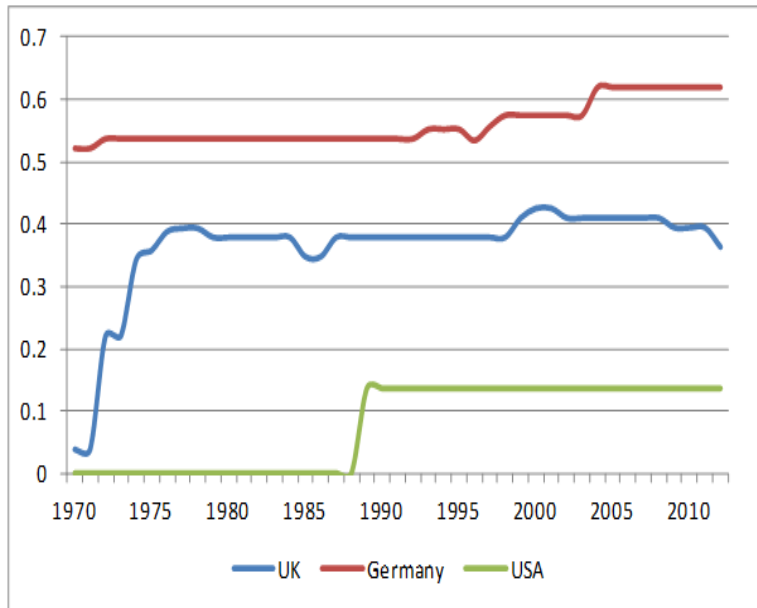


Trends in EPL since 2008

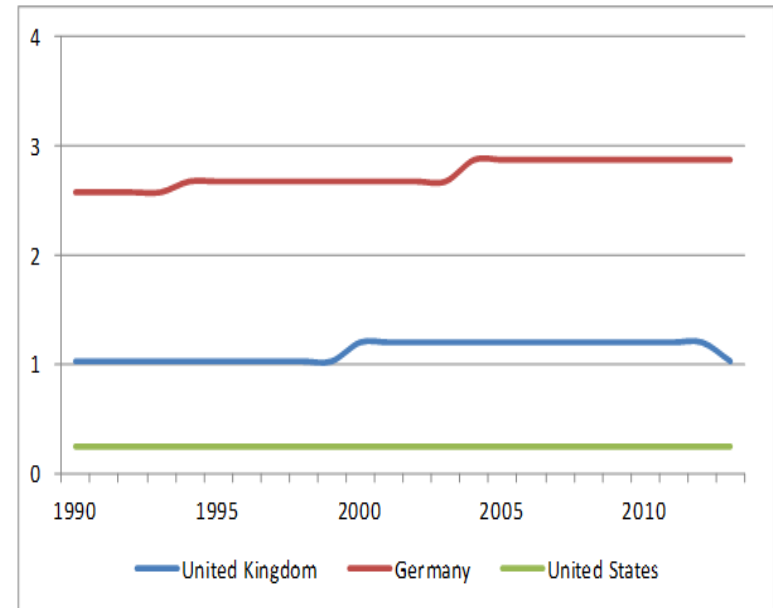


CBR-LRI vs. OECD EPI

CBR-LRI



OECD-EPI



Time-series econometrics

- Can we really measure the effects of legal rules?
- Formal laws as a proxy for the effects of labour regulation
- Controlling for ineffectiveness of labour laws in practice
- Taking account of 'unknown unknowns': panel data analysis using dynamic modelling (Pesaran and Smith)
- Cointegrated time series: risk of false results

Exploratory econometric analysis

- More protection for non-standard employment correlates with higher employment and an increased labour share of income
- Increases in fair dismissal rights and employee participation (codetermination) correlate with higher employment, increased innovation, higher productivity, and an increased labour share of income
- Employee representation (collective bargaining and codetermination law) is positively correlated with employment and productivity

Source: Z. Adams, L. Bishop, S. Deakin, C. Fenwick, S. Martinsson, G. Rusconi, 'Labour regulation over time' (2015) Regulating for Decent Work Conference, ILO, Geneva

Pooled mean group estimation with DFE

	Labour force participation	Employment to population	Self-employment	Productivity per worker	Labour share	Unemployment rate
Long run						
DFE	0.0104	0.2589***	-0.0486***	0.1657	2.0764***	-0.1418***
GDP growth	0.0019***	0.0438***	-0.0040***	0.1682***	0.0021*	-0.0292***
Population	-0.0007***	0.0007**	-0.0116***	0.0057***	-0.0046***	-0.0009***
Freedom House	-0.0100***	-0.0311**	-0.0261***	-0.1444***	-0.0489***	-0.0147**
Short run						
Error correction	-0.1874***	-0.0469***	-0.1639***	-0.0349***	-0.0677***	-0.0978***
Δ DFE	0.0038	-0.0113	0.0883	-0.0181	-0.1104**	-0.0014
Δ GDP growth	-0.0003***	-0.0007***	0.0007***	0.0008**	-0.0016***	0.0010***
Δ Population	-0.0825	-0.1196	0.016	0.0701	-0.141	0.0472
Δ Freedom House	0.0012	0.0011	0.0013	-0.0002	0.0004	-0.0014
Constant	0.1214***	0.0191***	0.0757***	0.3224***	-0.0028	0.0267***
Observations	1381	1381	1381	1381	963	1381

Pooled mean group estimation with EPL

	Labour force participation	Employment to population	Self-employment	Productivity per worker	Labour share	Unemployment rate
Long run						
EPL	0.0422***	0.4591***	-0.0945***	0.6412**	0.0561***	-0.1753***
GDP growth	0.0017***	0.0325***	-0.0032***	0.1466***	-0.0022***	-0.0242***
Population	0.0002*	0.0004*	-0.0124***	0.0053***	-0.0002***	-0.0069***
Freedom House	-0.0064***	-0.0214**	-0.0055**	-0.1285***	0.0079***	-0.0223***
Short run						
Error correction	-0.1994***	-0.0611***	-0.1752***	-0.0402***	-0.3227***	-0.1095***
Δ NSFE	-0.0861*	-0.1430*	0.0019	0.2008	-0.0649	0.0235
Δ GDP growth	-0.0003***	-0.0007***	0.0006***	0.0008**	-0.0008***	0.0009***
Δ Population	-0.0944	-0.0894	0.0292	0.0908	-0.1884	0.008
Δ Freedom House	0.0012	0.0013	0.0002	-0.0003	-0.0002	-0.0012
Constant	0.1178***	0.0203***	0.0817***	0.3606***	0.1551***	0.0440***
Observations	1381	1381	1381	1381	963	1381

Litigation rates, costs and enforcement

Country	Litigation rate
France	1.1%
Germany	1.2%
New Zealand	0.1%
South Africa	1.5%
Sweden	0.01%
Italy	0.9%
UK	0.8%

- The number of claims as a percentage of the working population, S Corby and P Burgess, *Adjudicating Employment Rights* (2014)
- Low litigation rates are ambiguous: often when law works best, it is self-enforcing, i.e. disputes solved inside firms without court, e.g. through elected work councils. Moreover, incentives to enforce differ - insurance/lawyer fees

Conclusion

- With different (and arguably better) data we are getting a more complete picture of the economic effects of labour laws, which are more positive, in terms of their impact on productivity and employment, than conventionally supposed