
Labour Market Policies in Selected EU Member States: A Comparative and Impact Analysis

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The purpose of the paper is to analyse the European labour market outcomes under the impact of various labour market policies. More specifically, the paper methodizes the main labour market policies and their role in reducing the level of unemployment. The most important aspects point out the necessary conditions complied by structural reforms in order to stimulate labour employment. The policies that frame a more efficient unemployment insurance system are essential to increase security, while encouraging the unemployed to look for a job and to accept a job offer. The analysis is based on a set of specific labour market indicators and on applying a regression model. We found that high employment rates are generally associated with large expenses on labour market policies. Also, an increased number of participants to programs developed within these types of policies and a low degree of rigidity for specific labour market institutions are reflected in high employment rates. The degree of influence and strong dependence between outcome and policy labour market indicators are illustrated in various ways and discussed within the paper.

Key words: *flexicurity policies, labour rigidity, employment protection,*

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unemployment benefits, job search

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I. Introduction

Various analyses and debates concerning the health of European economies have as a central element the performance of labour markets. At the same time, the functioning mechanism of European labour markets and their performance represent the main objective of the two pillars (economic and social) of Europe 2020, the new strategy of European Union.

The degree of uncertainty and continuous changes of economic conditions has become the basic environment for European labour markets, as well as for labour market policies, amplifying unemployment risk. Therefore, most of EU Member States implemented various structural reforms in order to increase labour employment.

Taking into consideration all these aspects, the research performed within this paper, based on the critical review of literature, has focused on employment policies, by analysing the impact of specific types of policies on European labour market performance.

We thus analysed, through a set of specific labour market indicators and by applying a regression model, the main differences concerning various types of labour market policies across EU Member States, by connecting different measures and policy indicators with outcome indicators and the overall EU labour market performance, focusing on Romania.

II. Literature review

The performance of labour markets represents an important element of various analyses within the European Union (Rovelli and Bruno,

2008). The empirical macroeconomic studies have identified several negative effects of the expenses on active labour market policies upon the unemployment level, still very different regarding their intensity (Nickell et al., 2005; Boone and van Ours, 2004), or even insignificant effects (Mourre, 2002). Jimeno and Rodríguez-Palenzuela (2003) have established that an increase of 1% of the expenses on active labour market policies as a percentage of GDP leads to a decrease of 0.2 percentage points of the unemployment rate and of 0.1 percentage points of youth unemployment rate, pointing out a weak improvement of labour market performance.

Boeri (2002) revealed the main conditions required for social and labour market policies, respectively *(i)* to reduce the level of poverty and inequalities concerning the level of income, *(ii)* to provide protection against uninsurable risks, and *(iii)* to generate an increase of rewards for labour market participation. At the same time, by making the connection to the main objectives of Lisbon Strategy, Boeri (2009) highlighted the fact that in order to become the most dynamic and competitive knowledge based economy in the world, the European Union should focus more on the third criteria, respectively on increasing the attractiveness for labour market participation.

The specific labour market policies are very different across EU Member States (Rovelli and Bruno, 2008). Thus, the protection against uninsurable risks is provided *(i)* through legal restrictions against dismissals, meaning employment protection legislation (EPL) and *(ii)* through providing unemployment benefits, along with other collective benefits (UB). The differences between the two categories is that employment protection legislation provides insurance for employed persons, while unemployment and social benefits offer support for persons in general, being financed through a tax on the income of employed persons. Thus, the insiders would rather prefer employment protection legislation, instead of unemployment benefits.

III. Correlations between outcome and policy labour market indicators within the European Union

In order to measure the strictness of employment protection, OECD has developed a specific indicator, *Strictness of employment protection index*, using 21 elements that quantify the procedures for individual or collective dismissal and their cost or the procedures for employing workers based on short-term contracts (Venn, 2009). Thus, the indicator quantifies elements connected to: (i) firing an individual employee based on regular contracts, respectively the procedural inconveniences encountered by employers when they begin the firing process, notice periods, severance payments and the difficulty of firing due to various circumstances and repercussions generated when the dismissal is considered unfair; (ii) additional costs for collective dismissals, respectively additional delays, costs and notification procedures when the employer is firing more employees at the same time; (iii) protection legislation for short-time contracts and various norms established for these types of contracts (Venn, 2009).

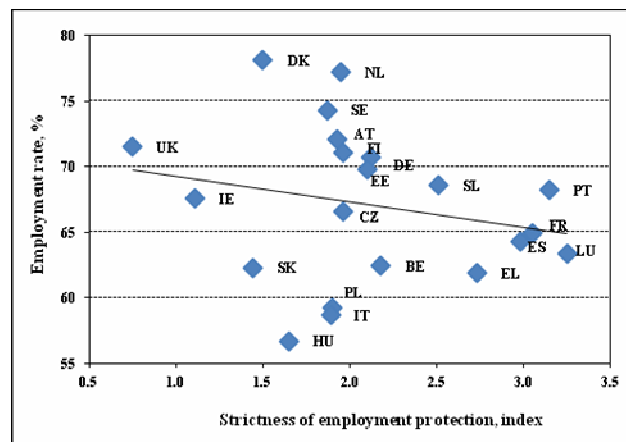
A large part of these elements have been further analysed by the World Bank's specialists, through Doing Business Database, Employing Workers, focusing on various types of labour market policies, like (i) the difficulty of hiring labour, the restrictions for short-term contracts, duration and minimum wages; (ii) the difficulty of firing labour, the costs of these procedures, severance payments; and (iii) the rigidity of working hours and working programme. Based on all these elements, World Bank's specialists have developed a specific indicator, *Rigidity of Employment Index*, in order to measure various dimensions of the labour market. However, this indicator has a smaller scale of analysis than the one developed by OECD, due to the fact that it does not contain elements connected to individual or collective dismissals or the high level of compensations granted for unfair dismissals.

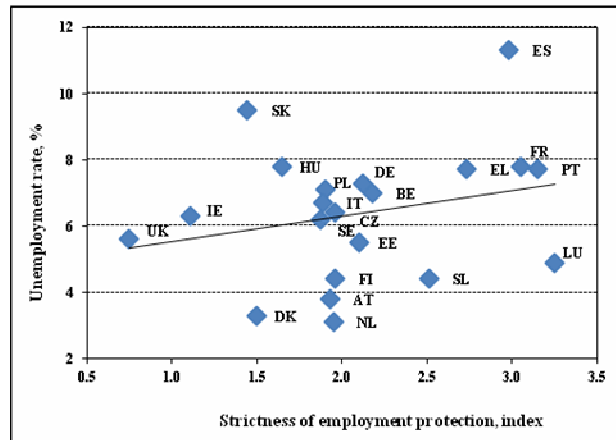
Taking into consideration all these aspects, for the performed analysis we used *Strictness of employment protection index*, as a specific indicator for the labour market institutional characteristics.

The correlations between employment protection legislation, measured through the OECD specific indicator (Strictness of employment protection) and the employment rate highlight very different situations across the Member States, meaning that some of them, characterized by high employment rates, have a relaxed employment protection legislation (United Kingdom, Denmark, Ireland), respectively a stricter one (Netherlands, Sweden, Austria, Finland).

Figure 1

Correlation between EPL and Employment rate, respectively Unemployment rate, 2008





Source: performed based on OECD and Eurostat Data

The EU Member States with very strict employment protection legislation have registered employment rates of about 65% (France, Luxembourg, Portugal and Spain). At the same time, there are Member States that have registered the lowest employment rates, of about 55 - 60%, even if they are characterised by relaxed employment protection, (Hungary, Poland, Italy and Slovakia).

Similar situations can be observed by analysing the correlation between employment protection legislation and unemployment rate, especially in some Member States. Spain, for example, characterised by a very strict employment protection has the highest unemployment rate, while Luxembourg, with the same institutional characteristic, has a low unemployment rate. Denmark and Netherlands have registered the lowest unemployment rates, the employment protection being less strict in these states. Thus, we can point out that there is a high degree of dependency between the level of unemployment rate or employment rate and employment protection legislation among EU

Member States, the relation being supported also by the correlation coefficient for these analysed variables in 2008 (multiple $r = 0,6011$).

We also used within our comparative analysis policy indicators specific to active and passive labour market policies, in addition to these institutional characteristics of the labour market: *(i)* total expenses on labour market policies as a percentage of GDP, *(ii)* expenses on active and passive labour market policies as a percentage of GDP and *(iii)* the number of participants to various programmes specific to active and passive labour market policies.

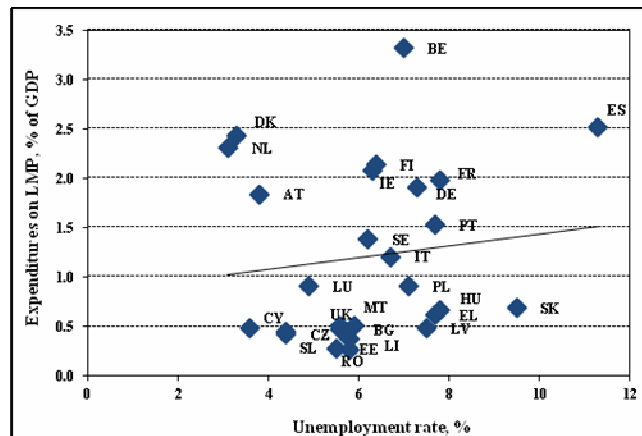
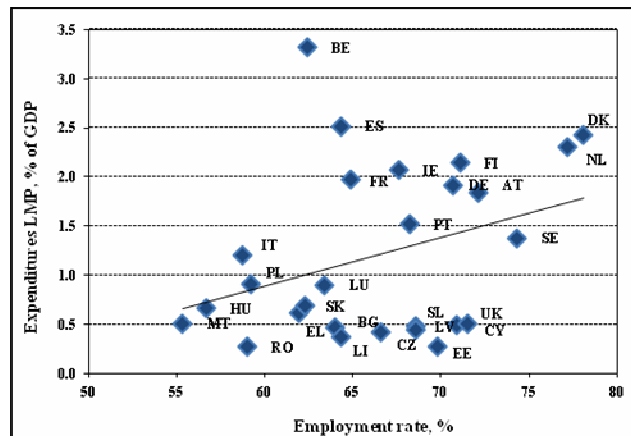
A general analysis of these indicators point out the fact that the most generous countries are Belgium, Denmark, Germany, France, Italy, Austria, Finland, Sweden and Portugal, with a relatively high level of expenses on labour market policies as a percentage of GDP (2.5 – 3.5%), and the least generous ones are Romania, Estonia, Czech Republic, Bulgaria, Slovenia, Lithuania, Latvia and Cyprus (the level of expenses on labour market policies as a percentage of GDP is of about 0.25 – 0.50%).

At the same time, by analysing the number of participants to various programmes specific to active and passive labour market policies at the European level, we can point out that in some Member States the activation at these types of programmes is very high (Germany, France, Spain, United Kingdom and Belgium), while in others the number of participants is quite low (Malta, Cyprus, Slovenia, Latvia, Lithuania, Romania, Bulgaria).

In order to identify the link between labour market outcomes and labour market policies, through the impact on the level of employment, unemployment and labour market expenses, we used the simple model of regression and the correlation (Multiple R) and determination (R Square) coefficients.

Figure 2

Correlation between Employment rate, respectively Unemployment rate and the Expenses on labour market policies, 2008



Source: performed based on OECD and Eurostat data

We obtained a series of results that point out different situations from one Member State to another by correlating the employment rate with

total expenses on labour market policies for the EU Member States. Thus, certain states with low percentage of GDP assigned for labour market policies also have low employment rates (Malta, Hungary, Romania, Greece and Slovakia), respectively high level of unemployment (especially for Slovakia), except for Spain that still has the highest unemployment rate, even if the percentage of GDP for expenses on labour market policies is high compared to other Member States (2.517% in 2008).

Generous countries, with high expenses on labour market policies (especially Denmark, Austria and Netherlands), have registered high employment rates and the lowest unemployment rates. However, various Member States, which have assigned a small amount for the expenses on labour market policies, also registered low unemployment rates (especially United Kingdom, Cyprus, Slovenia and Czech Republic).

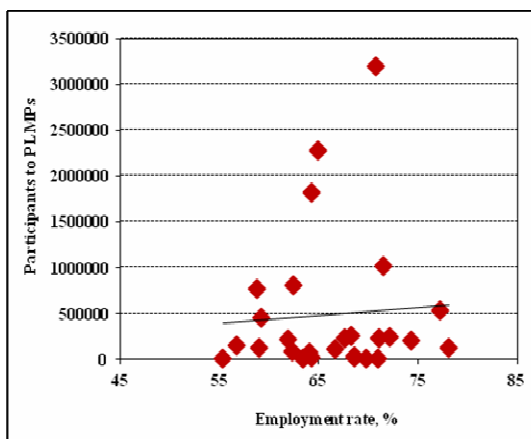
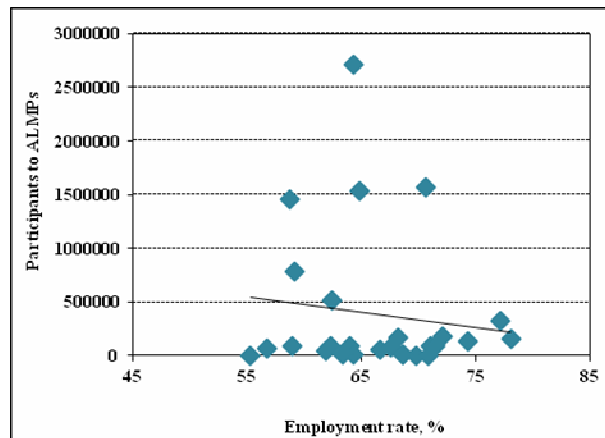


Figure 3

Correlation between Employment rate and Participants to active and passive labour market policies, 2008



Source: performed based on OECD and Eurostat data

At the same time, in several Member States, the activation to various programmes developed within the framework of active and passive labour market policies is decreasing and the impact of the attendance on outcome indicators is relatively low, pointed out also by the previous correlations.

IV. A general model for the analysis of specific policies impact on labour market outcomes

In order to highlight the impact of various labour market policies upon its performance and outcomes, we performed a regression model, using as variables the main employment policies, labour market institutions and outcomes, by focusing on a series of selected EU Member States, during 2003 – 2008. The model is connecting different measures and specific labour market policy indicators with

outcome indicators and the overall performance of European labour market.

The model used for our comparative and impact analysis of different types of labour market policies within the European Union is based on the model of Rovelli and Bruno (2008) and it is represented by the following relation:

$$Outcome_{i,t} = \alpha_0 + \alpha_1 \cdot INST_{i,t} + \alpha_2 \cdot \sum_k^K LMP_{k,i,t} + I_t + I_G + \varepsilon_{i,t}$$

$i = 1, 2, \dots, 27$ (EU Member States);

$t = \text{time}$;

Outcome = Outcome labour market indicators (Employment rate and Unemployment rate);

$INST_{i,t}$ = institutional and policy indicators;

$LMP_{k,i,t}$ = labour market policy measures alternatively defined to include different types of expenses on active and passive labour market policies;

I_t, I_G = time and geographical dummies.

We used employment protection legislation, as a specific indicator for institutional characteristics, respectively Strictness of employment protection, developed by OECD, due to the fact that it is generally used to assess labour market flexibility (the indicator measures only one dimension of flexibility, respectively the firm costs with firing procedures and legal norms). As concerning the specific active and passive labour market policy indicators, we used within the analysis the expenses on active and passive labour market policies as a percentage

of GDP as well as the number of participants to different programmes specific to these types of policies.

We build the database for all 27 Member States of the European Union, based on the following official databases:

Eurostat – National Accounts and Public Finance data, Growth rates, Structural indicators on innovation and research; Population and Social Conditions, Labour market, Employment, Unemployment, Labour market policies, Public expenditure on labour market policy interventions and participants, Inequality and social cohesion; Business demography statistics.

OECD – Expenditure on labour market programmes and Employment Protection Legislation (EPL) indicators.

World Bank – Doing Business Database, Employing Workers; Doing Business Report 2011: data on ease of doing business, of employing workers and of paying taxes.

Certain characteristics of these databases, especially concerning time series, restrict the area of analysed variables and the relevance of the results, representing the main limitations of the research.

For the empirical analysis we used the typology of European Commission (Eurostat) regarding the expenses on active and passive labour market policies, as follows: *active labour market policies (ALMPs)* categories 2-7: labour market services, training, job rotation and job sharing, employment incentives, integration of disabled, direct job creation, start-up incentives; *passive labour market policies (PLMPs)* categories 8-9: out-of-work income maintenance and support, early retirement.

In order to reveal essential elements for the European labour market performance, the analysed panel has 11 Member States, including Romania, their selection being restricted by the availability of data for key labour market indicators used in the model.

The results obtained after performing the regression model, by correlating the employment and unemployment rate with employment protection legislation (EPL) and the above mentioned policy indicators, during 2003 – 2008, are presented in the following table.

Table 1

Correlation between outcome and policy indicators for selected EU Member States (MSs), 2003 – 2008

		Employment rate					Unemployment rate				
		Expe. LMP	Expe. ALMP	Expe. PLMP	Particip ALMP	Particip PLMP	Expe. LMP	Expe. ALMP	Expe. PLMP	Particip ALMP	Particip PLMP
EU-27 (average)	<i>Multiple</i> R	0.9778	0.3952	0.9778	0.2068	0.9552	0.9931	0.9921	0.9921	0.1971	0.9836
	R <i>Square</i>	0.9562	0.1561	0.9561	0.0427	0.9124	0.9862	0.9844	0.9844	0.0388	0.9674
Between MSs	<i>Multiple</i> R	0.3762	0.3952	0.2965	0.2756	0.2205	0.2577	0.2747	0.2988	0.5757	0.4365
	R <i>Square</i>	0.1415	0.1561	0.0879	0.0759	0.0486	0.0664	0.0754	0.0892	0.3315	0.1905
Germany	<i>Multiple</i> R	0.9865	0.7377	0.9979	0.2127	0.9991	0.9787	0.7179	0.9939	0.2598	0.9980
	R <i>Square</i>	0.9733	0.5442	0.9958	0.0452	0.9982	0.9578	0.5154	0.9879	0.0675	0.9960
United Kingdom	<i>Multiple</i> R	0.9035	0.5368	0.1584	0.8842	0.2366	0.8652	0.8186	0.2612	0.9874	0.6499
	R <i>Square</i>	0.8163	0.2873	0.0259	0.7818	0.0560	0.7487	0.6702	0.0681	0.9750	0.4224
Netherlands	<i>Multiple</i> R	0.9999	0.9999	0.9997	0.9961	0.9995	0.9997	0.9987	0.9996	0.9872	0.9987
	R <i>Square</i>	0.9999	0.9998	0.9994	0.9923	0.9991	0.9994	0.9974	0.9993	0.9745	0.9974
Hungary	<i>Multiple</i>	0.5286	0.5387	0.8312	0.9862	0.3474	0.7835	0.9868	0.6151	0.7009	0.9994

	R										
	R <i>Square</i>	0.2794	0.2902	0.6909	0.9726	0.1207	0.6139	0.9739	0.3783	0.4913	0.9989
Spain	<i>Multiple</i>										
	R	0.1014	0.8018	0.1563	0.8048	0.0676	0.9487	0.8033	0.9652	0.5591	0.8819
	R <i>Square</i>	0.0102	0.6434	0.0243	0.6477	0.0045	0.9007	0.6453	0.9316	0.3126	0.7778
Denmark	<i>Multiple</i>										
	R	0.8636	0.7432	0.9033	0.2761	0.8981	0.9459	0.8557	0.9688	0.2675	0.9607
	R <i>Square</i>	0.7458	0.5523	0.8161	0.0762	0.8066	0.8948	0.7323	0.9387	0.0715	0.9229
Belgium	<i>Multiple</i>										
	R	0.8541	0.9716	0.9302	0.9168	0.8868	0.8502	0.9514	0.9144	0.9692	0.9908
	R <i>Square</i>	0.7294	0.9443	0.8654	0.8406	0.7865	0.7226	0.9052	0.8362	0.9393	0.9816
Slovakia	<i>Multiple</i>										
	R	0.5386	0.4927	0.9921	0.8842	0.9259	0.4578	0.5968	0.9795	0.8673	0.9232
	R <i>Square</i>	0.2901	0.2428	0.9843	0.7818	0.8574	0.2096	0.3553	0.9594	0.7522	0.8524
Czech Republic	<i>Multiple</i>										
	R	0.9745	0.9514	0.9998	0.9750	0.9985	0.9887	0.9743	0.9975	0.9890	0.9997

	<i>R Square</i>	0.9497	0.9052	0.9981	0.9507	0.9977	0.9776	0.9492	0.9954	0.9782	0.9994
Slovenia	<i>Multiple R</i>	0.9894	0.9897	0.9835	0.8613	0.3059	0.9944	0.9965	0.9863	0.8521	0.2988
	<i>R Square</i>	0.9789	0.9795	0.9672	0.7418	0.0938	0.9888	0.9932	0.9727	0.7262	0.0892

Source: own calculations based on OECD, World Bank and Eurostat data

The results of the analysis reveal that there is a strong correlation between the measures adopted and implemented in order to increase labour participation and to reduce unemployment, the employment protection indicators and different types of measures for active and passive labour market policies.

By analysing the obtained results we noticed that, in average, within the European Union, there is a direct connection between employment protection legislation, outcome indicators (employment and unemployment rates) and policy indicators, the correlation being stronger for the passive labour market policies and much weaker for the active ones, concerning the expenses on these types of policies and the number of participants to specific programmes. The dependency is weak between the analysed variables across EU Member States, pointing out that the employment policies adopted and implemented during this period are very different and thus have generated different outcome results and performances.

If we analyse the situation of each Member State, we can notice that there is a strong dependency between the analysed variables for almost all considered countries (Germany, United Kingdom, Netherlands, Belgium, Czech Republic, Slovenia), except for Hungary, Spain and Slovakia. In these cases, the major influence of policy indicators and institutional characteristics was upon unemployment rates as an outcome indicator and insignificant upon employment rates.

A major influence of the analysed variables on labour market performance can be noticed in the case of Netherlands and Czech Republic, where the correlations between EPL, policy and outcome indicators have generated correlation coefficients very close to 1. Czech Republic has registered very good performances by implementing various flexicurity policies during the analysed period. In the case of Germany, there is a strong dependency between the analysed variables, still much more weak if we consider the influence of active labour market policies, unlike United Kingdom, where passive labour market policies have a weak influence upon the outcome indicators. The results obtained for Hungary point out that there is a very weak influence of policy indicators, except for a specific indicator, the activation to programmes developed through active and

passive labour market policies. In the case of Spain, labour market policies, especially the active ones have a significant influence on unemployment and a more fragile influence on the level of employment. For Belgium and Slovenia the results highlight a strong direct dependency between the analysed variables, still, in case of Slovenia passive labour market policies have a weaker influence on outcome labour market indicators.

The results obtained after performing the regression model in the case of Romanian labour market are presented in table 2.

Table 2

Correlation between outcome and policy indicators specific to the Romanian labour market, 2003 - 2008

		Participants to ALMPs	Participants to PLMPs	Expenses on LMPs, % of GDP	Expenses on ALMPs, % of GDP	Expenses on PLMPs, % of GDP
Long-term unemployment rate, %	<i>Multiple R</i>	0.67508	0.89211	0.87308	0.90853	0.84346
	<i>R Square</i>	0.45573	0.79585	0.76228	0.82543	0.71143
Unemployment rate, %	<i>Multiple R</i>	0.72159	0.77765	0.77168	0.80922	0.74412
	<i>R Square</i>	0.52071	0.60473	0.59549	0.65483	0.55372
Employment rate, %	<i>Multiple R</i>	0.90715	0.89103	0.93612	0.81167	0.93776
	<i>R Square</i>	0.82293	0.79393	0.87632	0.65878	0.87929
Employment growth, %	<i>Multiple R</i>	0.92741	0.45985	0.54461	0.39489	0.56076
	<i>R Square</i>	0.86007	0.21146	0.29663	0.15593	0.31445

Source: own calculations based on OECD, World Bank and Eurostat data

By analysing the results obtained for Romania, we observed that there is a direct dependency between employment rate, employment growth and labour market policies and institutions, respectively a strong link, but with a lower intensity between unemployment rate and policy indicators. These results point out that even if the expenses on labour market policies as a percentage of GDP and the activation to labour market programmes are among the lowest in the European Union, still all these elements have a major influence on outcome indicators and the overall performance of the labour market.

The main research limitations of the analysis performed in the case of Romanian labour market refer to the lack of data concerning employment protection legislation, due to the fact that OECD and Eurostat databases have no relevant data for Romania. The most relevant issues are revealed by World Bank, Doing Business Database, Employing Workers, through Rigidity of Employment indicator. The value of this indicator for Romania is 39, pointing out relatively high labour market rigidity, especially concerning employing procedures, the difficulty of hiring processes, the restrictions for short-term contracts, maximum duration, minimum wages, the rigidity of working hours and working programme.

V. Conclusion

The results of the comparative and impact analysis point out the fact that high employment rates within the European Union are in general associated with an increased level of expenses on specific labour market policies, especially active policies, but also with a large number of participants to various labour market programmes and with a lower degree of rigidity for labour market institutions.

The impact of specific labour market policies on its performance is very different across EU Member States. Active labour market policies have positive effects on labour market outcomes (especially on the level of employment), but the intensity and effectiveness of these policies vary across countries, according to different types of measures adopted and implemented and to cyclical labour market conditions. Within the analysis, certain types of active labour market programmes

have had a positive impact on labour market performance. However, in several cases, these types of programmes have had no impact on improving the employment perspectives of the participants.

Employment services are in general the most effective labour market interventions, with a lower cost than certain active labour market programmes.

Passive labour market policies, especially unemployment benefits, generally have an ambiguous impact on the overall labour market performance. On the one hand, these types of policies can increase employment rate, but on the other hand they can discourage the job search.

If we take into consideration the relation between unemployment benefits and other types of labour market policies, the results obtained reveal that the impact of generous unemployment benefits upon the level of unemployment can be mitigated by a higher level of expenses on active labour market policies, especially due to the fact that high expenses on these types of policies are generally associated with labour activation. At the same time, legal norms that intensify labour market rigidity or determine a decrease of labour demand generally have a negative impact on labour market outcomes and performance.

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