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Designing labor market regulations in developing countries

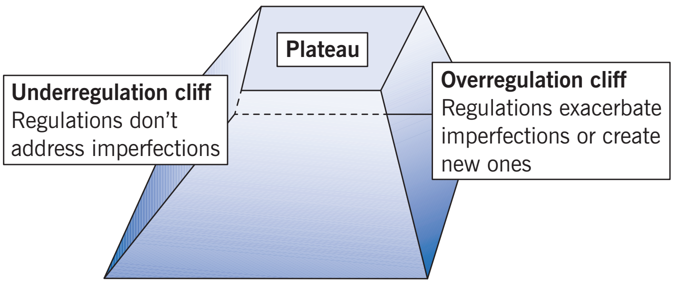
Labor market regulation should aim to improve the functioning of the labor market while protecting workers

Keywords: labor market regulation, job security, minimum wages

ELEVATOR PITCH

Governments regulate employment to protect workers and to improve labor market efficiency. However, employment regulations can be controversial, often complicated by opposing ideological views. Thus, it is important for policymakers in developing countries to base decisions on empirical evidence of the impacts of these regulations. The majority of the evidence suggests that most countries have set their regulations in the appropriate range. But it can be costly when countries either overregulate or underregulate their labor market.

The challenge for countries is to set labor regulations on the plateau and avoid the cliffs of over- or underregulation



Source: [1].

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KEY FINDINGS

Pros

- Labor market regulations can improve the employment situation of vulnerable workers.
- Concerns about large negative effects on employment and productivity are not substantiated in most countries.
- Any negative effects can be minimized if regulations are consistent with good practices in the specific country context and if compliance and interactions with other regulations and institutions are considered.
- Careful empirical monitoring and evaluation can identify the effects of regulations.

Cons

- Overly stringent regulations can impede job creation and hurt the workers they are intended to help.
- Underregulation does not address the problems of worker protection and inadequate information.
- It can be difficult to monitor the effects of regulations if labor market information is inadequate.
- Decisions on labor market regulations are often dictated by political concerns rather than evidence.

AUTHOR'S MAIN MESSAGE

The challenge in establishing labor market rules is to avoid the extremes of over- and underregulation. Countries at either of these extremes pay in both economic and social terms. Between these extremes is a place where appropriately designed regulations can modestly alleviate market failures and offer some protection to workers without imposing major costs on firms or the economy. The appropriate level of regulation depends on the country context.

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