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

Debra Hevenstone

Policy Studies Institute

July 8, 2009
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
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

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

<table>
<thead>
<tr>
<th>Dismissal</th>
<th>Redundancies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Netherlands</strong></td>
<td><strong>Netherlands</strong></td>
</tr>
<tr>
<td><strong>Notice:</strong> 1 mo for &lt; 5 yrs service, 2 mos for 5-10 yrs, 3 mos for 10-15, 4 mos for 15+</td>
<td><strong>Notice:</strong> Minimum 30 days from request</td>
</tr>
<tr>
<td><strong>Severance:</strong> By collective agreement</td>
<td><strong>Procedural Failure:</strong> dismissal is null</td>
</tr>
<tr>
<td><strong>Third Parties:</strong> Permission from Work &amp; Income Centre or Judge rescinds contract</td>
<td><strong>Third Parties:</strong> Permission from Work &amp; Income Centre</td>
</tr>
<tr>
<td><strong>Justification:</strong> Necessary</td>
<td><strong>Priority:</strong> Last in first out</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td><strong>United States</strong></td>
</tr>
<tr>
<td><strong>Notice:</strong> None (2 weeks by convention)</td>
<td><strong>Notice:</strong> 60 days</td>
</tr>
<tr>
<td><strong>Severance:</strong> None</td>
<td><strong>Procedural Failure:</strong> 60 days pay + fine</td>
</tr>
<tr>
<td><strong>Third Parties:</strong> None</td>
<td><strong>Third Parties:</strong> Inform government unit &amp; employee representative</td>
</tr>
<tr>
<td><strong>Justification:</strong> None</td>
<td><strong>Priority:</strong> Firm discretion (or union contract)</td>
</tr>
</tbody>
</table>
Policy Overview: Safety net expenditures

Active Labour Market Programme Expenditures
(as a % of GDP)

Unemployment Insurance Expenditures
(as a % of GDP)

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Policy Overview: Safety net expenditures

Unemployment Insurance Expenditures
(As a % of GDP)

Active Labour Market Programme Expenditures
(As a % of GDP)
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**

**Dependent variables:**
- Inflation
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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
## Literature: Mandated protections’ effects

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### Findings for studies predicting unemployment:
- Clear effects for duration
- Clear effects for youth and women
- Mixed findings for unemployment rates
- Tentative economic shock-EPL interactions
Literature: Mandated protections’ effects

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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

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, ...

## Literature: Mandatory protection indices

### De Jure Indices

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- Other protections: minimum wage, hours, probationary period, ...

### 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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- 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

Sources:
- OECD Social Expenditures
- OECD Benefit and Wages
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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

1991:
- France
- Sweden
- Italy
- Netherlands
- Spain
- UK
- Switzerland
- US

2002:
- France
- Sweden
- Italy
- Spain
- Netherlands
- Germany
- Switzerland
- UK
- US

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Labour Protections
July 8, 2009
Analysis One: Worker protections & unemployment

Questions:
- Effect on unemployment? By labour market segment?
- Effect on labour market participation? By labour market segment?
Analysis One: Worker protections & unemployment

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

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

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

See Primo (2007) on clustering versus multilevel modeling for this type of data.
Analysis One: Method

**OLS regression inappropriate**
- iid assumption violated
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  - Also country and time cross correlations

**Logit model with country-year clustering**
- Outcome: ln(odds unemployed)
- Slopes
  - Estimated using OLS
  - Tried country-year centred independent variables
  - Estimated standard errors using Huber/White sandwich method
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## Analysis One: Sample findings

<table>
<thead>
<tr>
<th>Individuals</th>
<th>all</th>
</tr>
</thead>
<tbody>
<tr>
<td>male</td>
<td>-.1164*</td>
</tr>
<tr>
<td>age</td>
<td>-.0209***</td>
</tr>
<tr>
<td>married</td>
<td>-.7462***</td>
</tr>
<tr>
<td>disability</td>
<td>1.174***</td>
</tr>
<tr>
<td>education</td>
<td></td>
</tr>
<tr>
<td>compulsory</td>
<td>-.4499***</td>
</tr>
<tr>
<td>1\textsuperscript{st} secondary</td>
<td>-.5875***</td>
</tr>
<tr>
<td>2\textsuperscript{nd} secondary</td>
<td>-1.1611***</td>
</tr>
<tr>
<td>tertiary</td>
<td>-1.5707***</td>
</tr>
<tr>
<td>university +</td>
<td>-1.7632***</td>
</tr>
<tr>
<td>Country-years</td>
<td></td>
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<tr>
<td>union density</td>
<td>.0066*</td>
</tr>
<tr>
<td>tax wedge</td>
<td>.0403*</td>
</tr>
<tr>
<td>gdp growth</td>
<td>.0503</td>
</tr>
<tr>
<td>safety net index</td>
<td>-.1050**</td>
</tr>
<tr>
<td>mandatory index</td>
<td>.0289</td>
</tr>
</tbody>
</table>

*Logit regression predicting \( \ln(\text{odds unemployment}) \)*
## Analysis One: Sample findings

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

*Logit regression predicting ln(odds unemployment)*
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

- Mandatory Protection
- job flows: - if employed, + if unemployed
- unemployment rate: + if employed, - if unemployed
- income dispersion: + if high income, - if low/middle
- unemployed
- income: - if employed, + if unemployed

Controls:
- age
- health
- children
- education
Analysis Two: Worker satisfaction

Happiness Analysis

Mandatory Protection

- job flows
  + if employed
  - if unemployed

unemployment rate

+ if employed
- if unemployed

income dispersion

+ if high income
- if low/middle

unemployed

- if employed
+ if unemployed

income

Controls: - age
- health
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- education

social norms around unemployment

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## 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
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

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.

Future work

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

Thoughts

- The role of values in setting policy?

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