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**Labor Market Regulation:
International Experience in Promoting Employment and Social Protection**

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Abstract

Labor market regulation involves many aspects, ranging from how employers contract for the services of workers to the nature of the exchange, including terms of conditions of employment. This area of regulation represents an important and often controversial aspect of public policy in both developed and developing countries. Approaches are dominated by opposing views, one which favors the protection of workers through labor legislation and collective bargaining and the other which emphasizes the advantages of encouraging market processes. In the end, however, what matters are the economic and social outcomes of different approaches. This primer paper reviews different regulatory options regarding hiring and firing and wage determination and summarizes the existing knowledge about their labor market effects. It also reviews two important institutional aspects of labor market regulation - enforcement and dispute resolution. In an annex to the paper, we summarize the statutory arrangements for various topics related to labor market regulation in 17 countries.

Labor Market Regulation: International Experience in Promoting Employment and Social Protection

Gordon Betcherman, Amy Luinstra, and Makoto Ogawa*

1. INTRODUCTION

In its simplest form, the labor market – like all markets – is a repeated series of exchanges: in this case between capital and labor. For well-known reasons, though, labor markets – again like all markets – function in a much more complicated fashion. They are affected by a host of cultural, institutional, legal, and political mechanisms. Together these mechanisms constitute what we mean by “labor market regulation.” There are many aspects involved, ranging from how employers contract for the services of labor to the nature of the exchange – including the rights and responsibilities of the parties, the terms and conditions of work, and the resolution of disputes. Given the direct impacts that labor markets have on the welfare of workers and their families, this area of regulation represents an important, visible, and often controversial aspect of public policy.

There are various reasons why societies may choose to intervene in the regulation of labor markets. These generally fall under two categories: market failures and injustice/exploitation. Thus, intervention may be motivated by either efficiency or equity reasons, or both.

Societies tend to respond to these concerns both informally and formally. Informal mechanisms often take the form of longstanding cultural practices – for example, traditional values of respect and justice that control exploitative behavior. However, the effectiveness of informal mechanisms is limited. As societies develop economically and social and community links often weaken, labor market regulation inevitably becomes more formal. The two most prevalent formal modes are collective voice (through representation of the parties and voluntary collective bargaining) and direct government intervention through statutory regulation (e.g., labor laws, decrees, etc.). In all societies, these two modes of

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regulation will co-exist with market and informal mechanisms. But different societies clearly exhibit different mixes -- for example, many observers have contrasted the market-oriented American approach with greater emphasis on statutory and collective voice regulation in many European countries. Regardless of the particular mix, however, public policy underpins the choice and provides the legitimacy for ongoing practices. This is most obvious in the case of statutory regulation. However, even where the “rules of the game” are determined by collective bargaining or market processes, public policy establishes the enabling framework.

Approaches to labor market regulation are dominated by two opposing perspectives – what Freeman (1993) has called the “institutionalist” and “distortionist” views. The “institutionalist” view sees job security arrangements, minimum wages, and collective bargaining as providing important social protection for workers, as instruments for encouraging productivity growth (through training and the accumulation of firm-specific skills), and as means of moderating the effects of downswings in aggregate demand. The “distortionist” perspective emphasizes the advantage of market processes and is concerned that these institutional forms of regulation impede adjustments to economic shocks, discourage hiring, and favor “insiders” (i.e., regular workers).

In the end, however, what is critical are the economic and social outcomes of different approaches to regulation. How the labor market is regulated (in reality rather than simply “on paper”) can affect the rate of job creation and destruction; levels of employment and unemployment; productivity, wages, and profits; and the degree of social protection and justice afforded workers. The key issue for policy-makers, then, is to try to understand the likely outcomes of different regulatory approaches. This is a difficult challenge which does not easily lend itself to conclusive empirical analysis. Nonetheless, different modes of regulation do have strengths and weaknesses and some conclusions can be drawn about the impacts of various approaches.

The purpose of this paper is to provide a “primer” on labor market regulation. In the next section, we briefly review the different modes of regulation and summarize their strengths and risks. In section 3, we turn to the empirical evidence on the labor market impacts of different regulatory options regarding hiring and contracting, dismissals, and wage determination. In section 4, we review two important institutional aspects of labor market regulation – enforcement and dispute resolution. Section 5 offers a brief conclusion.

In an annex to this paper, we summarize the statutory arrangements for a selection of countries on the following topics: scope of labor law application; regulation of fixed term contracts, private employment services, job leasing/temporary workers; advance notice, justification, and severance payment requirements for individual and collective dismissal; rules governing establishment of trade unions, restrictions on industrial disputes and unfair labor practices; and provisions for minimum wages.

2. MODES OF LABOR MARKET REGULATION

Countries can adopt a range of approaches to regulate the functioning of their labor market. Mechanisms can be market-based, statutory, or based on collective voice. All co-exist, to varying degrees, in every society.¹

Where there is a reliance on **market-based** mechanisms, labor markets are often characterized as “unregulated.” However, Standing (1999) argues that this should be viewed instead as one approach to regulating employment relations. And, indeed, it is a policy choice to use legislation and other regulatory instruments to this end. At the heart of market-based regulation is the individual contract (either explicit or implicit) between employer and employee. There has been a modest trend towards greater dependency on market mechanisms over the past decade or so – at least in developed countries where most of the available evidence exists (OECD 1999a).

However, there are well-known arguments for public policy intervention in the labor market, as well. These arguments pivot on the need to address market failures and injustice/exploitation. In the World Development Report, *Workers in an Integrating World*, the World Bank (1995) highlighted four reasons for public intervention in the labor market:

- *Uneven market power.* Workers may find themselves in a weak bargaining position. This can raise concerns about their protection from unjust treatment. It can also have longer-term efficiency losses.
- *Discrimination.* Workers belonging to groups with little voice or power (e.g., due to age, gender, ethnicity, etc.) may experience particular disadvantages in the labor market. This also raises both equity and efficiency concerns.

¹ Informal mechanisms also come into play, as noted in the introduction. However, given our focus on policy options in this paper, we limit our discussion to formal and market-based mechanisms.

- *Insufficient information.* Workers and some employers may not have adequate information to make informed decisions about the conditions of work. Health and safety hazards are the classic example.
- *Inadequate insurance against risk.* Workers are typically unable to formally insure themselves against labor market-related risks associated, for example, with unemployment, disability, or old age.

These arguments underlie public policy interventions to support the other modes of labor market regulation.

Statutory regulation is the classic notion of regulation -- rules and procedures established by laws and decrees that govern aspects of the employment relationship. These can cover a wide range of areas: for example, the establishment and protection of universal worker rights; the protection of vulnerable groups of workers; principles for determining compensation; working conditions; and the initiation and termination of the employment relationship.² Table 1 provides examples in these areas of statutory regulation.

Table 1: Examples of Statutory Regulation

Type of intervention	Specific examples
Establishment and protection of universal workers rights	Right to associate Right to bargain collectively Right to contest dismissals and disciplinary actions
Protection of vulnerable groups	Minimum working age Equality of employment opportunities Equal pay
Determining compensation	Minimum wage Overtime payments Mandatory non-wage benefits
Working conditions	Occupational health and safety standards Maximum working hours Minimum number of holidays
Initiation/termination of employment relationship	Fixed-term contracting Reasons for dismissal Advance notice and severance requirements

Source: Based on World Bank (1995), Table 11.1

The other mode of regulation, **collective voice**, refers to the voluntary negotiation and administration of the employment relationship where workers (and sometimes employers) are

² These regulations can take a number of forms (Standing 1999): protective regulations; fiscal regulations (e.g., taxes or subsidies to encourage or discourage certain forms of activity); promotional regulations; repressive or preventative regulations; and facilitating regulations (to permit certain activities to take place).

represented collectively. This mode of regulation can occur at different levels (e.g., enterprise, sector, or nationally) and with various degrees of coordination. In developing countries, only a minority of workers are covered by collective bargaining; often this minority is quite small and concentrated in the public sector. Moreover, the reach of the collective voice mode likely has receded somewhat if union membership trends are any indication. As Table 2 indicates, union membership declined in many countries during the late 1980s and through the 1990s.

Table 2: Union Membership Trends by Region, mid-1980s to mid-1990s

Percentage point change in union density, mid-1980s to mid-1990s				
	Decline of more than 10 points	Decline of up to 10 points	Gain of up to 10 points	Gain of more than 10 points
Africa	Kenya (-25)	Egypt (-4) Mauritius (-9) Uganda (-4) Zambia (-6)	Zimbabwe (+2)	South Africa (+27)
Latin America	Argentina (-29) Costa Rica (-13) México (-17) Venezuela (-13)	Colombia (-4) Dominican Rep. (-2) Guatemala (-4) Uruguay (-8)	Chile (+4) El Salvador (+2)	
Asia	India (-11)	Bangladesh (-8) Pakistan (-1) Thailand (-0.1)	Korea (+0.4) Philippines (+6)	
Eastern Europe and Central Asia	Azerbaijan (-33) Czech Rep. (-34) Estonia (-46) Hungary (-20) Poland (-25) Slovakia (-15)	Bulgaria (-4) Cyprus (-9) Romania (-10)	Turkey (+4)	Malta (+17)
Industrialized	Australia (-20) Israel (-77) New Zealand (-22) Austria (-13) Greece (-12) Ireland (-14) United Kingdom (-13)	Canada (-7) United States (-4) Japan (-6) Singapore (-4) Denmark (-3) France (-4) Germany (-10) Italy (-4) Luxembourg (-6) Netherlands (-5) Norway (-1) Switzerland (-4)	Hong Kong (+4) Belgium (+3) Finland (+10) Spain (+7) Sweden (+7)	
Total number [%]	19 [32.8]	26 [44.8]	11 [19.0]	2 [3.4]
Developing countries	12 [35.3]	14 [41.2]	6 [17.6]	2 [5.9]
Developed countries	7 [29.2]	12 [50.0]	5 [20.8]	0 [0.0]

Source: ILO (2000a)

Obviously, the effectiveness of different modes of regulation can vary greatly depending on the particular circumstances. A statutory approach may achieve its intended objectives in one setting but be inappropriate or unenforceable in another. Similarly, markets operate with varying effectiveness, as does collective bargaining. However, each of these modes of regulation does have inherent strengths as well as potential risks. These are summarized in Table 3.³

Table 3: Some Potential Strengths and Risks of Market, Statutory, and Collective Voice Regulation

	Potential strengths	Potential risks
Market-based	Enhances flexibility Efficient allocation Low transaction costs	Market failures “Short-termism” Discrimination
Statutory	Predictability Can address equity concerns Provides monitoring mechanisms	Rigidity Monitoring costs Moral hazards
Collective voice	Can promote long-term investments Provides self-monitoring	Time consuming Insider-outsider differences

There is considerable variation across countries in terms of how labor markets are actually regulated. An important determinant is the national legal and cultural tradition. In countries with Anglo-Saxon heritage where common law principles prevail, voluntarily negotiated contracts between workers and employers (either individual or collective) typically play a large part. In principle, statutory regulation plays a smaller role here in directly regulating the employment relationship than it does in countries with civil law principles (e.g., French or Spanish tradition) or in countries that were part of the Soviet bloc. The stage of development does not seem to be an important determinant of labor market regulation, at least in its formal sense. Developing countries often have very strong statutory regulation through interventionist Labor Codes, for example. However, due to institutional limitations and economic structure, labor markets in many developing countries are actually regulated largely through market or informal means.

3. INTERNATIONAL EVIDENCE ON THE LABOR MARKET IMPACTS OF

³ This table draws on Standing (1999) as well as the authors’ assessments.

EMPLOYMENT PROTECTION AND WAGE DETERMINATION REGULATIONS

Labor market regulation can affect a wide range of social and economic outcomes. In terms of the economy, these impacts can include macroeconomic adjustments, consumption patterns, productivity, and human capital investments. However, our focus here is on the evidence pertaining to labor market outcomes in particular. We review the international literature on employment protection, including hiring and contracting and dismissals, and on wage-setting, including minimum wages and collective bargaining. For each, we cover the range of approaches used and what is known about their labor market effects. In addition, we have compiled a series of tables in the annex that summarize the legal arrangements in these areas for a selection of countries.

Before turning to the evidence, some comments should be made on the empirical analysis of the impacts of labor market regulations.

First, conclusions based on international comparative research must be drawn with caution. Based on multi-country samples, statistical associations can be found between certain labor market regulations and particular labor market outcomes. However, national contexts (history, culture, institutions) matter a great deal, both in explaining why a particular regulatory approach has been used and the labor market impacts. So the effects of a given law or practice in one country may be quite different from those observed in another.

Second, there are measurement issues involved in capturing actual regulatory arrangements.⁴ These are very difficult where arrangements are established by collective agreements, industry practice, or through some other non-statutory mechanism. As a result, researchers tend to focus on aspects that are typically covered by labor codes and other legal instruments. Even here, though, measurement remains a problem. The interpretation of legislation in the courts can have an important impact on how the labor market is actually regulated. Similarly, the actual practice may exceed legal requirements because of convention or collective agreements, or fail to meet them if laws are not enforced. Coverage is also an issue. By necessity, most studies are limited to the regulation of regular employment in the formal sector. However, this becomes increasingly problematic as more workers are employed

⁴ See OECD (1999a) and Bertola, Boeri, and Cazes (2000) for discussions of these problems.

in atypical or non-standard jobs (especially in developed countries) or in the informal sector (in developing countries).

Third, actually quantifying regulations is often difficult. Employment protection (hiring and firing rules) offers a good example. As a result, most studies based on multi-country samples use qualitative rankings – for example, from least to most flexible, based on the content of the law. Ideally, a measure of the degree of employment protection (or some other regulatory aspect) should be a monetary-equivalent. However, as Bertola, Boeri, and Cazes (2000) point out, “translating laws and words into actual and expected costs is almost impossible.” Not surprisingly, with a couple of exceptions (Lazear 1990; Heckman and Pagés 2000), this has not been done.

Fourth, even where statistically significant associations are found between labor market regulations and labor market outcomes, the causal relationship may be more complicated. Other factors, that are not included in the analysis, may be correlated with both. For example, some economists are now looking at how the regulation of the product market interacts with the regulation of the labor market and what the result is for employment outcomes (e.g., Boeri, Nicoletti, and Scarpetta 2000).⁵

Finally, most of the research is based on the experiences of countries in the OECD region. To a lesser extent, there has been some analysis on Latin American countries, much of it recent and sponsored by the Inter-American Development Bank. However, for the most part, the empirical research on developing countries is scant. This raises the question of the generalizability of findings across countries. Developing countries have some unique characteristics that would seem relevant – most notably, large informal sectors and limited enforcement.

(a) Employment protection

Employment protection, or job security, rules refer to hiring and firing arrangements. These can cover what kinds of contracts are permitted, any special rules favoring certain groups in hiring, occupational standards, the conditions under which workers can be terminated, requirements for severance and advance notice of termination, redundancy procedures, and special rules for mass layoffs. Employment protection is typically considered along a

⁵ Boeri, Nicoletti, and Scarpetta (2000) show that in OECD countries, these two areas of regulation are correlated – i.e., where employment protection rules are strong, product markets are also highly regulated.

“rigidity/flexibility” continuum. At the rigid end, non-regular contracting is restricted, hiring standards may be in force, employer dismissal rights are controlled, and severance, notice, and administrative requirements are substantial. At the flexible end, statutory (or collectively bargained) regulations are minimal and market mechanisms largely determine hiring and firing.

The idea behind most employment protection rules is to enhance job security by making dismissal costly to the employer. However, by making dismissals more costly, employment protection regulations can also have the unintended effect of creating hiring disincentives for employers. There are various ways in which these rules can affect labor market outcomes including employment levels, labor dynamics (i.e., employment fluctuations), and the composition of employment.

Theoretically, the clearest effects are on labor market dynamics – employment protection rules can be expected to lengthen job tenure and reduce labor turnover.⁶ All other things being equal, then, stronger job security rules will stabilize employment levels, not only reducing layoffs in downturns but also reducing hiring in upturns. This will protect jobs for incumbent employees but limit hiring opportunities for the unemployed. As a result, we can expect the duration of unemployment (as well as employment) to be positively related to the degree of employment protection.

The impact of employment protection on the average *level* of employment (and unemployment) through the business cycle, however, is more ambiguous. Whether employment rates within the firm increase or decrease with greater employment protection depends on how the decline in hiring compares with the decline in firing. This in turn depends on assumptions about the persistence of labor demand shocks, the elasticity of labor demand, how firms discount future firing costs at the time of hiring, and so on.⁷ Job security rules, however, should affect the *composition* of employment in various ways: depending on the details, they can shift labor demand to uncovered (informal) sectors, firms, or employment types.

(i) *Dismissals*

⁶ This longer tenure can have indirect effects, including more in-service training.

⁷ However, the entry and exit of firms may also be affected by hiring and firing costs. Hopenhayn and Rogerson (1993) develop a model whereby higher costs lead to an decrease in employment in new firms.

The key policy issue concerns how difficult and/or costly it is for employers to terminate *regular* (i.e., permanent) employees for *economic* reasons.⁸ Restrictions can take various forms: (i) what is considered to be a justifiable reason for termination; (ii) severance obligations; (iii) advance notice requirements; and (iv) necessary administrative procedures for laying off workers. There may also be special requirements in the case of mass layoffs. These restrictions are often found in national or sub-national labor codes but, depending on the country, the degree of job security can also be defined by court decisions, collective bargaining agreements, or even unwritten industrial norms.

There are significant variations across countries in terms of the protection offered to regular workers. Drawing on the annex, Table 4 provides examples of statutory arrangements regarding what are legally acceptable reasons for economic dismissals; what severance requirements exist; and what advance notice is required.⁹ The United States has the least restrictive employment protection laws: there are no restrictions on dismissals in the private sector, no statutory severance obligations, and advance notice requirements only in the case of mass layoffs. In reality, employers in the U.S. do face some constraints on their dismissal rights because of court decisions and collective agreement provisions. As the table shows, however, other countries have various statutory employment protections – ruling out certain reasons for laying off workers and imposing severance and advance notice obligations.

During the past decade or so, there has been no clear trend in regulating dismissals in OECD countries; some have strengthened protections, others have eased them, but in most cases, arrangements have remained relatively stable. In many Latin American countries, however, job security rules have been scaled back.

Measuring the degree of job security protection is difficult. There have been three approaches. Most studies have created ordinal indices based on the statutory rules, such as those summarized in Table 4 (e.g., OECD 1999a). Another approach, and the most ambitious

⁸ “Regular” employees are meant to cover those with a permanent or indeterminate position. It excludes fixed-term or temporary workers. The discussion does not include dismissals for “non-economic” reasons such as discrimination, union organizing, or job performance.

⁹ These countries have been selected from the countries in the annex table to have some geographical diversity and a range of approaches.

Table 4: Legal Arrangements for Termination, Selected Countries

	Justifiable reasons for economic dismissal	Severance requirements	Advance notice required
Chile	Economic reasons include modernization activities, reduced productivity, changes in market, etc.	<ul style="list-style-type: none"> • 30 days wage per year of service if dismissed economic reasons. (upper limit = 330 days). • 20% premium if dismissal is unfair 	<ul style="list-style-type: none"> • 30 days, dismissal without cause or economic reason; • With cause, written justification required for worker and labor inspectorate within 3 days after termination;
Czech Republic	<ul style="list-style-type: none"> • Employer shuts down or relocates; • Employer ceases to exist or merger or acquisition • New technology or reorganization to increase efficiency 	2 months pay, in case of shut down, relocation, transfer of employer, or redundancy.	<ul style="list-style-type: none"> • 3 months if employer shuts down or relocates and for redundancy; • 2 months for other reasons.
Ethiopia	<ul style="list-style-type: none"> • Decline in demand for the products or services of the employer; • Alteration in work methods or new technology to increase productivity. 	<ul style="list-style-type: none"> • 30 days wages for first year of service. • 1/3 monthly salary for every additional year of service (12 month limit) • Additional 60 days pay if mass layoff. 	<ul style="list-style-type: none"> • 1 month if employed < 1 year; • 2 months if employed > 1 year; • 1 month if reduction of workforce
Germany	Compelling business or operational needs	No legal entitlement but often included in collective agreements	<ul style="list-style-type: none"> • Progressive increase based on years of service (from 2 weeks to 7 months for >20 years of service) • 1 month delay required after public notice for mass layoffs
Japan	<ul style="list-style-type: none"> • Rational restructuring reason or unavoidable redundancy (court precedence, not law) • Reasonable selection criteria 	No legal entitlement but most large enterprises have voluntary plan	<ul style="list-style-type: none"> • 30 days notice • Notification also to Public Employment Security Office in mass layoff (>30 workers)
Spain	Economic redundancy	20 days' wages for each year of service (up to 12 years)	<ul style="list-style-type: none"> • 30 days notice • for mass layoffs, consultation required for 30/15 days in firms with 50+/<50 employees
United States	No restriction (except in public sector)	No legal requirement but voluntary or negotiated policies exist	<ul style="list-style-type: none"> • No regulation for individual dismissal • 60 days notice for mass layoffs

one, is to calculate the costs to employers of complying with employment protection rules. The most complete effort to do this has been conducted by Heckman and Pagés (2000) who create a

job security index which attempts to measure the expected future cost, at the time of hiring, of dismissing the worker for economic reasons.¹⁰ A third approach, used by Di Tella and MacCulloch (1999), is based on the judgment of executives in different countries regarding how hard it is to adjust employment levels to economic realities.¹¹ These different methods have strengths and weaknesses. In general, they do lead to a fairly consistent picture of which countries have rigid employment protection and which do not. For example, the U.S. comes out as the country with the most flexible arrangements using each method.

Turning to results, strict limitations on terminating (for economic reasons) regular employees are generally associated with:¹²

- Lower labor turnover rates (hirings plus separations);
- Lower aggregate employment levels; but greater numbers of long-tenure jobs;
- Lower labor force participation rates;
- No clear impact on unemployment levels; but longer average unemployment durations;
- At a macro level, slower recovery from an aggregate shock to an equilibrium unemployment rate;
- More self-employment as a share of total employment;
- More nonstandard employment (e.g., part-time or temporary), though there is less consensus on this; and
- Positive employment effects for skilled prime-age males but lower employment for women, young people, and less-skilled workers.

Consistent with the theory, the empirical findings are strongest for the dynamic effects – on turnover and tenure and flows between employment and unemployment. They are also very consistent in terms of who benefits from employment protection rules and who does not.

On the other hand, the findings on employment and unemployment levels are less consistent and often statistically insignificant. This could suggest that the actual importance of employment protection arrangements might be less than many economists would assume. In this respect, it has been shown that employers and employees can design labor contracts that, in

¹⁰ Specifically, the Heckman-Pagés measure includes the cost of complying with severance and advance notice requirements. The details of this index are described in the appendix to Heckman and Pagés (2000).

¹¹ This is based on data collected from the World Competitiveness Report which asks executives how much flexibility they have to adjust things like compensation and employment levels to economic realities. The scale ranges from 0-100.

¹² These conclusions have been drawn from various studies including OECD (1999a,b); Nickell and Layard (1997); Elmeskov, Martin, and Scarpetta (1998); Lazear (1990); and Di Tella and MacCulloch (1999).

effect, undo any mandated job security requirements (Lazear 1990). However, they could also reflect measurement problems, especially with the ordinal ranking indicator that has characterized much of research particularly in OECD countries.¹³

It is interesting to note that the research in the Latin American region has tended to find much clearer evidence of negative employment effects of job security rules. This could be due to different methodologies – strong results have been found by Heckman and Pagés (2000) using their cost-based estimate and in a number of country case studies (summarized in Heckman and Pagés 2000). It may also reflect the fact that Latin American countries tend to have stricter employment protection than OECD countries with the result that impacts are more visible.¹⁴

Overall, rules to protect job security increase the number of stable jobs but this seems to come at the price of more long-term unemployment and non-participation in the labor force and probably less formal-sector employment. They increase the protection available for “insider” incumbent employees but reduce access of “outsiders” to formal, paid employment. As we will see below, these effects are reinforced where restrictions on hiring “non-standard” employment also exist.

(ii) Hiring and contracting

The most important policy issue here concerns the rules for employing “non-standard” workers – specifically, employees on fixed-term contracts and temporary agency workers. Restrictions in these areas are akin to job security protections by limiting the number of workers who do not have access to such protection. These forms of contracting typically do not involve significant dismissal costs. So, in theory, their effects should be similar to those stemming from job security rules.

There are a number of aspects to the regulation of fixed-term and temporary agency employment but they generally pertain to (i) the types of work (e.g., occupations) for which these forms of employment are legal, and (ii) the maximum duration allowed. Table 5 summarizes the statutory rules in these areas for the same set of countries included in the

¹³ It is noteworthy that the Di Tella and MacCulloch (1999) study, which uses a qualitative measure of employment protection, finds stronger impacts than virtually all of the other studies that attempt to use more formal, quantitative measures.

¹⁴ The strong results found by Heckman and Pagés are somewhat surprising in that they would seem to imply that enforcement of employment protection rules in Latin American countries is effective in altering behavior.

previous table. The table demonstrates the considerable variation that exists. During the 1990s, at least in developed countries, there has generally been a loosening of restrictions with many countries broadening the use of fixed-term contracts and temporary agency work (OECD 1999b).

The most extensive study of the labor market impacts of different contracting arrangements was carried out by the OECD (1999a), based on the experience of its member countries. Unfortunately, there is little empirical evidence for developing or transition countries. According to the OECD analysis, strict limitations on the use of fixed-term and temporary agency contracting are associated with:

- Lower aggregate employment rates;
- Lower employment for women and young people;
- Higher levels of self-employment (as a share of total employment);
- No impact on aggregate unemployment levels; and
- Lower flows into unemployment but longer average unemployment durations.

As we have already noted, at least in the OECD countries, restrictions on the use of non-standard employment reinforce job security rules that constrain employer dismissal rights. Where regulations are strong, regular employees have job security and the economy has more stable employment. However, there generally is less dynamism in the labor market. There is also less opportunity for regular employment in the formal sector. This increases the vulnerability of certain groups of workers including women and youth, and the unskilled or poorly educated who are less likely to get these jobs. Many of these workers, then, will be relegated to either being out of the labor force or to the informal sector. This has to be assessed against weaker job protection rules which do not discourage formal sector jobs but accommodate a lower level of protection in these jobs.

Table 5: Legal Arrangements for Fixed-Term Contracts and Temporary Agency Work, Selected Countries

	Fixed-Term Contracts	Temporary Agency Work
Chile	Maximum duration one year after which the contract becomes one of indeterminate duration.	
Czech Republic	Fixed not allowed for the following: <ul style="list-style-type: none"> • graduates university-level schools or specialist apprentice schools hired for work that corresponds to their qualifications; • adolescents; • employees under collective bargaining agreement; • disabled persons 	No restriction
Ethiopia	Permitted only in the following cases: <ul style="list-style-type: none"> • specified piece work; • temporary replacement of absent worker; • urgent work to prevent damage or disaster to life or property; • work relating to the industry but performed at irregular intervals; • seasonal work; 	Licenses for private employment agencies are required from regional or national authorities, depending on scope of activities.
Germany	<ul style="list-style-type: none"> • Widely possible without justification • Maximum number of 4 contracts/24 months (no limits in justified cases) 	Generally approved except for construction
Japan	<ul style="list-style-type: none"> • < 1 year duration without restriction • up to 3 years for particular types of workers 	Restricted to specific occupations
Spain	Permitted for various reasons (e.g., specific projects; temporary replacements; training contracts; production eventualities; special categories of workers; long-term unemployed)	Legal for justifiable cases
United States	No restrictions	No restrictions

(b) Wage determination

There are different ways in which the process of wage determination can vary across countries. These can be determined by laws (e.g., minimum wage, collective bargaining rules), institutions (e.g., nature of unions), or industrial practice (e.g., norms on wage differentials). Here we consider the international evidence on the employment and earnings effects of two aspects of wage regulation: minimum wages and collective bargaining. Much of this evidence is based on the experience of industrialized countries.

(i) Minimum wages

Like the other aspects of labor market regulation discussed in this paper, the role of minimum wages is controversial. The underlying idea is quite simple – to set a floor on what employers can pay in order to ensure that employees receive a “fair, living wage” and thus to support the incomes of low-wage workers and their families. However, while minimum wages can boost the earnings of low-income employees, they can also eliminate jobs where employers are unwilling to hire at the minimum wage. The different views on minimum wage policies essentially hinge on the relative weight attached to these positive and negative effects. The controversy has heightened in recent years because of conflicting evidence regarding the actual employment impacts of increases in minimum wages.

According to simple, perfectly competitive models of the labor market, a minimum wage which is set above the market-clearing wage will result in a decline in labor demand and a lower equilibrium level of employment.¹⁵ However, there are alternative models of the labor market (for example, where firms have some wage-setting discretion and where workers have little bargaining power) that predict neutral or even positive employment effects. In general, we would expect minimum wages to reduce earnings inequality, by eliminating very low wages. In terms of its impacts on total income inequality and poverty, the theoretical expectations are more complex and indeterminate.

Most (but not all) industrialized countries and some developing countries have statutory minimum wages. The actual regulation can have several dimensions: (i) the level set; (ii) coverage; (iii) differentiation in the level (e.g., by age, sector, region); (iv) how the level is adjusted to reflect inflation; and (v) how the level is set (e.g., by government or by the social partners). The annex table includes the statutory regulations for minimum wages in a selection of countries.

Figure 1 shows the ratio of the minimum wage to the mean wage for a selection of industrialized and Latin America countries (generally for the late 1990s). This illustrates the great variation in the level set, ranging from Venezuela where the statutory minimum is very near to the average wage to Uruguay where it is less than 20% of the mean. In some transition countries where the value of the minimum wage has fallen substantially over the past decade, the ratio is even lower; in Russia, for example, in 2000, the minimum wage was about 5% of the average (Betcherman and Kuddo 2001).

¹⁵ For a concise review of the theory regarding the employment impacts of the minimum wage, see OECD (1998).

The impact of the statutory minimum wage on the labor market depends heavily on how high it is set. Naturally, countries with low minimum wage levels (relative to mean wages) tend to have low incidence rates, i.e., the percentage of the workforce that is affected by the minimum wage. The OECD (1999a) has estimated the incidence for seven member countries including Mexico, Poland, and Hungary. For the countries covered, the percentage of the workforce with wages at or below the minimum ranged from 4% to 18%. During the past decade, there has been a general decline in minimum wage levels, either in real terms or as a percentage of average wages (OECD 1998, 1999b). It would be expected that the incidence rate would decline accordingly. In some countries, the level is too low to make a difference. The general trend towards declining real minimum wages presumably has led to weakening of its impacts on employment and earnings.

As noted earlier, much of the empirical research on the impacts of minimum wage is based on the experience of industrialized countries, especially the United States. (Here, too, whatever scanty evidence there is from developing countries largely pertains to Latin America.) The generalizability of the industrialized experience to less developed countries is unclear. On the one hand, enforcement is weaker in developing countries which would suggest that effects would be minimized.¹⁶ On the other hand, according to a sample of 17 countries analyzed by the World Bank (1995), the level of the minimum wage (relative to average wages) is negatively correlated with national income. If this is the case, then poorer countries can expect to experience stronger impacts. Certainly, the relationship between the level of the minimum wage and its employment effects seems to hold in developing countries. Where the minimum wage is relatively high, effects are significant and where it is low, effects appear to be less important.¹⁷

Much of the empirical debate about minimum wages concerns their impact on employment levels. The conventional wisdom among economists that there is a negative employment effect was challenged by Card and Krueger (1995) who found an increase in employment in the U.S. fast-food industry following an increase in the minimum wage. Since this high-profile study was released, there have been numerous challenges and rejoinders with

¹⁶ This is especially true of the small-firm sector. Evidence reported in the World Bank (1995) for five developing countries indicates that non-compliance among small firms with respect to minimum wages ranged from just over 40% to almost 100%.

¹⁷ For example, see the study by Bell (1997) on Mexico and Colombia.

the result that, at least in the U.S., the debate is very much alive (e.g., Neumark and Wascher 2000; Card and Krueger 2000).

An international review by the OECD (1998) based on nine member countries concluded that there is a significant negative employment effect for teenagers – in the neighborhood of a 2-4% decline in employment for a 10% increase in the minimum wage. This impact then diminishes for successive age groups, effectively disappearing for the prime-age group. A number of other studies in developed countries have also found modest or insignificant employment effects on an aggregate basis but significant negative effects once analysis has focused on workers actually constrained by the minimum wage (e.g., youth and other low-wage workers).

In Latin America, Maloney and Nuñez (2000) make the argument that minimum wages in that region seem to have employment effects in the informal sector – a position that challenges the conventional wisdom that this sector is unaffected by such regulations.¹⁸ If this is indeed the case, Maloney and Nuñez (2000) conjecture that the overall impact of minimum wages in the region may be substantially greater than previously thought.

Can minimum wages reduce inequality and poverty? On the distributional side, studies (industrialized countries almost exclusively) have found that higher minimum wages do reduce the dispersion of earnings and the incidence of low pay. They also tend to narrow wage differentials between demographic groups (e.g., age and gender). In some developed countries with large numbers of “working poor,” increases in minimum wages have had modest impacts on poverty; however, the OECD (1998) has concluded that minimum wages can play only a relatively minor role compared with other factors (e.g., macroeconomic conditions, generosity of public assistance). The World Bank (1995) has concluded that minimum wages are unlikely to be a very effective anti-poverty instrument in developing countries because of poor enforcement and limited coverage, especially among the poorest. However, recent studies indicating that minimum wages seem to have some impact in informal sectors would suggest that this policy intervention might indeed have a greater anti-poverty effect than previously thought.¹⁹

¹⁸ Essentially their argument is that minimum wages take on a general significance as a benchmark of a “fair” wage.

¹⁹ Lustig and McLeod (1997) find evidence that minimum wages do reduce poverty in a sample of developing countries.

(ii) Collective bargaining

A key aspect of the labor market regime concerns the role of collective bargaining in determining wages (and other conditions of work). It is well known that, *ceteris paribus*, wages bargained collectively are generally higher than those bargained individually. Economists also focus on how responsive wages determined through collective bargaining will be to labor market conditions. The characteristics of the bargaining process (i.e., the structure in which bargaining is carried out) matter as well as the extent of bargaining. So researchers have attempted to look at both dimensions. Studies have tended to use two measures of the extent of bargaining: trade union density (union members as a percentage of the workforce) and collective bargaining coverage (percent of workers having wages determined by collective bargaining). They have also looked at two dimensions of bargaining structure: the degree of centralization and the degree of coordination.

There are major differences across countries in terms of the extent of bargaining and the bargaining structure. These differences reflect both industrial relations laws and culture and practice. Some country-level examples of legal arrangements governing the formation of unions and bargaining are provided in the annex. We have already seen that union membership (and, presumably, collective bargaining coverage) has been declining in many countries (Table 2). In terms of bargaining structure, there has perhaps been some shift away from centralized and coordinated approaches to more enterprise-level bargaining but this has not been a universal trend (ILO 2000a).

The World Bank has recently carried out a survey of the literature on the economic impacts of unions and collective bargaining (Aidt and Tzannatos 2002, forthcoming). Again, most of the empirical literature is based on the experience of OECD countries. Relevant conclusions about the labor market effects include the following:²⁰

- Collective bargaining increases wages for covered workers by 5-15% (depending on the country). The size of this premium increases when total compensation is measured because unions also bargain for better benefits.
- Collective bargaining compresses the wage distribution and particularly the differential between skilled and unskilled workers.
- Job tenure is longer in firms with unions.

²⁰ There are a range of other economic effects of unions and collective bargaining covering, for example, productivity, training, innovation, and macroeconomic performance. However, these are not addressed here. See Aidt and Tzannatos (2002, forthcoming) for a complete review.

- At the aggregate level, bargaining coverage (but not union density) tends to be associated with higher real wage growth but lower employment (and in some studies, higher unemployment).
- It is associated with lower earnings inequality.
- While coordination between employers' organizations and unions seems to have improved macroeconomic and labor market performance in the 1970s and 1980s, the evidence is less clear in the 1990s.
- There is no consistent evidence on the impacts of the degree of centralization in collective bargaining.

These observations emerge from the empirical analysis of collective bargaining. Much more needs to be known, however, about how policy-makers facilitate an environment which maximizes the contribution of collective bargaining to employment and income growth and poverty reduction.

4. ENFORCEMENT AND DISPUTE RESOLUTION

Compliance with labor laws and valid labor contracts and the resolution of disputes represent important elements of the labor market regulatory framework. Unlike the issues covered in the preceding section, there is virtually no quantitative evidence on the economic or employment impacts of different arrangements. However, the economic and social effects of regulatory practices relating to employment protection, wage determination, and other issues are undoubtedly enhanced by effective enforcement and dispute resolution. In each of these areas, there is emerging best practice which provides our focus.

(a) Enforcement

International best practice in enforcement has been undergoing important changes over the past decade. Much of the innovation has taken place on the occupational health and safety front. While many of the new ideas likely can be applied to other aspects of labor market regulation, the type of compliance issue does affect the nature of the enforcement task including, for example, the relative roles of education, standard-setting, sanctions, and so on.

Innovations in the health and safety field reflect new ideas about the economic impacts of compliance – i.e., growing emphasis on the longer-term competitive advantages of healthy, safe, and legally compliant workplaces as opposed to the short-run benefits of undercutting competitors. New approaches are also emerging in response to the increasing complexity of enforcement in the labor field, and the stretched resources of inspection services everywhere (and especially in developing countries). Innovations involve an emphasis on technical assistance as opposed to sanctions, using enterprise compliance plans as benchmarks for improving conditions, and involving the social partners.

The new approaches do not exclude sanctions because the threat of their imposition remains essential for demonstrating the rule of law. However, the experience in OECD countries particularly with respect to occupational health and safety underlines the benefits of involving employers in developing their own policies and implementation plans. This can save on the resources required of the inspectorate and it increases the likelihood of compliance by employers who “own” the strategy. Inspectors can then judge the enterprise’s performance against its own plan that is specific to its needs and circumstances (as opposed to the generality of legal requirements). Some countries require all enterprises over a certain size (e.g., 50 employees) to prepare an annual plan on improving working conditions and/or to report each year to the labor inspectorate on progress made (Hammer and Ville 1998).

This evolving approach to compliance still places important obligations on government. It must develop a clear framework of rights, obligations, powers, structures, and mechanisms for enforcement. An effective administration and field inspectorate is necessary although the role of inspectors is changing with the transition from sanctions to technical assistance and support. Rather than simply inspecting premises and prosecuting statutory violations, inspectors take on a more “service-minded” approach in which they work with the enterprise to resolve

concerns and agree on a plan of action. Advisory, educational, and mediating skills become more important (Hammer and Ville 1998).

One important set of issues concerns the resources required for enforcement and the appropriate balance between protection and costs. Many OECD countries have developed standards based on “reasonable practicability” and “disproportional measures” – i.e., that costs of prevention must be in proportion with the risks (Von Richthofen 1999). In terms of the source of funds for financing labor protection, the general practice is that costs should be born by employers. In many countries, preventative activities and inspection services are financed from the social insurance fund. The ILO recommends against funding these activities through fines as this will inhibit the inspectorate’s promotional/educational role and create incentives for sanctions (Hammer and Ville 1998).

One challenge faced by all countries relates to where inadequate resources (e.g., limited finances, stretched inspectorates) should be targeted. Hammer and Ville (1998) contend that large employers and the worst violators need to be the priority. To reach the rest, including the huge numbers of smaller enterprises, governments are trying a number of alternatives: involving organizations outside government (such as chambers of commerce, trade unions), using the media for national educational campaigns, targeting inspections, and establishing advisory services or accrediting private advisory service providers. Some governments (e.g. Zimbabwe, Japan, EU) subsidize or provide tax incentives to small and medium-size enterprises engaging in preventative measures and/or during the transition to new regulations.

(b) Dispute resolution

Effective dispute resolution relies on three key principles. First, prevention is always better than resolution. As discussed above, adequate enforcement of labor laws goes a long way toward preventing labor disputes. Second, if dispute is unavoidable, the parties to a dispute ought to attempt to resolve it themselves. Third, if a dispute cannot be resolved, third party intervention ought to involve the disputing parties as much as possible (Heron and Vandenabeele, 1999).

In developed countries, there has been increasing experimentation with approaches to dispute resolution that improve accessibility and minimize cost and time burdens. These innovations generally involve a move away from court-based procedures and adversarialism

and towards alternative non-court approaches that emphasize fact-finding, conciliation, and arbitration. Many of these newer approaches to dispute resolution build on the expertise of industrial relations specialists as opposed to legal experts. There is also growing interest in approaches that place the primary responsibility for the resolution of disputes with the social partners (i.e., management and labor), with the government playing a role of catalyst and resource (e.g., through an advisory service such as the British Advisory, Conciliation, and Arbitration Service) (Thomason 1993).

The dominant innovation in many countries over the past half-century has been the introduction of administrative labor tribunals as an alternative to litigation. Typically, legal review of the decisions of these tribunals is available through the court system. A World Bank study of labor dispute resolution in the Dominican Republic found that services offered by the Labor Ministry, either administrative procedures and alternative dispute resolution (ADR) approaches such as mediation, are an effective means of decongesting overburdened labor courts (Pastor and Vargas 1999). Workers participating in focus groups who had used the Ministry's information and mediation services to resolve disputes were generally satisfied. They preferred this option over the courts even if it meant settling for less compensation than the labor law stipulated (e.g. in disputes over unpaid wages) because it was quicker and less expensive.

One trend with administrative labor tribunals has been to promote an "investigative" rather than "adversarial" approach. This is especially successful where the representation of one party (usually the employee, especially in non-union situations) either is absent or weak. Investigative approaches are characterized by (a) the active role of the tribunal authority or mediator in prior investigation and leading discussion during the hearing; (b) the lack of legal, adversarial processes such as cross-examination of witnesses; and (c) representation by industrial relations specialists instead of lawyers (Clark 1999).

Another related innovation is "extrajudicial conciliation" which has been used, for example, in Chile to expedite dismissal-related disputes. Labor inspectors can hear dismissal claims in order to determine the legality of the dismissal and the amount of wages/severance/welfare benefits due. Hearings inspectors can summon both the employer and

employee to appear. This process has been cited as a “good practice” in labor law administration by the ILO (2000b).

Alternative dispute resolution approaches (i.e., that do not involve court procedures) have a number of advantages. They can be fast, informal, and simple without requiring expensive technical expertise. As well, they give the parties control of the process; for example, both generally must agree on “neutrals” such as conciliators, mediators, and arbitrators. By definition, ADR is less antagonistic and can preserve working relationships. Since settlements are not usually in the public record, they also protect the privacy of the parties.

There are some disadvantages, however. One is a lack of transparency. Also, due process considerations including rules of evidence, the right to representation, the right of appeal, and other basic court procedures are not a part of these alternative dispute resolution approaches. These considerations have been relevant in the transition countries of Eastern Europe where both workers and employers have been concerned about the predictability and legitimacy of resolution outcomes – and, as a result, have tended to continue to rely on court procedures. However, to address such concerns, some countries and organizations have developed guidelines such as the Due Process Protocol adopted by the American Bar Association to ensure that the rights of each party are protected. Despite these concerns, alternative dispute resolution is largely considered a fair and effective means of resolving employment disputes and reducing the backlog in courts and government-sponsored labor tribunals (Zack 1997).

Introducing ADR in developing countries requires careful consideration of many issues: support of cultural and institutional norms; availability of trained or trainable mediators; sustainable financing; and adequate legal foundation (Chigas and Fairman, 2000). It may be an appropriate policy option where costs, court backlog, and complex procedures limit access to the judicial system. It may not be the appropriate priority in judicial reform, however, where there is a need to establish legal standards and protect individual and group rights. ADR does not always improve efficiency and may require additional simultaneous reforms such as case managements systems. For example, when initially introduced in Tanzania, ADR created another level of procedure actually increasing court delay. In Ghana, ADR was initiated only after studying of the sources of delay in the court system (Shuker, 2000).

5. CONCLUSION

Market failures and exploitation and injustice motivate policy interventions in the labor market. However, countries choose to regulate labor markets in different ways, relying on a mix of statutory and collective voice approaches to complement market and informal mechanisms. Each mode of regulation has generic strengths and weaknesses but it is important to understand that country-specific factors remain very important.

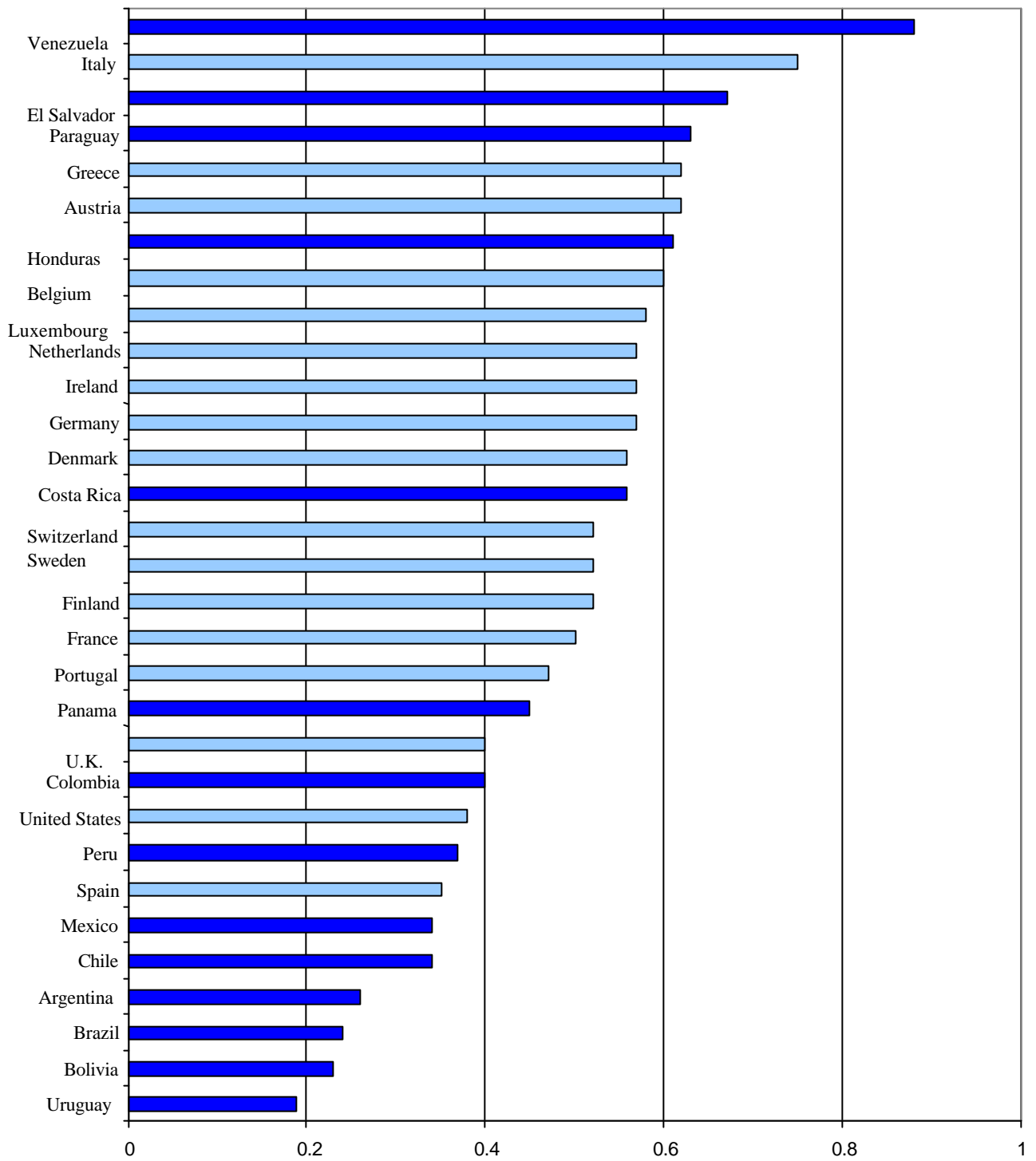
There are divergent views on labor market regulation, ranging from the institutional perspective, which emphasizes the value of public standards and collective bargaining, to the market-oriented perspective, which emphasizes the distortions caused by these institutions. In the final analysis, it is performance that matters – i.e., finding approaches that redress market failures and injustice and exploitation while having positive effects on labor demand (as well as other economic variables). Unfortunately, assembling empirical evidence on the economic and social outcomes of different approaches to regulation is a challenge. However, in this paper, we have summarized the conclusions on what is known about the labor market impacts of employment protection regulation and wage determination. Much more needs to be known, however, especially within the context of developing countries. In comparison to developed countries, the market failures and exploitation that provide justification for policy intervention are greater in developing countries. However, the regulatory capacity in these countries and the large informal sectors limit effectiveness of these interventions.

There are a number of other aspects to the regulation of the labor market that have not been covered in this paper but require more attention. In concluding this paper, we mention three that are important for policy-makers. The first concerns the substitutability between labor market regulation and other approaches to social protection. For example, employment protection laws and unemployment benefit programs exist to manage the risks of unemployment faced by workers. What are the relative merits of these two approaches and for whom? Which offers the most protection in a cost-effective manner? Second, political economy issues are a key aspect of labor market regulation that need to be better understood.²¹ There are always winners and losers when the rules governing the labor market are reformed and because of the immediacy of employment, changes are bound to be hotly contested. How

²¹ A couple of recent exceptions are Forteza and Rama (2000) and Saint-Paul (1999).

can policy-makers assess the political economy aspects and structure the reform process to achieve better regulatory outcomes? Third, globalization may be altering both what is possible for national labor policy and what will lead to the best outcomes. Are there pressures to harmonize labor market regulations and, if so, in what direction? How can the regulatory regime offer the optimal social protection to workers without compromising national economic competitiveness? All of these questions should be prominent on the agenda for labor policy-makers.

Figure 1: Minimum Wage-to-Mean Wage Ratio, Selected Countries, Late 1990s



Source: Maloney and Nuñez (2000), based on estimates by World Bank and Inter-American Development Bank

ANNEX
DETAILS OF NATIONAL LABOR LEGISLATION ON SELECTED TOPICS²²

The tables in this Annex provide a sampling of labor legislation from various countries on the following topics:

- scope of labor law application;
- regulation of fixed term contracts,
- private employment services, job leasing/temporary workers;
- advance notice, justification, and severance payment requirements for individual and collective dismissal;
- rules governing establishment of trade unions, restrictions on industrial disputes and unfair labor practices; and
- provisions for minimum wages.

Information is available for 17 countries selected on the basis of geographic representation and diversity of regulatory regimes.

²² This annex has been prepared by Makoto Ogawa

Scope of Regulations

Countries	Coverage of Regulations
Bangladesh	The Employment of Labor Law applies to every shop, commercial or industrial establishment to which the Shops and Establishments Act of 1965 applies and every industrial establishment in all other areas of Bangladesh in which five or more workers are employed or were employed on any day of the preceding twelve months. Excludes Government owned and managed commercial or industrial establishment, employees of which are governed by the Government Servants Conduct Rules.
Chile	Labor Code does not apply to “civil servants”. Independent workers are also excluded, except where Labor Code refers to them specifically.
Ethiopia	Labor code does not apply to the following: (a) health care workers; (b) teachers; (c) managers (d) contracts of personal service for non-profit making purposes; (e) members of the armed force, members of the police force, employees of state administration, judges of courts of law, prosecutors and others whose employment relationship is governed by special laws; (f) sole proprietor businesses.
Ghana	Ghanaian Labour Laws and regulations provide apply to all enterprises regardless of size and sector and all workers, permanent or temporary.
Germany	Civil Code applies to all establishments. Protection against dismissal applies to an establishment regularly employing more than ten full time employees.
India	The labor code applies to every industrial establishment with one hundred or more workers are employed, or were employed on any day of the preceding twelve months.
Iran	All employers and workers, as well as workplaces and production, industrial, services and agricultural establishments are required to comply with the provisions of Labour Code.
Japan	Labor standards law applies to all workers except public servants and seafarers.
Korea	(1)Labor Standards shall apply to all businesses or workplaces in which more than 5 workers are ordinarily employed, excluding those which employ only relatives living together and workers hired for domestic work only. (2) Businesses or workplace which ordinarily employ less than 4 workers may be subject to certain provisions of the Act as prescribed by the Presidential Decree. (Ch.7 Apprenticeship, Ch. 9 Rules of Employment and Ch. 10 Dormitory are exempt for workplace less than 4 employees.)
Malaysia	The Minister may by order exempt or exclude, subject to such conditions as he may deem fit to impose, any person or class of persons from all or any of the provisions of this Act.

Scope of Regulations (cont'd)

Countries	Coverage of Regulations
Mexico	The Federal Labor Law shall be observed throughout the Republic of Mexico and will govern the employment relations contemplated in Article 123 of the Mexican Constitution. (Title 6 of the Constitution establishes minimum employment standards, including working hours, minimum wages and compensation for improper dismissal.) Public employees are subject to separate regulation.
Philippines	The Labor Code applies to all private sector employees, including those in agricultural.
Spain	Labor legislation applies to work done by Spanish workers hired in Spain and in Spanish undertakings in a foreign country.
Thailand	Labor Protection Act shall not apply to: (1) The central, provincial, and local government administrations. (2) State enterprises under law governing state enterprise labour relations. Certain other work may be excluded by royal decree (e.g. agricultural work, sea fishing work, transportation, home work, etc.)
Tunisia	Labor Code is applied to all workers, except for public servant, domestic workers and seafarers.
United Kingdom	Protection from unfair dismissal applies only to the dismissal of an employee who has been continuously employed for two or more years of services.
United States	Federal labor codes , in general, apply to employers having a certain minimum number of employees. State and local legislations supplement Federal laws.

Regulation on Fixed-term Contract

Countries	
Bangladesh	<p>'Permanent worker' means a worker who has been engaged on a permanent basis or who has satisfactorily completed the period of his probation in the shop or the commercial or industrial establishment;</p> <p>'Temporary worker' means a worker who has been engaged for work which is essentially of temporary nature and is likely to be finished within a limited period;</p> <p>The period of probation for a clerical workers is six months; other workers such period is three months in the shop or commercial or industrial establishment.</p>
Chile	<p>Fixed-term contracts may be made for a maximum duration of one year. The continued performance of services after this period transforms the contract into one of indeterminate duration.</p>
Czech Republic	<p>The employment relationship is considered indefinite, unless for fixed term as stated in the contract.</p> <p>Fixed term employment is not allowed for the following:</p> <ul style="list-style-type: none"> (a) graduates of university-level schools or specialist apprentice schools hired for work that corresponds to their training; (b) adolescents; (c) employees specified in the collective bargaining agreement; (d) disabled persons or seriously disabled persons.
France	<p>A fixed-term contract may be made only for the performance of a specified and temporary job. The total duration of this type of contract may not exceed 18 months generally and may be renewed only once and its maximum duration may not exceed 24 months.</p>
Germany	<p>Fixed term contracts are now widely possible without specifying any objective reason. Maximum number of successive contracts is 4. (no legal limit in case of objective reason). Maximum duration per contract is 24 months (no legal limit in case of objective reason).</p>
Ethiopia	<p>A contract of employment may be concluded for a definite period or for piece work in the case of:</p> <ul style="list-style-type: none"> (1) the performance of specified piece work; (2) the replacement of a worker who is temporarily absent due to leave or sickness or other causes; (3) the performance of work in the event of abnormal pressure of work; (4) the performance of urgent work to prevent damage or disaster to life or property, to repair defects or breakdowns in works, materials, building or plant of the undertaking; (5) irregular work which relates to a permanent part of the works of an employer but is performed at irregular intervals; (6) seasonal work which relates to the permanent part of the works of an employment but is performed only for a specified period of the year which is regularly repeated in the course of a number of years; (7) occasional work which does not form part of the permanent activity of the employer but which is done intermittently.

Regulation on Fixed-term Contract (cont'd)

Countries	
Iran	The maximum duration of fixed term employment shall be determined by the Ministry of Labour and Social Affairs and approved by the Council of Ministers.
Japan	Fixed term contract less than 1 year is possible without restriction. Fixed term contract less than 3 years is possible in the following cases: (1) workers with professional knowledge, skills and experience. (2) workers older than 60 years.
Korea	The term of a labor contract shall not exceed one year, except in cases where there is no term fixed or a term is fixed as necessary for the completion of a certain project.
Malaysia	A contract of service for a specified period of time exceeding one month or for the performance of a specified piece of work where the time reasonably required for the completion of the work exceeds or may exceed one month, shall be in writing.
Mexico	Fixed term contract may be made only in the following cases; (1) nature of the work to be done so requires; (2) to provide a temporary substitute for another employee; (3) in the other cases provide by the labor law. In no case a worker be obliged to accept employment for more than one year.
Spain	Permitted inter alia, for specific tasks/projects; temporary replacements; training contracts; “eventualities of production” and the hiring of handicapped, older workers and long-term unemployed.
Thailand	No restrictions.
United Kingdom	No restrictions
United States	No restrictions.

Regulation on Private Employment Service

Countries	
Ethiopia	Any person who wishes to operate a private employment agency shall have to obtain a license from the following authorities: 1) Regional Authority responsible the implementation of labour laws, if the employment service is confined within that region; 2) Ministry if the employment service is to be rendered in two or more regions; 3) Ministry if the employment service is to hire and send abroad an Ethiopian worker to a third party.
Ghana	Current labour laws in Ghana do not permit the operations of Private Employment Services.
Japan	Private fee-charging employment services were restricted to specified occupations until recently. Fee-charging employment service can now operate with the permission of the Minister except for dock work, construction, security guards and other works stipulated by the Order.
Korea	The Head of Municipal Government must register domestic fee-charging placement services The Minister of Labor registers overseas fee-charging placement service. Minister of Labor also establishes the fees that placement services are allowed to charge.
Mexico	Employment service for workers shall be free, whether the service is performed by a official or private institution.

Regulation on Dispatched Workers (job leasing/temporary work)

Countries	
ILO Co. 181 ²³	After consulting the most representative organizations of employers and workers concerned, a government may prohibit, under specific circumstances, temporary works agencies from operating in respect of certain categories of workers or branches of economic.
Czech Republic	No restriction
France	Limited to “objective” situations, as with other fixed term contracts. Maximum duration of temporary work contract is 18 month.
Germany	Generally approved with the exception of construction industry.
Japan	Temporary works are restricted to specific occupations.
Korea	Worker Dispatch System applies to jobs in direct production in manufacturing and the ones selected by the Presidential Decree which require expertise, skills or experience.
Philippines	Temporary workers are regarded as directly employed.
Spain	Temporary work is legal as of 1994, but limited to “objective situations”
Turkey	Prohibited (with the exception of agriculture workers)
United Kingdom	No restriction.
United States	No restriction.

²³ Private Employment Agencies Convention, 1997

Advance Notice Requirement for Dismissals

Countries	
ILO Co. 158	A worker whose employment is to be terminated is entitled to a reasonable period of notice or compensation in lieu thereof, unless he is guilty of serious misconduct. Employers shall give written notice to competent authority when contemplating terminations for reasons of an economic, technological, structural or similar nature. Statement should include the reasons for the termination, the number and categories of workers likely to be affected, and the time period over which the terminations are to occur.
Bangladesh	The worker must be given one month's notice in writing indicating the reasons for retrenchment, or paid in lieu of such notice.
Chile	<ul style="list-style-type: none"> • 30 days for dismissal without cause (domestic staff, managerial workers) or for economic reasons. • Written notice of justified dismissal including reasons, facts, and status of social security contribution shall be delivered to the worker and copied to the labor inspectorate. The letter must be sent within three days following the removal of worker.
Czech Republic	<ul style="list-style-type: none"> • Notice period to employees should be three months when employer has closed down, relocated, or transferred, and in cases of redundancy; • two months for other reasons.
Ethiopia	<ul style="list-style-type: none"> • one month in the case of a worker who has completed his probation and has a period of service not exceeding one year; • two months in the case of a worker who has a period of service of more than one year; • one month if terminated due to reduction of workforce.
France	<ul style="list-style-type: none"> • Employer must hold pre-dismissal hearing with employee. The decision to carry out the dismissal must be transmitted by registered letter and the employer must specify the reasons for dismissal. • The notice period is: One month, if the employer worked between 6 months and two years, Two month, after two years service
Ghana	<ul style="list-style-type: none"> • Daily wage employment is deemed to be a contract at will and may be determined at the close of day without notice. • Where the agreement is to pay remuneration at a monthly rate, either party may terminate agreement by giving at least 14 days notice or pay in lieu of notice.
Germany	Notice varies with length of service: 2 weeks in trial period, 4 weeks < 2 years, 1 month < 5 years, 2 months < 8 years, 3 months < 10 years, 4 months < 12 years, 5 months < 15 years, 6 months < 20 years, 7 months > 20 years
Iran	Employers should issue written warnings for employees negligence before dismissal.

Advance Notice Requirement for Dismissals (cont'd)

Countries	
Japan	<ul style="list-style-type: none"> • 30 days notice to employees is generally required. • In cases of employee misconduct, employer can terminate contract without notice with the authorization of Labor Standards Office. • For mass lay-offs (>30), employers should notify Public Employment Security Office 30 days in advance.
Korea	An employer shall give 30 days an advance notice to a worker before dismissal, including dismissal for managerial reasons, or wages in lieu of notice.
Malaysia	<p>The length of notice shall be the same for both employer and employee and shall be determined by contract provisions. In the absence of such provision in writing, notice shall not be less than:</p> <p>(a) four weeks' notice for < 2 years employed; (b) six weeks' notice for between 2 and 5 years employed; (c) eight weeks' notice if > 5 years employed</p> <p>Either party to a contract of service may terminate such contract of service without notice or with less notice by paying the other party the sum equal to wages which would have accrued to the employee during the term of such notice or during the unexpired term of such notice.</p>
Mexico	Written notice indicating the date of termination and reasons is required.
Philippines	One month notice to employees and Department of Labor and Employment required when the employer terminates employment contract due to the installation of labor-saving devices, redundancy, retrenchment to prevent losses of the closing or cessation of operation of the establishment.
Spain	Prior consultation on alternatives to redundancy selection standards and ways to mitigate the effects is required 30 days in advance (15 days in firms with less than 50 employees). Written agreement must be reached, otherwise approval by labor market authorities is required.
Thailand	In case of usual termination of employment, advance notice in writing to the other party at or before the time for any wage payment.
United Kingdom	<ul style="list-style-type: none"> • not less than one week's notice if his period of continuous employment is less than two years, • not less than one week's notice for each year of continuous employment if between 2 and 12 years of service • not less than twelve weeks' notice if his period of continuous employment is twelve years or more.
United States	No legal regulations (but can be included in collective agreement or company policy manuals).

Severance payment

Countries	
ILO Co. 158	A worker whose employment has been terminated shall be entitled to (a) a severance allowance (b) benefits from unemployment benefit (c) a combination of such allowance and benefit The amount shall be based inter alia on length of service and the level of wages.
Bangladesh	30 days wages plus 14 days wages for each year of service.
Chile	<ul style="list-style-type: none"> • Dismissals for economic reason require 30 days wages for each years of service, with a maximum of 330 days wages. • If a dismissal is unfair, the above compensation is increased by 20%.
Czech Republic	2 months salary for dismissal in case of closed down, relocation, transfer of employer, and redundancy.
Ethiopia	<ul style="list-style-type: none"> • Thirty (30) days for the first year of service; (proportional sum for < 1 year); • For workers serving more than one year, payment shall be increased by one-third (1/3) of the above sum for every additional year of service, not to exceed 12 month's wages; • If terminated due to closure of company or reduction of workforce, the worker shall be paid, in addition to payments described above, a sum equal to sixty days wage.
France	20 hours of pay for wage earners or 10 % of monthly wage for salaried staff, multiplied by the years of service up to a maximum of ten. For each year of service beyond ten, one-fifteenth of a month's pay is added.
Ghana	Severance pay is to be negotiated by employer (or representative) and employee (or representative).
Germany	No legal entitlement, but can be included in collective agreements and social compensation plan
Iran	Where the termination of an employment contract is a result of the total disability or retirement of the worker concerned, the employer shall pay the worker an amount equivalent to 30 days' wages, at his most recent rate of pay, for each year of completed service. This amount shall be in addition to the worker's disability or retirement pension paid by the Social Security Organization.
Japan	No legal entitlement. According to an enterprise survey (>30 workers), 89% enterprises have voluntary retirement allowance plan.

Severance payment (cont'd)

Countries	
Korea	<ul style="list-style-type: none"> • An employer shall establish a retirement allowance system whereby an average wage of more than 30 days shall be paid for each year of consecutive years employed as a retirement allowance to a retired worker; • In establishing the retirement allowance system, a differential retirement allowance system shall not be permitted within one business. • An employer may, at the request of workers, pay retirement allowances in advance for the period of continuous employment of the worker concerned by adjusting the balances of remunerations before retirement. In this case, the number of years of continuous employment for the computation of retirement allowances shall be counted anew from the moment the latest adjustment of balances has been made. • Employer may establish a system whereby workers receive lump sum payment at the time of retirement, providing the amount is not smaller than that of retirement allowances in the other system.
Malaysia	<p>Regulations provide for the entitlement of employees to receive the following from employers:</p> <p>(a) termination benefits;</p> <p>(b) lay-off benefits;</p> <p>(c) retirement benefits.</p>
Mexico	<p>If the employer has rescinded the work relationship without good cause, the worker is entitled to compensation according to the following scheme:</p> <ul style="list-style-type: none"> • If < 1 year of service, additional payment of half the salary received for services rendered; • If employed > 1 year, the worker is entitled to six month's salary for the first year of service and 20 days of salary of each subsequent year of services rendered. • In addition, the worker will be entitled to three months' salary and to back pay from the date of the dismissal up to the date that the employer pays compensation.
Philippines	<ul style="list-style-type: none"> • In case of termination due to the installation of labor-saving devices or redundancy, 1 month salary per year of service (legal minimum = 1 month salary) • In case of retrenchment to prevent losses and in case of closures or cessation of operation, ½ month salary for each year of service (legal minimum = 1 month)
Portugal	1 month per year of service (legal minimum 3 months)
Spain	20 days' wages for each year of service up to a maximum of 12 months.

Severance Payment (cont'd)

Countries	
Thailand	30 days salary for < 1 year of service; 90 days for between 1 and 3years 180 days for between 3 and 6 years 240 days for between 6 yr and 10years 300 for over 10 years Employers need not pay severance pay to an employee whose employment is terminated for misconduct.
Tunisia	One day's salary for each month of effective service in the same firm, not to exceed three months' salary.
Turkey	After one year's of employment, one month for each year of service, often extended by collective agreement to 45 days.
United Kingdom	For redundancy dismissal only: Age 22 and below: half a week's pay for each year of employment Age 22-40: one week's pay for each year of employment 40 and above: one and half weeks' pay for each year of employment
United States	No legal regulations (but can be included in collective agreement or company policy manuals).

Conditions under which Dismissals are Fair

Countries	
ILO Co. 158	Valid reason connected with the capacity or conduct of the worker Valid reason based on the operational requirements of the undertaking establishment or service
Bangladesh	<p>(a) willful insubordination or disobedience, whether alone or in combination with others, to any lawful or reasonable order of a superior;</p> <p>(b) theft, fraud or dishonesty in connection with the employer's business or property;</p> <p>(c) taking or giving bribes or any illegal gratification in connection with his or any other worker's employment under the employer;</p> <p>(d) habitual absence without leave or absence without leave for more than ten days;</p> <p>(e) habitual late attendance;</p> <p>(f) habitual breach of any law or rule or regulation applicable to the shop or commercial or industrial establishment;</p> <p>(g) riotous or disorderly behaviour in the shop or commercial or industrial establishment, or any act subversive of discipline;</p> <p>(h) habitual negligence or neglect of work;</p> <p>(i) frequent repetition of any act or omission for which a fine may be imposed;</p> <p>(j) resorting to illegal strike or 'go-slow' or inciting others to resort to illegal strike or 'go-slow';</p> <p>(k) falsifying, tampering with, damaging or causing loss of employer's official records.</p>
Chile	<p>Dismissal without cause is possible for domestic staffs, persons representing the employer.</p> <p>The employer may dismiss a worker for misconduct or on the ground of failure to meet the requirements of the undertaking. The contract may be terminated without compensation.</p> <p>The termination also be made by the economic reasons, (modernization activities reduced productivity, changes in Market, etc.).</p>

Conditions under which Dismissals are Fair (cont'd)

Countries	
Czech Republic	<p>The employer may serve notice upon his employee only for the following reasons:</p> <ul style="list-style-type: none"> (a) if the employer, or his organizational component (branch), shuts down or relocates; (b) if the employer ceases to exist, or if his organizational component is transferred to another employer and it is not possible for that employer to employ the employee in accordance with his employment contract; (c) if the employee becomes redundant as a result of the decision of the employer to change the enterprise's goals or its technical equipment, to reduce the number of employees for the purpose of increasing work efficiency, or to make other organizational changes; (d) if the state of the employee's health is such that he has suffered a long-term loss of ability to perform the work; (e) if the employee does not meet the requirements for the proper performance of work, (employer must have documented poor performance within the previous 12 months and called upon the employee in writing to eliminate the deficiencies, and the employee failed to eliminate them within a reasonable period of time); (f) the employer might immediately cancel the employment relationship due to serious breaches of work discipline; for ongoing but less serious breaches of work discipline, the employee may be served notice if, during the previous six months in connection with his breach of work discipline, he was notified in writing of the possibility of being given notice of termination.

Conditions under which dismissals are fair (cont'd)

Countries	
Ethiopia	<p>a contract of employment shall be terminated without notice only on the following grounds:</p> <ul style="list-style-type: none"> (a) repeated and unjustified tardiness despite warning to that effect; (b) absence from work without good cause for a period of five consecutive working days or ten working days in any period of one month or 30 working days in a year; (c) deceitful or fraudulent conduct in carrying out his duties having regard to the gravity of the case; (d) misappropriation of the property or fund of the employer with intent to procure for himself or a third person undue enrichment; (e) returning output which, despite the potential of the worker, is persistently below the qualities and quantities stipulated in the collective agreement or determined by the agreement of the two parties; (f) responsibility for brawls or quarrels at the work place having regard to the gravity of the case; (g) conviction for an offence where such conviction renders him unsuitable for the post which he holds; (h) responsibility for causing damage intentionally or through gross negligence to any property of the employer or to another property which is directly connected with the work of the employer; (i) commission of any of the unlawful activities referred to in section 14(2); (j) absence from work due to a sentence passed against him of imprisonment for more than 30 days; (k) commission of other offences stipulated in a collective agreement as grounds for terminating a contract of employment without notice. <p>The following grounds relating to the organizational or operational requirements of the undertaking shall constitute good cause for the termination of a contract of employment with notice:</p> <ul style="list-style-type: none"> (a) any event which entails direct and permanent cessation of the worker's activities in part or in whole resulting in the necessity of a reduction of the workforce; (b) without prejudice to the provisions of subsection (6) of section 18, fall in demand for the products or services of the employer resulting in the reduction of the volume of the work and profit and thereby resulting in the necessity of the reduction of the workforce; (c) a decision to alter work methods or introduce new technology with a view to raise productivity resulting in the reduction of the workforce.
France	<p>All dismissal should be based on well founded and valid grounds. The termination by an employer should be justified by a genuine and serious reason.</p>
Ghana	<p>Conditions for justified dismissals must be contained in a Collective Agreement concluded by a Trade Union and an employer through a Standing Negotiating Committee.</p>

Conditions under which dismissals are fair (cont'd)

Countries	
Germany	Dismissals must be based on factors inherent in the personal characteristics or behavior of the employee (such as insufficient skill or capability) or business needs and compelling operational reasons
Iran	Where a worker is negligent in discharging his duties or if, after written warnings, the worker continues to violate the disciplinary rules of the workplace, the employer shall, provided that the Islamic Labour Council is in agreement, be entitled to pay to the worker a sum equal to his last monthly wage for each year of service as a length of service allowance, in addition to any deferred entitlements, and to terminate his employment contract.
Japan	There is no legal regulation on justifiable reasons for dismissal. But according to the cases by the court, dismissals are justifiable for “reasonable cause”. Redundancy dismissal requires: (1) rational business reasons for restructuring, (2) unavoidable redundancy in the company as a whole. (3) reasonableness of selection criteria,
Korea	(1) If an employer wants to dismiss a worker for managerial reasons, there shall be urgent managerial needs. (2) In the case of paragraph (1), an employer shall make every effort to avoid dismissal of workers and shall select workers to be dismissed by establishing rational and fair standards of dismissal. (3) An employer shall have sincere consultation regarding measures to avoid such dismissal and standards of dismissal stipulated in the provision of paragraph (2) with a trade union of a business or workplace, in cases where a trade union is formed by the consent of the majority of all workers, or with a person who represents the majority of all workers (hereinafter referred to as workers' representative), in cases where there exists no trade union which is composed of majority of all workers. (4) In cases where an employer has dismissed workers in accordance with the requirements as stipulated in paragraph (1) to (3), it shall be deemed that the dismissal concerned is made based on the justifiable reasons in accordance with paragraph (1) of Article 30.
Malaysia	<ul style="list-style-type: none"> • Either party to a contract of service may at any time give to the other party notice of his intention to terminate such contract. • Where a worker considers that he has been dismissed without just cause or excuse by his employer, he may make representations in writing to the Director General to be reinstated in his former employment. • An employee shall be deemed to have broken his contract of service with the employer if he has been continuously absent from work for more than two consecutive working days without prior leave, unless he has a reasonable excuse.

Conditions under which dismissals are fair (cont'd)

Countries	
Mexico	<ul style="list-style-type: none"> • Employee misconduct • Falsification of qualification (30 days only) • Insubordination • Drunkenness • Immoral acts at workplace • Threatening the safety of other co-workers • Breaching confidentiality of trade secretes • Excessive absenteeism (more than 3 days in a 30 days) without good cause.
Morocco	<ul style="list-style-type: none"> • Criminal/legal conviction • Divulging professional secret causing commercial loss to enterprise • Committing any of the following in the enterprise or on the job: • Theft, abuse of confidence, drugs, intoxication, injuring or threatening employer or management • Refusal to do assigned work without legitimate reason • Absence without reason for 4 full days or 8 half days in a 12 month period • Causing harm to machinery/equipment voluntarily or because of lack of attention • Committing a mistake leading to significant material loss to employer • Not following instructions to maintain safety in enterprise, leading to significant material loss to employer • Bad moral conduct
Philippines	<p>An employer may terminate an employment for any of the following cases;</p> <ul style="list-style-type: none"> • Serious misconduct or willful disobedience by the employee of the lawful orders of his employer or representative in connective with his work • Gross and habitual neglect by the employees of his duties • Fraud or willful breach by the employee of the trust reposed in him by jis employer or duly authorized representative. • Commission of a crime or offense by the employee against the person of his employer or any immediate member of his family or his duly authorized representative • Other causes analogous to the foregoing.
Portugal	<ul style="list-style-type: none"> • Dismissals are allowed based on disciplinary, economic reasons, and lack of professional or technical capacity. • Dismissals for individual redundancy must based on urgent need and must not involve posts also manned by people on fixed-term contracts. • Dismissals for lack of competence are only possible after introduction of new technology or change to job structure.

Conditions under which dismissals are fair (cont'd)

Countries	
Spain	<p>The employment contract may be terminated because of the following valid reasons.</p> <ul style="list-style-type: none"> • The ineptitude of the worker which is known or later demonstrated after his or her actual placement in the enterprise. • The worker's failure to adapt to the technical modification of his or her job, if such changes are reasonable and have occurred after a minimum of two months from the introduction of the modification. • Absence from work, even justified but intermittent, which amounts to 20% of the working days in two consecutive amounts, or 25% in four discontinuous months within a period of 12 months. <p>The following are considered non-performance of contractual obligations.</p> <ul style="list-style-type: none"> • Repeated and unjustified absence or lateness in the workplace. • Indiscipline or disobedience at work • Verbal or physical offences against the employer or persons employed in the enterprise or the family living with them. • Violation of contractual goodwill, and abuse of confidence in the discharge of duties • Habitual drunkenness or drug addiction if it adversely affects the worker's work
Thailand	<ul style="list-style-type: none"> • When an employment agreement does not have a date specified for its termination, the boss or the employee may terminate the employment agreement by giving advance notice in writing. • When a employer wishes to terminate the employment of an employee because of the managerial reasons (restructuring etc.), the employer shall inform the Labour Inspection Officer and the employees whose employment is to be terminated of the date of termination of employment, the reasons for termination of employment and the names of the employees not less than sixty days before the date of termination of employment.

Conditions under which dismissals are fair (cont'd)

Countries	
Tunisia	<p>The termination of employment is unlawful unless there is a “real and serious” reasons. Serious misconduct include:</p> <ul style="list-style-type: none"> • Willful damage to the property of the undertaking • Willful reduction of the product volume or product quality • Non-observance of rules related to safety and health • Neglect of the duty to take necessary measures to assure personal security or to safeguard confidentiality • Disobedience of legitimate orders • Bribe-taking • Theft • Turning up for work in a state of intoxication • Consumption of alcohol at the workplace • Absence or desertion of the workplace without good cause or the employer’s permission • Violence or threats against colleagues or other persons during working hours • Divulging trade secrets • Refusal to led assistance in case of imminent danger to the firms or persons at the workplace
Turkey	none
United Kingdom	<p>An employee has the right not to be unfairly dismissed by his employer. A reason falls within fair dismissal if it:</p> <p>(a) relates to the capability or qualifications of the employee for performing work of the kind which he was employed by the employer to do;</p> <p>(b) relates to the conduct of the employee;</p> <p>(c) is that the employee was redundant; or</p> <p>(d) is that the employee could not continue to work in the position which he held without contravention (either on his part or on that of his employer) of a duty or restriction imposed by or under an enactment.</p> <p>The determination of the question whether the dismissal is fair or unfair (having regard to the reason shown by the employer):</p> <p>(a) depends on whether in the circumstances (including the size and administrative resources of the employer's undertaking) the employer acted reasonably or unreasonably in treating it as a sufficient reason for dismissing the employee, and</p> <p>(b) shall be determined in accordance with equity and the substantial merits of the case.</p>
United States	<p>With the exception of the public sector, it is generally fair to terminate an open-ended employment relationship without justification or explanation (employment-at-will principle) unless the parties have placed specific restrictions on termination.</p>

Compensations and Remedies for Unjustified Dismissal

Countries	Compensations for Unjustified Dismissal
ILO Co. 158	Employee can appeal to a court, labour tribunal, arbitration committee or arbitrator and these bodies can order reinstatement or payment of adequate compensation.
Bangladesh	<p>(a) the worker concerned shall submit his grievance to his employer, in writing, by registered post within fifteen days of the occurrence of the cause of such grievance and the employer shall within fifteen days of receipt of such grievance, enquire into the matter, give the worker concerned an opportunity of being heard and communicate his decision, in writing, to the said worker;</p> <p>(b) if the employer fails to give a decision under clause (a) or if the worker is dissatisfied with such decision, he may make a complaint to the Labour Court having jurisdiction, within, thirty days from the last date under clause (a) or within thirty days from the date of the decision, as the case may be, unless the grievance has already been raised as a labour dispute under the provisions of the Industrial Relations Ordinance.</p>
Chile	A worker who feels his or her dismissal is unjustified or improper may bring a claim before the Labor Court.
Ethiopia	<p>Labor dispute settlement tribunal may order the reinstatement of the workers or payment of compensation if reinstatement is difficult. The compensation to be paid shall, in addition to the severance pay ,</p> <p>(a) 180 days pay, plus remuneration for the appropriate notice period for workers with contracts of employment for an indefinite period; or</p> <p>(b) for fixed term workers, full wages which the worker would have obtained if the contract of employment has lasted up to its date of expiry or completion of piece work.</p>
France	<ul style="list-style-type: none"> • If the employer fails to observe the notice period, the employee is entitled to compensation in lieu of notice. • Where an employee is dismissed without correct procedure but with just cause, the court will order compensation of less than one month's wage. • If the dismissal is unfair, the court may propose reinstatement. If either of the parties rejects such a proposal, the court will award compensation not less than the remuneration that the employee received during the six months immediately preceding his dismissal.

Compensations and Remedies for Unjustified Dismissal (cont'd)

Countries	Compensations for Unjustified Dismissal
Iran	<p>Where a Disputes Board finds that the dismissal of the worker is without just grounds, it shall issue an order for his reinstatement and for the payment of his remuneration as of the date of his dismissal. Alternatively, where dismissal is found to be justified, the worker shall be entitled to his length of service allowance in the amount prescribed in section 27 of this Code.</p> <p>Note. Where the worker does not wish to resume his employment, the employer shall pay him 45 days' wages and salary for every year of service completed.</p>
Korea	<p>(1) If a worker is dismissed, laid off, suspended, transferred, or subject to other punitive actions or has his salary reduced by an employer without justifiable reason, the worker may request a remedy for it to the Labor Relations Commission.</p> <p>(2) In relation to the procedures of the application for remedy and investigation, the provisions of Articles 82 to 86 of the Trade Union and Labor Relations Adjustment Act shall be applied.</p>
Malaysia	<p>Where a workman considers that he has been dismissed without just cause or excuse by his employer, he may make representations in writing to the Director General to be reinstated in his former employment.</p>
Mexico	<p>The worker may appeal to the Conciliation and Arbitration Board (CAB). If the CAB finds there was no good cause for the dismissal, the worker shall be entitled to provide back pay up to the date of the award, and to reinstate the employee.</p>
Morocco	<p>Employee can bring complaints to a tribunal which can order reinstatement or compensation that cannot be greater than 24 months of some regulatory minimum salary. The level of compensation should take into consideration the age, seniority, nature of work and all other relevant conditions.</p>
Philippines	<p>An employee shall be entitled to reinstatement without loss of seniority rights and other privileges and to his full back wages, inclusive of allowances and to his other benefits or their monetary equivalent.</p>
Portugal	<p>Employee can chose between reinstatement with back pay counting from the date of the dismissal to the actual court sentence; or compensation of one month of pay per years of service (with a minimum indemnity of 3 months)</p>
Spain	<p>Employer can choose between reinstatement with back pay and since 1999, compensation of 33 days per year of service, with a maximum of 24 months pay. Workers hired under pre-1997 legislation can still receive up to 45 days severance pay per year of service, with a total of 42 months. In certain cases involving discrimination or union/works council activities, the dismissal is “annulled” and employers have to accept reinstatement.</p>

Compensations and Remedies for Unjustified Dismissal (cont'd)

Countries	Compensations for Unjustified Dismissal
Thailand	The employer shall pay the employee a special compensation payment in lieu of notice in an amount equal to sixty working days' wages.
Tunisia	The compensation for unjustified dismissal varies from one or two month's salary for each year of service, up to maximum of three years salary.
Turkey	Court are not empowered to order reinstatement, with the exception of dismissals on grounds of trade union activities. Standard remedy is a right to compensation amounting to triple the notice period, plus regular severance pay.
United Kingdom	<p>Industrial Tribunal may order reinstatement or re-engagement. The Industrial Tribunal has wide latitude regarding whether to order reinstatement or to award compensation.</p> <p>The award consist of</p> <ul style="list-style-type: none"> (a) a basic award – same as severance payment (b) compensatory award - any expenses reasonably incurred by the complainant in consequence of the dismissal (c) Special award – one week's pay multiplied by 156 or £ 20,600 which is higher but not exceed £27,500.

Procedure (notification to government, court, labor committee, etc) on Collective Dismissals

Countries	
ILO Co. 158	When the employer contemplates terminations for reasons of an economic, technological, structural or similar nature, he shall notify, in accordance with national law and practice, the competent authority thereof as early as possible, giving relevant information, including a written statement of the reasons for the termination, the number and categories of workers likely to be affected and the period over which the terminations are intended to be carried out.
Ethiopia	In the case of reduction in workforce (more than 10% reduction of workers or reduction of more than 5 workers in case of 20-50 establishment), workers having skills and a higher rate of productivity shall have priority of being retained in their posts and, in the case of equal skill and rate of productivity, the workers to be affected first by the reduction shall be in the following order: (a) subject to the provisions of (b) - (c) of this subsection, those having the shortest length of service in the undertaking; (b) those who have fewer dependants; (c) those not covered under subsection 3(a) and (b) of this section; (d) those who are disabled by an employment injury in the undertakings; (e) workers' representatives; (f) expectant mothers
France	An employer should consult with the work committee or staff delegates and inform competent authority of the proposed dismissals. After the consultation, the employer defines the criteria for setting the order of dismissals. These criteria must take into account family responsibilities, length of service, etc. The notification period is : At least 30 days if the number of dismissals is less than 100; 45 days if the number of dismissal is 100-250; 60 days if the number of dismissals is 250.
Korea	Large changes of employment, according to criteria as set forth by the Presidential Decree, due to automation, construction or expansion of production facility or contraction and adjustment of business scale, must be reported to the employment security agency.
Morocco	Authorization by the employment authority and three month notice is required for mass layoff. In the case of mass dismissal for economic reasons, additional documents are required <ul style="list-style-type: none"> • A report explaining economic reasons • Economic/financial state of the enterprise • A report prepared by a financial controller/accountants
Spain	Prior consultation on alternatives to redundancy selection standards and ways to mitigate the effects is required 30 days in advance (15 days in firms with less than 50 employees). Written agreement must be reached, otherwise approval by labor market authorities is required.

**Procedure (notification to government, court, labor committee, etc) on Collective Dismissals
(cont'd)**

Countries	
Portugal	75 days if agreement on dismissal procedure can be reached, otherwise 90days. Consultation on alternative to redundancy selection standards and ways to mitigate the effects must take place - a written agreement to be reached if necessary via conciliation by labour inspector.
Turkey	Advance notice required from 2 weeks to 8 weeks, depending on the length of service. (e.g. 2 weeks for less than six months, and 8 weeks for more than 3 years.)
Tunisia	One month notice is required, if compensation is paid in lieu of notice, the amount paid must at least be equal to the length of notice period. Employers must seek conciliation from labor inspector prior to mass layoffs for economic or technological reasons. If conciliation is unsuccessful, the matter is heard by the tripartite Commission for the Control of Dismissal.
Philippines	When the employer terminates employment contract due to the installation of labor-saving devices, redundancy, retrenchment to prevent losses of the closing or cessation of operation of the establishment, he has to submit notice to the Department of Labor and Employment and to workers at least one month before the intended date.

Conditions/Requirements of Establishment of Trade Unions, and Federation of Trade Unions

Countries	
Ethiopia	<p>(1) One trade union may be established in an undertaking where the number of workers is 20 or more.</p> <p>(2) Workers who work in undertakings which have less than twenty workers may form a general trade union, provided, however, that the number of the members of the union is not be less than 20.</p>
Bangladesh	<ul style="list-style-type: none"> • Workers, without distinction whatsoever, shall have the right to establish and, subject only to the rules of the organization concerned, to join associations of their own choosing without previous authorization; • A trade union of workers shall not be entitled to registration under this Ordinance unless it has a minimum membership of thirty per cent of the total number of workers employed in the establishment or group of establishments in which it is formed.
Ghana	<ul style="list-style-type: none"> • The formation of trade unions requires that they shall be registered. • Any five or more workers can lawfully form a trade union. • Part 1 of the Industrial Relations Act, 1958 (Act 56) established the Ghana Trades Union Congress to act as the nerve center of the various trade unions in Ghana.
Japan	<p>The following must be included in an article of trade unions:</p> <ul style="list-style-type: none"> • Anti -discrimination article <p>Provisions for secret ballot for election of officers and for industrial dispute</p>
Korea	<p>Workers are free to establish a trade union or to join it, except for the case of public servants or teachers who are subject to other enactments.</p>
Malaysia	<ul style="list-style-type: none"> • The Director General may refuse to register a trade union in respect of a particular establishment if he is satisfied that there is in existence a trade union representing the workmen in that particular establishment trade, occupation or industry and it is not in the interest of the workmen concerned that there be another trade union in respect thereof. • A certificate of registration of a trade union may be cancelled or withdrawn by the Director General - where two or more registered trade unions exist in a particular establishment, as the case may be, the Director General may, if he is satisfied that it is in the interest of the workmen in that establishment.

Countries	Conciliation of Labor Disputes
Bangladesh	Industrial disputes will be conciliated by Conciliator and if necessary , arbitrated by an Arbitrator. Cases can be appealed to the tripartite Labour Court, and then to the Labour Appellate Tribunal (tripartite) whose decision shall be final.
Ethiopia	<p>The following labor disputes are examined at labour divisions in regional first instance court, regional appellate court, and Central High Court. The decision of Central High Court shall be final.</p> <p>(a) disciplinary measures including dismissal; (b) claims related to the termination or cancellation of employment contracts; (c) questions related to hours of work, remuneration, leave and rest day; (d) questions related to the issuance of certificate of employment; (e) claims related to employment injury; (f) unless otherwise provided for in this Proclamation, any criminal and petty offences under this Proclamation.</p> <p>The following labor disputes are examined by conciliator, and Labor Relations Board (tripartite). All findings of facts made by the Board shall be final and aggrieved party can appeal to Central High Court solely on questions of law.</p> <p>(a) wages and other benefits; (b) establishment of new conditions of work; (c) the conclusion, amendment, duration and invalidation of collective agreements; (d) the interpretation of any provisions of this Proclamation, collective agreements or work rules; (e) procedure of employment and promotion of workers; (f) matters affecting the workers in general and the existence of the undertaking; (g) claims related to measures taken by the employer regarding promotion, transfer and training; (h) claims relating to the reduction of workers.</p>
Ghana	The method of settlement of labour disputes range from grievance resolution procedure, through negotiation to arbitration. Joint Negotiating Committees are established under the Act for compulsory negotiations. If the settlement of disputes involving certified trade union and the employer fail, either party may report this failure to the Minister, with the request that a Conciliation Officer may be appointed.
Iran	In the event of a dispute between an employer and a worker or a trainee concerning the application of this Code or other labour regulations, or in relation to a training contract, a workplace agreement or a collective agreement, a settlement shall, in the first instance, be sought by direct compromise between the employer and worker or trainee or his representative on the Islamic Labour Council. If such a council does not exist in the workplace, a compromise shall be sought by the employer and the workers' guild society or the legal representatives of workers and the employer. Where no compromise can be reached, the dispute shall be examined and settled by the Board of Inquiry or the Disputes Board.

Countries	Conciliation of labor disputes
Japan	Dispute will be deliberated first in a local labor committee (tripartite) then in a Central Labor Committee (tripartite). If the party concerned is not satisfied with the Committee's decision, they can file suit with civil court.
Korea	The Labor Relations Commission shall conduct the proceedings of mediation when one of the parties to labor relations submits a request for mediation and arbitration to the tripartite Labor Relations Commission. If the party considers the arbitration by a Regional Commission violates the law, that party may apply for review to the National Commission and then file an administrative suit. Submitting an application for review does not suspend the effect of an arbitration award or a decision made by the Labor Relations Commission.
Malaysia	Industrial disputes are reported to the Director General of Industrial Relations and then referred to the Industrial Court (tripartite). Any party can appeal to the High Court a question of Law. A decision of the High Court is the final.
Mexico	Disputes between employers and employees are subject to the decisions of a Conciliation and Arbitration Board. The Board shall be composed of an equal number of representatives of workers and employers, with one government representative. If an employer refuses to submit the dispute to arbitration or to accept the decision of the CAB, the labor contract shall be considered terminated and the employer will be required to indemnify the worker in the amount of three months' wages.

Countries	Restriction of Industrial Dispute
Ethiopia	<p>Workers and employers in the following essential service are exempt from the application of strike and lockout articles of labor code.</p> <p>(a) air-transport and railway services; (b) undertakings supplying electric power; (c) undertakings supplying water and carrying out city cleaning and sanitation services; (d) urban and inter-urban bus services and filling stations; (e) hospitals, clinics, dispensaries and pharmacies; (f) banks; (g) fire brigade services; and (h) postal and telecommunications services;</p>
Bangladesh	<ul style="list-style-type: none"> • If a strike or lock-out lasts for more than 30 days, the Government may, by order in writing, prohibit the strike or lock-out: • If it is satisfied that the continuance of such strike or lock-out is causing serious hardship to the community or is prejudicial to the national interest, the Government may, by order in writing prohibit a strike or lock-out at any time before the expiry of thirty days. • In the case of any of the public utility services, the Government may, by order in writing, prohibit a strike or lock-out at any time before or after the commencement of the strike or lock-out.
Ghana	No restriction.
Japan	Public servants are prohibited from striking.
Korea	<p>Industrial action shall not be taken without completing adjustment procedures.</p> <p>Workers in certain industries such as electricity, water or a business which produces mainly defense goods shall not be allowed to take industrial action. (The scope of those workers who are engaged in a business which produces mainly defense goods shall be determined by the Presidential Decree.)</p>
Malaysia	<p>No workman in any essential service shall go on strike -</p> <p>(a) without giving to the employer notice of strike, within forty-two days before striking; (b) within twenty-one days of giving such notice; or (c) before the expiry of the date of strike specified in any such notice aforesaid.</p> <p>No workman shall go on strike and no employer of any such workman shall declare a lock-out -</p> <p>(a) during the time pending the proceedings of a Board of Inquiry appointed by the Minister under Part VIII involving such workman and employer and seven days after the conclusion of such proceedings; (b) after a trade dispute or matter involving such workman and such employer has been referred to the Court and the parties concerned have been notified of such reference; (c) after a relevant State Authority has withheld consent to the reference of the dispute to the Court under section 26 (2), and the parties concerned have been notified thereof; (d) in respect of any of the matters covered by a collective agreement taken cognizance of by the Court in accordance with section 16 or by an award;</p>

Countries	Unfair Labor Practice
Bangladesh	<p>An employer may not:</p> <p>(a) impose any condition in a contract of employment seeking to restrain the right of a person who is a party to such contract to join a trade union or continue his membership of a trade union; or</p> <p>(b) refuse to employ or refuse to continue to employ any person on the ground that such person is, or is not, a member or officer of a trade union;</p> <p>(c) discriminate against any person in regard to any employment, promotion, condition of employment or working condition on the ground that such person is or is not, a member or officer of a trade union; or</p> <p>(d) dismiss, discharge, remove from employment or threaten to dismiss, discharge or remove from employment a workman or injure or threaten to injure him in respect of his employment by reason that the workman- is or proposes to become, or seeks to persuade any other person to become, a member or officer of a trade union, or (ii) participates in the promotion, formation or activities of a trade union;</p> <p>(e) induce any person to refrain from becoming, or to cease to be a member or officer of a trade union, by conferring or offering to confer any advantage on, or by procuring or offering to procure any advantage for such person or any other person;</p> <p>(f) compel any officer of the collective bargaining agent to sign a memorandum by using intimidation, coercion, pressure, threat, confinement to a place, physical injury, disconnection of water, power and telephone facilities and such other methods;</p> <p>(g) interfere with or in any way influence the balloting provided for in section 22; or</p> <p>(h) recruit any new workman during the period of strike under section 28 or during the currency of a strike which is not illegal except where the Conciliator has, being satisfied that complete cessation of work is likely to cause serious damage to the machinery or installation, permitted temporary employment of a limited number of workmen in the section where the damage is likely to occur.</p>
Japan	<p>Employers are prohibited from the following unfair labor practices:</p> <ul style="list-style-type: none"> • Discrimination against union members • Refusal to engage in collective negotiation without just cause. • Intervention in unions activities, including financial support to unions.

Countries	Unfair Labor Practice
Korea	<p>The following are illegal labor practices:</p> <p>(1) dismissal of or discrimination against a worker on the grounds that the worker has joined or intended to join or establish a trade union, or has performed a justifiable act for the operation of a trade union;</p> <p>(2) employment of a worker on the condition that the worker should not join or should withdraw from a trade union, or should join a particular trade union. However, in cases where a trade union is representing more than two-thirds of workers employed in the same business, a conclusion of a collective agreement under which a person is employed on condition that he/she becomes a member of the trade union shall be allowed as an exceptional case. In this case, the employer shall not discriminate the worker for reasons that he expelled from the trade union;</p> <p>(3) refusal or delay of conclusion of a collective agreement or of collective bargaining, without justifiable reasons, with the representative of a trade union or a person who has been authorized by a trade union;</p> <p>(4) domination of or interference with the formation or operation of a trade union by workers and wage payment for full-time officials of a trade union or financial support for the operation of a trade union. However, the employers may allow the workers to take part in consultation or bargaining with the employers during working hours, and may provide subsidies for the welfare of the workers, or for the prevention and relief of financial difficulties, and other disasters, and may provide union office in minimum size; or</p> <p>(5) dismissal of or discrimination against a worker on the grounds that the worker has taken part in justifiable collective activities, or has reported the violation of the provisions of this Article by the employer to the Labor Relations Commission, or has testified about such violations or has presented evidences to administrative authorities.</p>
Malaysia	<p>Employers may not:</p> <p>(a) impose any condition in a contract of employment seeking to restrain the right of a person who is a party to the contract to join a trade union, or to continue his membership in a trade union;</p> <p>(b) refuse to employ any person on the ground that he is or is not a member or an officer of a trade union;</p> <p>(c) discriminate against any person in regard to employment, promotion, any condition of employment or working conditions on the ground that he is or is not a member or officer of a trade union;</p> <p>(d) dismiss or threaten to dismiss a workman, injure or threaten to injure him in his employment or alter or threaten to alter his position to his prejudice by reason that the workman is or proposes to become, or seeks to persuade any other person to become, a member or officer of a trade union; or participates in the promotion, formation or activities of a trade union; or</p> <p>(e) induce a person to refrain from becoming or to cease to be a member or officer of a trade union by conferring or offering to confer any advantage on or by procuring or offering to procure any advantage for any person.</p>

Minimum wages

Countries	Coverage
Iran	<p>The Supreme Labour Council shall be responsible every year for fixing minimum wages for the various regions of the country according to the sectors of industry, with regard to the following criteria:</p> <p>(1) The rate of inflation announced by the Central Bank of the Islamic Republic of Iran;</p> <p>(2) The minimum wage shall be sufficient to meet the living expenses of a family, regardless of the physical and intellectual abilities of workers and the characteristics of the work assigned.</p>
Ghana	<p>The Tripartite Committee on Wages and Salaries Guidelines meets periodically to determine a daily national minimum wage for Ghana. A national minimum wage is the least daily wage below which no employer is permitted to pay an employee and is enforceable by law.</p>
Japan	<p>Minimum wages are determined by the tripartite Minimum Wage Counsel, based on living expenses, market wages, and paying capacity of employers.</p>
Korea	<p>The tripartite Minimum Wage Council determines minimum wages according to the category of business and taking into consideration the cost of living of workers, the wages of kindred workers, and labor productivity.</p>
Mexico	<p>The tripartite National Board of Minimum Wages establishes minimum wages. [Although the minimum wage shall be sufficient to meet the normal requirement of a head of a family, the current minimum wage is no longer a valid point of reference. No employer pays minimum wage; workers cannot survive on such a small amount.]</p>

Protection of wages

Countries	Coverage
Japan	Government pays a part of unpaid wages to workers in a bankrupted company. Wage/salary have priority to the other general obligations but inferior to tax liability.
Korea	The Minister of Labor shall, on behalf of the employer, pay the deferred wages and retirement allowances for the worker in case of employers bankruptcy, etc., (as determined by the Presidential Decree).
Malaysia	The court shall not authorize payment of the proceeds of the sale to the secured creditor until the court shall have ascertained and caused to be paid the wages of such employee, or the money due to any sub-contractor for labour under a Contract.
Mexico	Wage/salary shall have priority over all other obligations of the employer in the event of bankruptcy.

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