

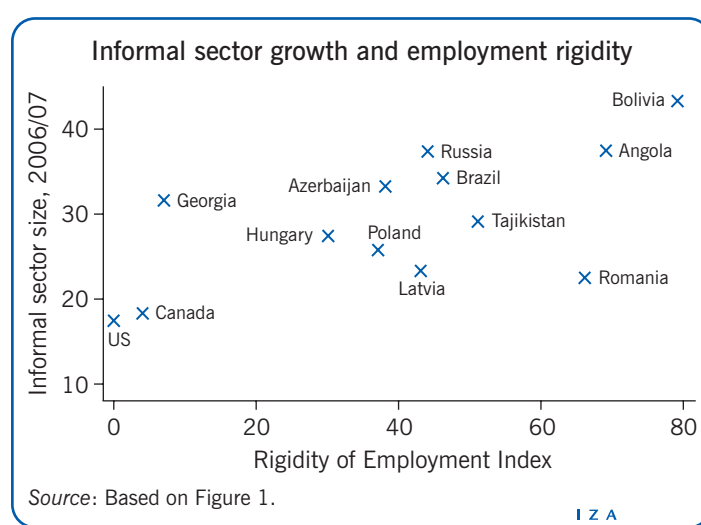
Employment protection legislation in transition and emerging markets

Although market failures mean employment protection is necessary, excessive protection can be counterproductive

Keywords: employment protection, unemployment, informality, transition and emerging economies

ELEVATOR PITCH

Employment protection legislation aims to shield employees against unfair dismissal and earning reductions at the time of job loss. Theory suggests that employment protection stabilizes employment over cyclical upturns and downturns without necessarily increasing general unemployment. However, recent evidence from transition and emerging economies shows that employment protection legislation tends to raise unemployment among disadvantaged groups, particularly youth, and may increase informal work. Employment protection policies thus require careful consideration of their unintended effects.



KEY FINDINGS

Pros

- ⊕ Employment protection legislation can remedy some labor market failures.
- ⊕ Introducing stricter legislation can stabilize employment and unemployment over the business cycle.
- ⊕ Employment spells can be lengthened and workers' earnings stabilized by introducing employment protection.

Cons

- ⊖ If too intrusive, employment protection legislation can increase unemployment among vulnerable groups, especially youth.
- ⊖ Experience shows that excessive protection can cause longer unemployment spells.
- ⊖ Labor market institutions with strict legislation may lead to higher informal employment.

AUTHOR'S MAIN MESSAGE

Employment protection can contribute to job and earnings stability and smooth employment in downturns. But experience from transition and developing economies shows that excessive protection can be counterproductive, with the means subverting the ends. Policies need to weigh these undesirable outcomes against the intended outcomes.