

Mandated Labour Protections & Government Safety Nets: Economic outcomes and worker security

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Worker Protections

- Two groups of policy approaches
 - ▶ “Mandatory Protections”: Through the employment contract
 - ★ dismissal protection
 - ★ minimum wage
 - ▶ “Safety Net”: Directly from the government
 - ★ unemployment insurance
 - ★ active labour market programmes

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- Flexicurity
 - ▶ Strong safety net, but weak mandatory protections
 - ▶ Assumes protections and safety nets are substitutes for workers
 - ▶ Seeks to guarantee individual security but maintain firm flexibility
 - ▶ Ignores other policy goals (e.g. job match quality, employment)

Overview

● Questions

- ▶ How have countries' policy approaches evolved over time?
- ▶ Do countries use these as compliments or substitutes?
- ▶ How do the two approaches influence labour market outcomes?
- ▶ How do the two approaches influence workers' satisfaction?
- ▶ Should countries use these as compliments or substitutes?

● Approach

- ▶ Develop two indices capturing the two policy approaches
- ▶ Use the indices to examine outcomes
- ▶ Use micro data

● Presentation Outline

- ▶ Policy & literature background
- ▶ Index design and policy evolution
- ▶ Analysis One: Effects on unemployment
- ▶ Analysis Two: Effects on worker satisfaction
- ▶ Conclusion

Policy Overview: Dismissal protection

Dismissal

Redundancies

Netherlands

Notice: 1 mo for < 5 yrs service, 2 mos for 5-10 yrs, 3 mos for 10-15, 4 mos for 15+

Severance: By collective agreement

Third Parties: Permission from Work & Income Centre or Judge rescinds contract

Justification: Necessary

United States

Notice: None (2 weeks by convention)

Severance: None

Third Parties: None

Justification: None

Notice: Minimum 30 days from request

Procedural Failure: dismissal is null

Third Parties: Permission from Work & Income Centre

Priority: Last in first out

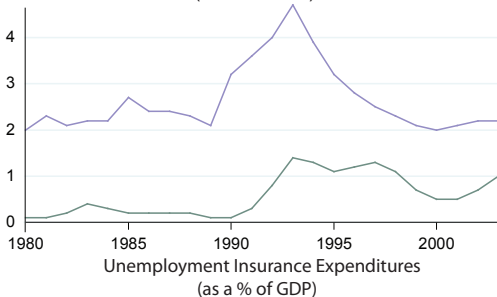
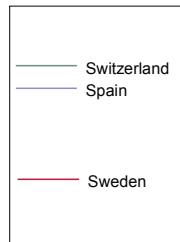
Notice: 60 days

Procedural Failure: 60 days pay + fine

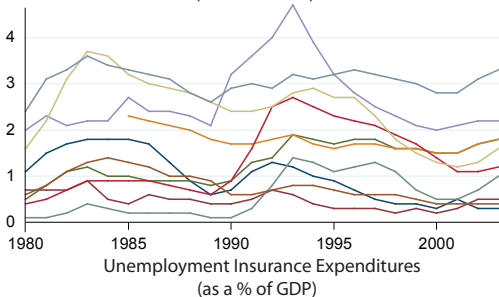
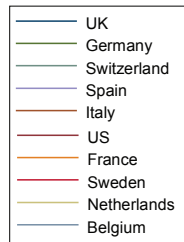
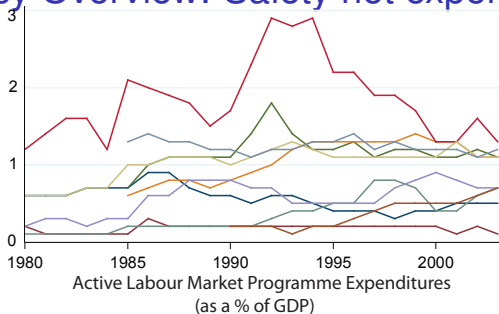
Third Parties: Inform government unit & employee representative

Priority: Firm discretion (or union contract)

Policy Overview: Safety net expenditures



Policy Overview: Safety net expenditures



Literature: Mandated protections' effects

Dependent variables:

- Inflation
- GDP growth
- Earnings growth
- Income inequality
- Firm exit and entry
- Productivity growth
- Foreign direct investment
- **Unemployment / employment**

Literature: Mandated protections' effects

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Control variables for studies predicting unemployment:

- GDP growth
- Tax wedge
- Union strength
- Interest rates
- Owner occupancy rates
- Total factor productivity growth

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- Clear effects for duration
- Clear effects for youth and women
- Mixed findings for unemployment rates
- Tentative economic shock-EPL interactions

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Nickell, Scarpetta, Freeman, Duval, Micco, Pages, Blanchard, Feldman, Bassanini, OECD



Literature: Economics of happiness

Theories

- Relative happiness
- Fixed point happiness
- Culture-specific happiness

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What influences happiness?

- Unemployment
 - ▶ Strong social norms exacerbate the effect
 - ▶ High unemployment negates it
- Stability
- Income & Inequality
 - ▶ Within a country, income matters
 - ▶ Between countries, GDP matters to a point
 - ▶ Poverty increases the risk of suicide & unhappiness
 - ▶ Inequality generally decreases happiness for everyone,
 - ▶ ... but it can depend on the individual's income

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Easterlin, Clark, Oswald, Stutzer, Diener, Eggers, Graham, Layard

Literature: Mandatory protection indices

De Jure Indices

- Dismissal protection: procedure, notice, severance
- Other protections: minimum wage, hours, probationary period, ...
- Sources: OECD 1999/2006 "Employment Outlook," World Bank "Doing Business/Employing Workers," Botero 2004, Deakin 2007

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De Facto Indices

- Measure both law and implementation
- Questionnaire-based
- "Expert Respondents" (businesses or labour lawyers activists, lawyers, & professors)
- Sources: WEF "Competitiveness Report," Global Labor Survey

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Derivative Indices

- Mix of the two types of indices
- Policy advocacy or scarce resources
- Sources: Heritage Foundation "Index of Economic Freedom," Fraser Institute "Economic Freedom Index," various academic papers

Policy Indices: Mandatory protections

- Includes:
 - ▶ Individual dismissals
 - ▶ Redundancies
 - ▶ Unjust dismissal

- Methods:
 - ▶ Country-year observations
 - ▶ Simple additive index
 - ▶ Cluster analysis
 - ▶ Factor analysis

- Sources:
 - ▶ Deakin 2007
 - ▶ ILO
 - ▶ Eurofound

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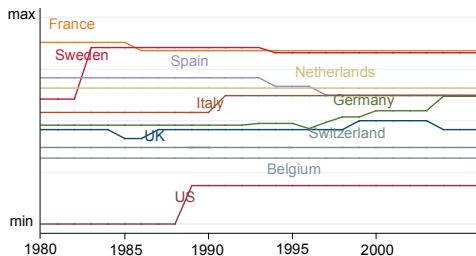
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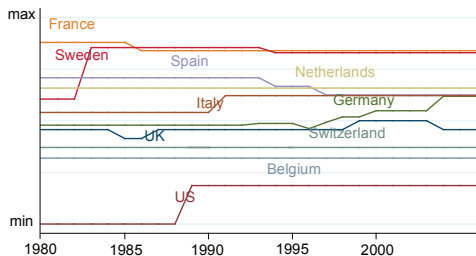
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- Sweden 1982: priority rules for redundancy/rehires (Lag Om Anställningsskydd, see Neal 1984)
- US 1988: WARN system for redundancies (Worker Adjustment and Retraining Act, see De Meuse 2004)

Policy Indices: Safety net

- Includes:
 - ▶ Benefit replacement rate
 - ▶ Unemployment insurance expenditures
 - ▶ Active labour market program expenditures

- Method:
 - ▶ PCA
 - ▶ Loadings: .545, .518, .660
 - ▶ Variance explained: 68%
 - ▶ Cronbach's alpha .7427

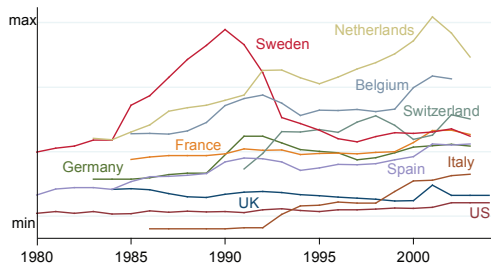
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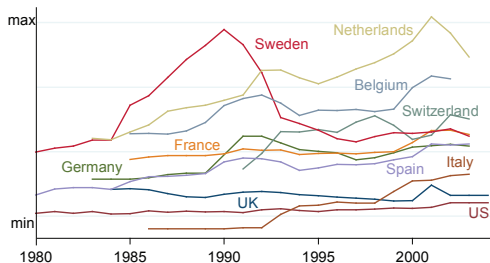


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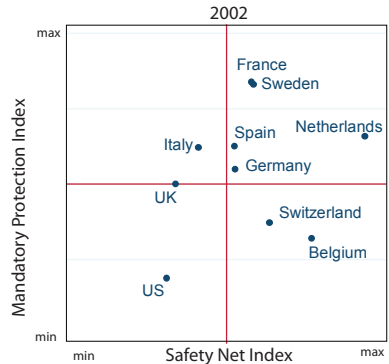
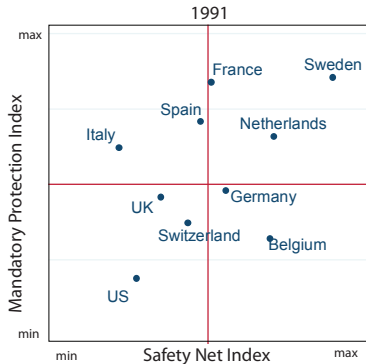
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- The Netherlands 1980-2001: ALMP grew .6 to 1.1 % GDP
- Sweden 1989-1994: ALMP grew .6 to 2.5% GDP

Policy Indices: Combining indices



Insecurity	Protective
Liberal	Flexicurity

Analysis One: Worker protections & unemployment

Questions:

- Effect on unemployment? By labour market segment?
- Effect on labour market participation? By labour market segment?

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Data:

- Luxembourg Income Study
 - ▶ Over 1.1 million observations ages 16-64
 - ▶ 48 country-years
 - ★ 1980-2004
 - ★ BE, FR, DE, IT, NL, ES, SE, CH, UK, US
- Individuals
 - ▶ **Labour market status**
 - ▶ Age, gender, education, marital status, disability
- Country-years
 - ▶ **Safety net index**
 - ▶ **Mandatory protection index**
 - ▶ Union density, tax wedge, GDP growth

Analysis One: Method

OLS regression inappropriate

- iid assumption violated
 - ▶ Individuals are correlated within country-years
 - ▶ Also country and time cross correlations

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Logit model with country-year clustering

- Outcome: $\ln(\text{odds unemployed})$
- Slopes
 - ▶ Estimated using OLS
 - ▶ Tried country-year centred independent variables
 - ▶ Estimated standard errors using Huber/White sandwich method

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Alternative method

- Multilevel model (with crossed random effects)
 - ▶ Currently impossible
 - ▶ However, analysis is planned

Analysis One: Sample findings

	all
Individuals	
male	-.1164*
age	-.0209***
married	-.7462***
disability	1.174***
education	
compulsory	-.4499***
1 st secondary	-.5875***
2 nd secondary	-1.1611***
tertiary	-1.5707***
university +	-1.7632***
Country-years	
union density	.0066*
tax wedge	.0403*
gdp growth	.0503
safety net index	-.1050**
mandatory index	.0289

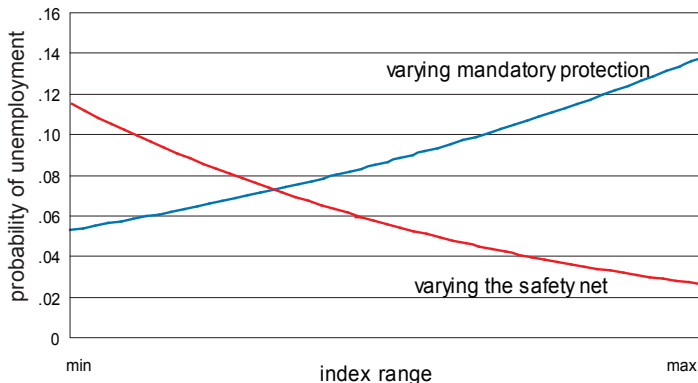
Logit regression predicting ln(odds unemployment)

Analysis One: Sample findings

	all	age 20-24	age 55-64
Individuals			
male	-.1164*	-.05367	.0900
age	-.0209***	-.1173***	.0769*
married	-.7462***	-.3192***	-.4291***
disability	1.174***	.8234***	1.0954***
education			
compulsory	-.4499***	.3387	-.4066**
1 st secondary	-.5875***	.3404	-.7333***
2 nd secondary	-1.1611***	-.0999	-1.026***
tertiary	-1.5707***	-.7406*	-1.0816***
university +	-1.7632***	-.4610	-1.3775***
Country-years			
union density	.0066*	.0004	.0072*
tax wedge	.0403*	.0722**	.0096
gdp growth	.0503	.0417	.0686
safety net index	-.1050**	-.3693***	.2916***
mandatory index	.0289	.1782*	.0616*

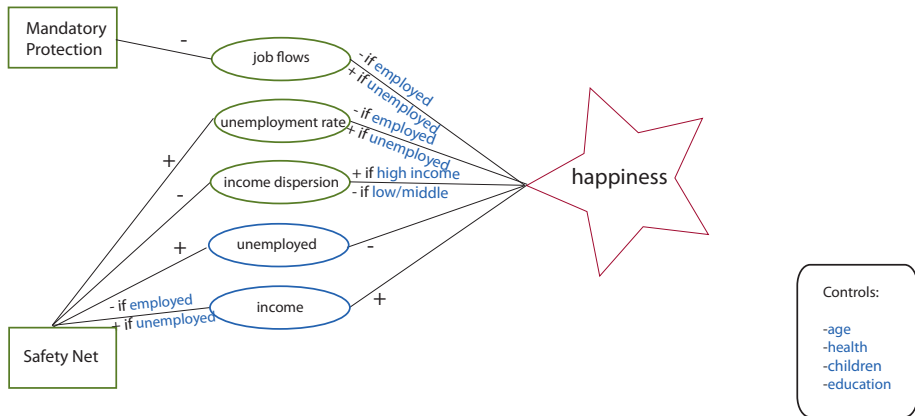
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Analysis One: Youth employment effects

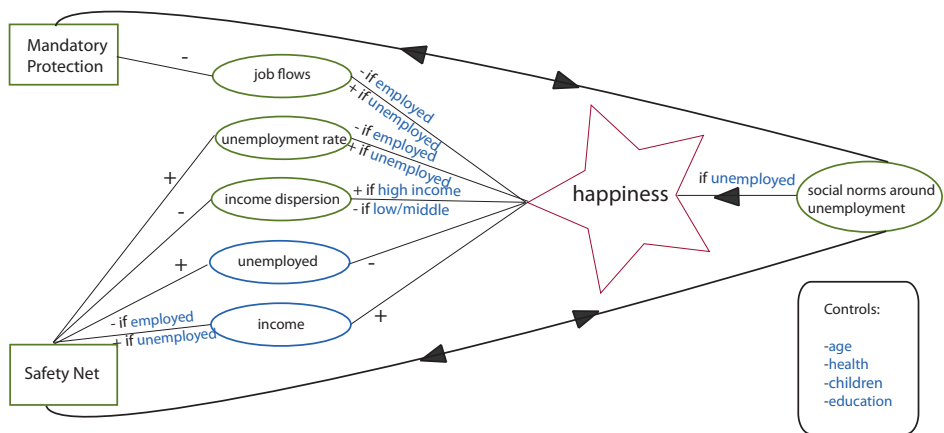


- Based on the estimates for ages 20-24
- Holding constant:
 - ▶ 22 year old male with tertiary education
 - ▶ In a country with 22% union density, 24% tax wedge, and 3% gdp growth.
- Note that evaluations find that ALMPs have no impact on youth. (Kluve et al)

Analysis Two: Worker satisfaction



Analysis Two: Worker satisfaction



Analysis Two: Design

Data:

- World Values Survey/European Values Survey
- Unbalanced panel of 44 country-years
 - ▶ FR, UK, DE, IT, ES, NL, BE, SE, USA, CH
 - ▶ 1981, 1989, 1990, 1995, 1999, 2000, 2005

Analysis Two: Design

Data:

- World Values Survey/European Values Survey
- Unbalanced panel of 44 country-years
 - ▶ FR, UK, DE, IT, ES, NL, BE, SE, USA, CH
 - ▶ 1981, 1989, 1990, 1995, 1999, 2000, 2005

Variables:

- Happiness
 - ▶ How often do you feel happy?
 - ▶ Are you satisfied with life?
 - ▶ Are you very happy, quite happy, not very happy, not at all happy?
- Unemployment
 - ▶ The unemployed should have the right to refuse a job.
 - ▶ The unemployed should have to take any job or lose benefits.
 - ▶ It is an individual's (the state's) responsibility to provide for people?
- Controls
 - ▶ SES, income, hrs worked, education, employment status, health, ...

Conclusion

Findings

- Switzerland and Belgium as “flexicurity” countries? Small countries...?
- Mandated protections increase employment among prime-age workers, but increase unemployment among the young.
- Safety nets and ALMP reduce youth unemployment, but increase unemployment among older workers.

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Future work

- Labour market participation rates
- Heckman selection model
- Multilevel models
- Happiness analysis

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Thoughts

- The role of values in setting policy?