

## EASE OF EMPLOYING WORKERS

To protect workers against unfair employment practices, exploitation of labour or discrimination governments tend to enact laws. But in many cases laws developed to protect workers often hurt them. Especially youth, women and the unskilled suffer

under strong regulations. Their employment opportunities vanish, because, as the World Bank determined in 112 studies for their current “Doing Business” edition, rigid labour regulation reduces jobs. Therefore those affected often work in the informal sector of the economy. There they receive no social benefits and have less protection. But, as the World Bank elucidates, more flexible labour regulations boost job creation, without necessarily abandoning protection.

Table

Business regulations in international comparisons: Employing workers, 2008

Overall rank <sup>a)</sup>	Employing workers rank		Employing workers					
			Difficulty of hiring index (0-100)	Rigidity of hours index (0-100)	Difficulty of firing index (0-100)	Rigidity of employment index (0-100)	Non-wage labour cost (% of salary)	Firing cost (weeks of salary)
1	1	Singapore	0	0	0	0	13	4
2	13	New Zealand	11	0	10	7	1	0
3	1	United States	0	0	0	0	8	0
4	23	Hong Kong	0	0	0	0	5	62
5	10	Denmark	0	20	10	10	1	0
6	21	United Kingdom	11	0	10	7	11	22
7	19	Canada	11	0	0	4	13	28
8	37	Ireland	11	20	20	17	11	24
9	8	Australia	0	0	10	3	20	4
10	42	Iceland	33	40	10	28	12	13
11	94	Norway	61	40	40	47	14	13
12	17	Japan	0	20	30	17	13	4
13	127	Finland	44	60	40	48	26	26
14	107	Sweden	17	60	40	39	32	26
15	49	Thailand	33	20	0	18	6	54
16	20	Switzerland	0	40	10	17	15	13
17	156	Estonia	33	80	60	58	33	35
18	4	Georgia	0	20	0	7	20	4
19	36	Belgium	11	40	10	20	55	16
20	137	Germany	33	60	40	44	19	69
21	92	Netherlands	17	40	70	42	18	17
22	96	Latvia	50	40	40	43	24	17
23	40	Saudi Arabia	0	40	0	13	11	80
24	43	Malaysia	0	0	30	10	15	75
25	62	Austria	11	60	40	37	31	2
26	124	Lithuania	33	80	30	48	31	30
27	61	Mauritius	0	20	50	23	6	35
28	32	Puerto Rico	44	0	20	21	13	0
29	87	Israel	11	60	0	24	6	91
30	131	South Korea	11	60	40	37	13	91
31	144	France	67	60	40	56	47	32
32	75	Slovak Republic	17	60	30	36	35	13
37	157	Portugal	33	60	50	48	24	95
38	154	Spain	78	60	30	56	33	56
42	164	Luxembourg	67	80	40	62	13	39
45	81	Hungary	0	80	10	30	34	35
46	57	Bulgaria	17	60	10	29	23	9
48	145	Romania	78	80	40	66	31	8
53	56	Italy	33	40	40	38	37	2
55	166	Slovenia	78	60	50	63	19	40
56	55	Czech Republic	33	40	20	31	35	22
74	78	Poland	11	60	40	37	21	13
100	142	Greece	44	80	40	55	28	24

<sup>a)</sup> Overall ranking on the ease of doing business according to World Bank's “Doing Business 2008”. Ranking on the ease of doing business are the average of the country ranking on the 10 topics covered in “Doing Business 2008” (Starting a business, Dealing with licenses, Employing workers, Registering property, Getting credit, Protecting investors, Paying taxes, Trading across borders, Enforcing contracts, Closing a business).

Source: The International Bank for Reconstruction and Development/The World Bank, Doing Business 2008, Washington 2007.

To measure the regulation of employment the World Bank, in its “Doing Business”, presents a detailed survey of employment regulations. Using the rigidity of employment index, it measures non-wage labour costs and firing costs. The rigidity of employment index is the average of the sub-indices: difficulty of hiring index, rigidity of hours index and difficulty of firing index. All sub-indices have several components and assume values of between 0 and 100, with higher values indicating more rigid regulation. The difficulty of hiring index measures, among others, whether fixed term contracts are prohibited for permanent tasks or the ratio of minimum wage for a trainee or first-time employee to the average value added per worker. The rigidity of hours index has five components including whether night work is restricted, whether weekend work is unrestricted, whether the workweek can consist of 5.5 days etc. The difficulty of firing index has eight components: whether redundancy is disallowed as a basis for terminating workers, whether the law requires the employer to consider reassignment or retraining options before redundancy termination, whether priority rules apply for redundancy etc. Averaging the scores and scaling the result with 100 yields a final index for every country. The non-wage labour cost indicator measures all social security payments and payroll taxes related with hiring an employee as a percentage of a worker’s salary. And finally the firing cost indicator measures the cost of advanced notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weekly wages.

On the basis of all measurements, Denmark is one of the top performers in World Bank’s 2008 “Doing Business” ranking regarding the flexibility of labour regulations. Workers there have flexible labour regulations that give them the opportunity for a job in the formal sector and easy transitions from one job to another (Table).

The main focus of “Doing Business” is always the reform of regulations. In the field of labour regulations the Czech Republic was the top reformer. The government adopted a new labour code that provides for more flexible working hours. Hours can be averaged over a year if established by collective agreements. Additionally it eases restrictions on dismissals. It also reduces notice periods for dismissals from three months to two. But severance pay rose by a month. In Latvia the maximum duration of fixed-term contracts was extended to three years (from

two). This makes it easier for enterprises to hire new workers when demand is high without imposing high costs for dismissal if demand declines.

But also in Western Europe there were reforms in labour regulations in 2006/2007. The Netherlands and Switzerland both made working hours more flexible. Former restrictions on weekend work were eased. In the Netherlands the allowable overtime hours were increased by law. The Spanish reforms enable employers to change workers’ contracts more easily from fixed term to open ended. The reforms have lowered non-wage labour costs and some types of severance payments and have offered incentives to make temporary workers permanent.

To lower dismissal costs, the World Bank recommends that especially the rich countries – e.g., OECD member countries – offer unemployment insurance rather than severance pay. In Austria employers contribute to a fund from withdrawals can be made for a worker who is made redundant after three years of employment. In Italy employers deposit a portion of each employee’s salary into a designated fund over the course of the employment relationship. In both countries employers are not obligated to pay additional severance when dismissing workers because of redundancy. In contrast, Slovenia has made its labour regulations more rigid, reducing the maximum duration of fixed-term contracts to 24 months.

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