



**Employment Protection Legislation (EPL)
and its effects on Labour Market Performance**

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This background document for the intervention at the High-Level Tripartite Conference on Social Dialogue for ILO Constituents in the EU Accession Countries presented below is equivalent to Chapter 5 (entitled “The Impact of EPL on Labour Market Outcomes: Evidence from transition and western industrialized countries”) of the forthcoming monograph S. Cazes and A. Nesporova, *Labour market flexibility and employment security in transition countries*. (International Labour Office, Geneva 2003). The main aim of the book is to contribute to the discussion on necessary changes in labour legislation, collective bargaining and labour market and social policies, which would facilitate labour adjustment for enterprises while providing reasonable employment security for workers in these countries. The book starts with analyzing and explaining the trends and cross-country differences in employment, unemployment and underemployment in the transition countries of Central and Eastern Europe and Central Asia. It also studies changing characteristics of employment, such as changes in the employment structure by economic sector; development of self-employment and employment effects of privatization and foreign direct investment; and general trends and cross-country differences in flexible forms of employment. The analysis then focuses on labour market flexibility and job stability and discusses the impact of perceived high job insecurity on labour market developments in the transition countries. Further it analyses modifications in employment protection legislation in these countries after 1989, measures its strictness using newly created indicators and compares it with that for OECD countries. Econometric analysis is used for testing the links between employment protection legislation and labour market performance. The book also provides an insight into changes in labour market policies, the role of trade unions and collective bargaining, and in labour taxation as compared to OECD countries. The impact of different labour market institutions on labour market outcomes is assessed first by using single cross-country regressions for individual labour market indicators and in the second step by using a multivariate analysis. General conclusions are drawn from these analyses for a future labour market policy orientation of the transition countries.

The Impact of EPL on Labour Market Outcome: Evidence from transition and western industrialized countries

1. Introduction

This paper explores the impacts of employment protection legislation (EPL) on aggregate labour market outcomes. EPL is understood here to refer to regulatory provisions that relate to “hiring and firing”, particularly those governing unfair dismissals, termination of employment for economic reasons, severance payments, minimum notice periods, administrative authorization for dismissals, and prior consultations with trade union and/or labour administration representatives. In this paper we do not take into consideration other types of labour market intervention and workers' protection, which may affect labour market performance of the analyzed countries.

The purpose of this paper is to highlight the need for analytical and statistical tools for understanding and measuring labour market flexibility and labour market performance in transition countries. It opens with a short survey of the potential benefits and costs of strict EPL in terms of its impact on aggregate employment and unemployment, as well as their structure (i.e. certain groups of workers) and summarizes empirical evidence for western industrialized countries (hereafter “OECD” countries¹). The analysis is then conducted for transition countries: the changes in employment protection and their labour market consequences are assessed in more details in five selected countries – Bulgaria, Czech Republic, Poland, Estonia and the Russian Federation- at the end of the 1990’s. The comparison is done more from an economic point of view rather than from a strictly legal position. Based on this information, EPL indicators are constructed for the five countries using the same methodology as the OECD – see OECD (1994) and OECD (1999). Finally, we provide some preliminary evidence on the link between EPL and labour market performances in these countries based on bivariate associations.

2. Existing work

2.1. Some principles governing the impact of hiring and firing rules

The strictness of the employment protection legislation may affect both employers’ and employees’ decisions: the main argument for employment protection relates to employees security at work, in employment and income, and the advantage of a stable employment relationship that encourages investment in human capital and thereby upgrade the productivity of the worker. Another argument in favour of EPL refers to the willingness of workers to accept technological change and internal job mobility, with a potential increase of productivity. At a macro-economic level, EPL may also be seen as a “stabilizer”, in smoothening labour market adjustment to adverse macro economic shocks. The main argument against employment protection is that it constrains firms’ behaviour by raising

¹ As “OECD countries” we call here a group of 19 countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, United Kingdom, and the United States for which comparative data are available, although the OECD has now more members, including some from the transition countries – the Czech Republic, Hungary, Poland and Slovakia.

labour costs and hence it may reduce total employment. These arguments are developed below.

The primary task of EPL is to give more employment and income security to workers, both in their current jobs and in the case of redundancy. Advance notice informs workers of layoff plans and gives them time to search for new jobs. EPL in some countries obliges employers to offer internal redeployment if possible and to cooperate with the trade unions and public labour market institutions on re-employment of redundant workers, while providing financial compensation for hardship connected with layoffs. The aim of these provisions is to strengthen longer-term attachment of workers to their jobs and employers or, if their internal redeployment is not possible, to facilitate relatively smooth external re-employment and moderate income loss. Stable employment prospects are there to encourage workers to undergo retraining and skills upgrading and to encourage enterprises to invest in workers' training, which would lead to higher labour productivity and internal flexibility of the workforce, beneficial for better market adjustment of enterprises – see Piore (1986). Job security of workers should also moderate their resistance against the introduction of new technologies and working practices.

But stricter EPL makes redundancies in general more lengthy and costly for employers. Enterprise management should thus be forced to look for alternative solutions to dismissals such as the enhancement of functional flexibility of the personnel through better human development policy and stronger motivation of workers in the framework of enterprise restructuring, technological upgrading, improved marketing strategy, etc. Firms are thus stimulated to look for internal reserves, to invest in human resources and to constantly improve their technology and organization of work. In return, they get a loyal workforce, willing and able to constantly adapt itself to new technological and market challenges – see Akerloff (1984).

Stricter EPL is also expected to provide better employment protection to certain vulnerable groups who in the case of dismissal would face difficulty to find a new job and source of income. These groups include older workers specially protected by seniority rules, employed women during their pregnancy and maternity leave, single parents taking care of small children, disabled workers and other groups. Employment protection thus helps mitigate discrimination against vulnerable workers, promotes their employment and helps save social welfare funds otherwise necessary for income support of disadvantaged groups of the labour force.

In this way, stricter EPL ensuring higher job stability should enhance aggregate productivity through better enterprise adaptation, technological progress and a constant training of workers while simultaneously ensuring higher income equality and fighting against discrimination. The overall effect is expected to be improved economic performance and living standards of the population (see Ichniovski et al. (1997), Nickell and Layard (1998)).

Potential costs of stricter EPL include first of all the widening distance between “insiders”, i.e. workers in regular jobs enjoying high employment security through EPL, and “outsiders”, i.e. those in irregular jobs (fixed-term, seasonal or any type of informal employment) as well as unemployed jobseekers, non-covered by EPL. In general, for the first group of workers job tenure increases with age while the risk of losing their job declines. In contrast, the second group of persons faces difficulties in access to regular jobs, particularly

strengthening in periods of higher economic volatility. In this way stricter EPL may stimulate the rise in irregular forms of employment and reduce new hiring, mainly those for regular jobs. This would result in higher unemployment, and especially long-term unemployment. However, even for the first group of workers stricter EPL may bring certain disadvantages. While they are indeed better protected against job loss in general, they may be forced to accept internal redeployment to worse positions in terms of skill requirements, responsibility, status or remuneration.

Firms are bearing higher labour costs in case of stricter EPL as layoffs are combined with severance pay and other obligations in favour of redundant workers (e.g. assistance in re-employment, funding of labour market training, etc.). Moreover, due to more lengthy administrative procedures (advance notice, negotiations with workers' representative bodies and/or labour market institutions) the firm has to keep redundant workers on payroll for a certain period, which again implies significant additional costs. Therefore the stricter is the EPL, the more cautious firms may be in recruiting workers for regular jobs.

For the society the costs of stricter EPL may be twofold. First, the labour market duality between "insiders" and "outsiders" contributes to increasing labour market rigidity, inequality and social exclusion requiring additional costs for their mitigation. Second, the fear of well-protected workers to lose their privileges and become exposed to uncertainties of the labour market prevents them from moving to more productive jobs elsewhere. But, as mentioned previously, stricter EPL may also contribute towards smoother labour market adjustment, more social stability, sharing of adjustment costs between the society and the enterprise sector, faster absorption of new technologies through pressures on enterprises, with positive impacts on productivity. For firms it is not always possible to make appropriate internal adjustment of their workforce due to lack of investment funds, unfavourable composition of their personnel or unfavourable market situation in general, which would further diminish their market competitiveness and longer-term growth prospects. In such a situation the firm is forced to lay off redundant workers anyway, despite higher costs induced by EPL, and to limit new recruitments, increasing the level of unemployment. Moreover, the duration of unemployment rises. An increase in the number of non-competitive firms is detrimental for national economic development and prosperity in general as it reduces resources for economic and social policy while increasing demand for funds for appropriate intervention.

This overview of theoretical arguments indicates that EPL generates a number of effects on labour costs, employment and productivity, some favourable and some unfavourable. The net impact of these effects seem likely to vary by size of firm, type of activity and according to the economic conditions. But, theoretical models suggest rather clearly that employment should be more stable and individual employment relationships more durable when EPL is stricter (i.e. in a dynamic perspective). In other words, stringent EPL reduces hiring and firing.

2.2. Evidence for Western industrialized countries

Empirical work has explored these implications using various EPL indicators and a variety of cross-sectional indicators of labour market performance. In a nutshell, it does not provide clear-cut results on the relationship between the two variables. It gives some support to theoretical implications as to the behaviour of macro-indicators of labour market

performance (aggregate employment and unemployment levels are not strongly affected by cross-sectional indicators of EPL stringency but are more stable). In formal empirical regressions, EPL indicators are statistically significant but their coefficient is small - see Scarpetta (1996). Empirical evidence has also studied the effects of EPL on the stability of employment relationships from a disaggregated perspective, collecting various measures of such stability from the employees' and employers' points of view. Measures of labour turnover tend to be negatively related to EPL indicators: in USA and Canada, for example, labour turnover is about twice as intense as in most European countries². Some empirical work has also related labour market performance to changes over time of EPL indicators. The results of such exercises are mixed: the OECD (1999) has made a recent overview of the impact of EPL on labour market performances, using updated indicators³. In general, the cross-country comparisons of EPL reveal that there are large differences in national employment protection legislation among industrialized countries, which mostly persisted over the 1990s, despite some reforms. The main findings can be summarized as follows (OECD (1994), OECD (1999), Nickell (1997), Bertola et al. (1999), etc.): the OECD found a clear negative correlation between EPL strictness and the participation rate and the level of employment across countries, but a positive effect on the employment rate for prime age men⁴; however, other studies find other explanations for this phenomenon connected more with economic and cultural differences rather than with strictness of EPL. The results of empirical research are reviewed in Box 1.

To summarize, and contrary to theoretical arguments, empirical work provides therefore mixed results as to the evaluation of the influence of labour market regulation on labour market performances. It suggests that the link between theoretical and empirical results is tenuous and ambiguous; this may partly be explained by the elusive and complex nature of available measures of EPL, and of the EPL concept itself. However, despite their imperfections, EPL indicators are necessary for conducting empirical research. Bearing these caveats in mind, it is therefore important to develop similar analytical and statistical tools for the transition countries. This is the purpose of the next sections.

² See Bertola et al. (1999). The annual rates of labour turnover (sum of separations and new hires during the sample period as a percentage of average employment levels) were 126.4 for US and 92.6 for Canada, against 58 for France, 62 for Germany and 68.1 for Italy in the late 1980s while EPL was significantly stricter in France, Germany and Italy, compared with the US and Canada - see Table 1 later in this chapter.

³ OECD (1999) has also updated and revised its EPL indicators to include regulations of collective redundancies.

⁴ Possibly at the detriment of youth, women and less skilled workers.

BOX.1

Summary of empirical evidence on the labour market effects of stricter EPL.

Generally, employment protection legislation has little or no effect on overall unemployment, but it may affect its duration as unemployment duration increases with stricter EPL, and also its demographic composition. Labour turnover tends to decline with stricter EPL and vice versa. However, stricter EPL increases the share of direct quits from one job to another among all separations. Stricter EPL tends to increase the proportion of long-tenure jobs. Most studies confirm that stricter EPL stimulates an increase in the share of self-employment in total employment while the effect on temporary employment and part-time employment is ambiguous. Indeed, the analysis has found no significant effect of overall EPL strictness on the share of temporary employment. Even when breaking down the overall EPL indicator into two sub-indices – one regulating regular employment and one regulating temporary employment, there is no significant effect on the incidence of temporary employment. The OECD analysis also shows a positive effect of liberalization of EPL on temporary employment of youth leading to increasing recruitments of young workers for temporary jobs (which facilitate their transfer from education to work) but little evidence has been found in favour of a link between strict EPL and temporary employment for other groups of workers.

The analyses have proved the shift of labour adjustment mode of enterprises from employment adjustment to adjustment in working hours in case of demand fluctuations in countries with stricter EPL. Strong employment protection also favours higher employment of skilled male workers in prime age while leading to lower employment levels of youth, women and less skilled workers.

However, as the OECD study suggests the analyses should also take into consideration other factors affecting labour market performance such as collective bargaining or labour market policies, both passive and active. Results of a multivariate analysis in general confirmed some but not all of the above mentioned findings. First of all, no significant link between EPL strictness and overall unemployment has been found. Second, collective bargaining at the central level seems to mitigate any negative effect of stricter EPL on the level of unemployment. Third, no important effect of the replacement rate of unemployment benefits or the length of their payment on total unemployment has been revealed. In contrast, the level of spending on active labour market policies has been found to have a positive effect on the unemployment decline, nevertheless this relationship is statistically insignificant. Fourth, while stricter EPL indeed has a positive impact on unemployment of prime-age men, no significant correlation has been revealed between EPL strictness and higher unemployment of youth and prime-age women.

As far as employment effects are concerned, the multivariate analysis also confirmed a positive effect of stricter EPL on the employment rate of prime-age men and a negative effect on general employment as well as employment of women. However, none of these correlation coefficients were statistically significant suggesting that EPL may have little impact on the level of employment when other factors are controlled for.

In contrast, EPL is significantly correlated with certain labour market flows across countries, such as labour turnover, inflow into unemployment, duration of unemployment and the share of long-term unemployed. The stricter the EPL is, the lower the labour turnover, the higher the inflow into unemployment, the longer the duration of unemployment and the higher the proportion of long-term unemployment in total joblessness are. The OECD report has also found out that it is EPL concerning regular employment which is more important for the above mentioned relationships while EPL on temporary employment is important in the case of inflows into unemployment and duration of unemployment (but only jointly with EPL on regular employment). A multivariate analysis showed a stronger negative correlation between EPL strictness (both concerning regular and temporary employment) and the inflow rate into unemployment and a positive correlation between EPL strictness and the duration of unemployment. Thus, the impact of employment protection legislation seems to be much greater on the dynamics and composition of unemployment than on its level.

Source: OECD (1999).

3. Development of EPL over the 90s: a cross-country comparison in CEE countries

Under the centrally planned economic system workers enjoyed a fairly high degree of employment protection in their jobs. In general, the Labour Code did not allow enterprises to lay off redundant workers for economic reasons. In (rather rare) cases of enterprise restructuring or relocation connected with the abolition of certain jobs, the enterprise was obliged to offer another job internally (combined with internal retraining if necessary) to the workers concerned. This was usually to be agreed with the worker and the trade union organization and supplemented by compensation for hardship caused by the job transfer. If internal redeployment were not possible, labour departments of local authorities had to find for these workers other jobs of similar quality, skill requirements and level of remuneration as under the full employment policy it was the responsibility of the state to provide employment to all able-bodied persons of working age.

Employment protection in concrete jobs was so strong that for example women returning after extended maternity leave (up to 3 years in a number of transition countries) had not only guaranteed employment with the same employer but also return to their previous job. Unless the reason for employment termination was a criminal offence or a serious break of labour rules, the latter requiring to be approved by the trade union organization, the enterprise had no other possibility to terminate the labour contract than by agreement with the worker. Conversely, if the worker wished to leave the enterprise, unless the reason was among those enlisted in the Labour Code as legal reasons for regular employment termination (such as the start of study, change of residence, under-utilization of education, etc.) the worker had to reach an agreement with the enterprise otherwise he/she was penalized by an extended notice period. The negative effect of the workforce stabilization policy combined with the low level and limited differentiation of wages was extreme labour rigidity, inefficient labour allocation and a low level of labour productivity.

The need for rapid structural adjustment of the transition economies after the introduction of economic and social reforms was reflected in profound amendments to national EPL immediately thereafter. The objective was to facilitate workforce adjustment for firms in order to make enterprises more flexible and economically competitive while guaranteeing solid employment protection for workers comparable with that prevailing in developed market economies. In reality it meant substantial moderation of workers' protection in general, which was also made possible due to the weakening of trade union power. Over the 1990s, the EPL was amended several times after heated discussions with the social partners, resulting in the re-tightening of employment protection in some countries and its further moderation in others. Nevertheless, the differences among the transition countries persist. This chapter presents a cross-country comparison of national EPL in five transition countries (Bulgaria, Estonia, Poland, Russian Federation and the Czech Republic) based on the expertise of national lawyers⁵.

3.1 Permanent employment

All the five selected transition countries have incorporated into their national EPL the possibility of redundancy for economic reasons, including bankruptcy, complete or partial

⁵ See I. Beleva and V. Tzanov (2001); R. Arro, R. Eamets, J. Järve, E. Kallaste and K. Philips (2001); E. Kwiatkowski, M.W. Socha and U. Sztanderska (2001); T. Tchetvernina, A. Moscovskaya, I. Soboleva and N. Stepantchikova (2001); J. Vecernik (2001).

liquidation of the enterprise as well as staff cuts due to changes in production, production technology and structure of the enterprise as well as to financial problems of the employer. In such a case the redundant worker enjoys protection in the form of a notice period combined with severance pay. Other reasons for employment termination with notice include long-term absence from work due to health reasons, unsatisfactory work performance due to health problems or inadequate qualifications, and refusal to move to another locality in connection with the relocation of the enterprise or of one of its parts. In some countries like Bulgaria and Estonia, age and eligibility for old-age pension are also valid reasons for employment termination with notice by employer while in other countries such a termination is unlawful.

The countries, however, differ by the length of notice, which may or may not depend on seniority and the reason for employment termination, by the level of severance pay, special protection of certain vulnerable social groups, and other obligations of employers to redundant workers. The countries also vary in terms of the third party involvement, which may extend the effective notice period. In addition, some countries have special rules for collective dismissals while others not.

In Bulgaria, the minimum notice period for individual redundancies is uniformly set at 30 days, which may be extended upon agreement up to 3 months. There is no obligation for employers to inform a third party, be it trade unions or labour market institutions about redundancy, with the exception of trade union functionaries, for whom the consent of the trade union organization is requested. Dismissals of workers during their annual or sick leave as well as redundancies for economic reasons and inadequate qualifications of the worker (including due to changes in job description), or of pregnant women, women with children below 3, wives of conscripts and disabled persons can take place only with the consent of the territorial labour inspector. Severance pay is set at two average monthly wages for workers with job tenure below 10 years, however those with job tenure of 10 and more years with the same employer get 6 monthly wages. This significant difference in favour of long-serving workers may turn against them as employers may opt for terminating or changing contracts of such workers before letting them complete 10 years of service in order to avoid more costly dismissals. In the case of unfair dismissal, the worker is re-installed in his/her job and gets compensation of up to 6 monthly wages. The notion of collective redundancy is not precisely specified in the Bulgarian labour legislation. The procedures are very similar to those for individual redundancy. However, the employer has to inform the local authority, the local body for tripartite cooperation and the local labour office about the intention of a mass layoff 60 days in advance. If the total number of redundancies exceeds 150, the information has to be delivered to the central labour office. Redundant workers can also opt for a lump sum of BGL 1,000 instead of monthly paid unemployment benefits and they can collect another BGL 1,000 if deciding to start their own business or accept a new job.

Poland also differentiates the approach to workers by their seniority in case of redundancy. Workers with service less than 6 months get a two-week notice, those with service between 6 months and 3 years receive a one-month notice and those employed for more than 3 years receive a three-month notice. There is a possibility for redundancy justified by enterprise liquidation, bankruptcy and staff reduction to shorten the notice period to one month and pay for the remaining part of the notice period if the worker agrees with this solution. The employer is obliged to inform of the intended redundancy (except for redundancy due to liquidation or bankruptcy of the enterprise) the trade union organization, which should give its agreement, otherwise the matter is submitted to a higher-level trade

union body. This requirement may protract employment termination and make it more costly for the employer. Employment cannot be terminated for pregnant women and women on maternity leave, persons on sick leave up to 3 months (for those with service below 6 months) or up to 6 months (for workers employed for more than 6 months) and persons retiring in less than 2 years. This restriction is, however, not valid when the enterprise is in the bankruptcy or liquidation process. Apart from the above-mentioned case, no severance pay is given to redundant workers. Poland has no special arrangement for collective redundancy.

In contrast, the Czech Republic does not have any seniority concessions. The notice period is 2 months for all workers regardless of their length of employment with the same employer or of their age, only in case of staff cuts due to economic or organizational changes it is prolonged to 3 months. The employer is obliged to discuss any intended redundancy with the trade union organization; however, the consent of trade unions is necessary only for their functionaries. In addition, if redundancy is due to the enterprise closure, economic difficulties or organizational changes or as a result of a long-term incapability of the worker to comply with his/her work tasks, the employer is requested to inform the local labour office and cooperate with it on the worker's redeployment. If the worker does not meet requirements for performing his/her job he/she can be laid off only after having received a warning within 12 months prior to the redundancy. Single parents with children below 15, disabled workers and those with occupational disease cannot be made redundant unless the employer ensures their new employment. Severance pay is also uniform for all workers – a two-month salary – but collective agreements may increase it with no upper limit set by law. Collective redundancy has recently been regulated in the Czech Republic since the beginning of 2001. It is specified as the layoff within 30 calendar days of at least 10 workers by an enterprise with 20-100 employees, or 10 per cent of workforce by an enterprise with 101-300 employees, or 30 workers by an enterprise with more than 300 employees. The Labour Code requests the employer to inform the trade union organization at least 30 days before the intended staff cut and suggest measures for its avoidance or limitation. The employer is further obliged to inform the local labour office about the intended mass layoff, measures for its prevention and results of negotiations with the trade union. Notice can be given at least 30 days after the submission of this information to the local labour office.

Estonia, similarly as Poland, respects seniority, both for the notice period and for the severance pay. In case of enterprise bankruptcy, liquidation or staff cut due to economic reason, redundant workers employed with the same employer for less than 5 years get notice at least 2 months prior to redundancy. The length of notice for those employed for more than 5 years and up to 10 years is 3 months and for workers with job tenure longer than 10 years 4 months. Redundancy justified by incapability to meet the tasks for health and qualification reasons requires only a one-month notice. However, similarly as in the case of enterprise restructuring, the employer is required to offer another job to such workers if possible. If a vacancy is opened within 6 months and the laid-off worker meets its skill requirements, the employer is obliged to offer him/her this job. Reaching the age of 65 and the entitlement to a pension can also justify a layoff; in such a case the notice period is 2 months for persons with service below 10 years and 3 months for those with 10 years and more. The employer is requested to inform the trade union organization or any other body representing workers about the reasons for redundancy and measures to avoid it. Similar information is provided to the local labour office with no other commitment for the employer. Pregnant women, youth below 18 and mothers with children below 3 can be laid off only with the consent of the labour inspector. Severance pay is provided to workers made redundant due to bankruptcy,

liquidation or restructuring of the enterprise in the level of a salary for 2 months for those serving less than 5 years, 3 months for workers with service between 5 and 10 years and 4 months for those with more than 10 years of service. Workers laid off due to incapability to meet job requirements get compensation at the level of a one-month salary. Estonia does not have any special procedure for collective redundancy.

In the Russian Federation, the notice period is uniform for all workers and set at 2 months.⁶ The employer is obliged to offer another job to the redundant worker if he has such a possibility. In case of trade union members, the trade union organization must be informed about the intended redundancy and give its consent, which is valid only for one month. Both these conditions may (and in reality often do) considerably protract employment termination and are often quoted as an important reason for choosing other ways of employment reduction, through mutual agreement or pushing workers to voluntary quit by using administrative leave, short-term work or non-payment of wages, with no obligation put on employers. Workers' groups protected against employment termination comprise pregnant women, women with children below 3, single parents with children below 14, and youth below 18. They can be dismissed only if their contract expires and when offered an alternative employment, youth only with the consent of the commission for youngsters. Also trade union functionaries can be fired only with the consent of the higher-level trade union body. Severance pay is provided at the level of a two-week salary to workers made redundant due to incapacity for work for reasons of health or qualifications, long-term absence (over 4 months), refusal of transfer to another suitable job, or military service. In the case of redundancy connected with the enterprise liquidation, bankruptcy or restructuring, the level of severance pay is equal to one-month salary. If the redundant worker does not find a new job after one month, he/she is entitled to another month of salary. After the second month of unsuccessful job search, the worker can obtain another monthly salary (again paid by the employer) under the condition that he registers as a jobseeker at the local labour office.

The Russian Federation does not have any precise definition of collective redundancy. The Employment Act obliges employers to inform the concerned employees, the trade union organization and the local labour office about the intended mass layoff at least 3 months in advance. The trade union organization assesses whether the employer has properly met the employment termination procedure and in particular, whether he has offered alternative jobs to redundant workers. Without its consent, mass redundancy cannot be implemented.

3.2. Temporary employment

In contrast with regulation of permanent employment, there are vast differences among the five countries in EPL concerning temporary employment.

In Bulgaria and the Russian Federation, *fixed-term contracts* are permitted only in special cases, specified by law. In Bulgaria, fixed-term contracts can be concluded only for (i) replacement of a temporarily absent worker; (ii) jobs occupied on the basis of a competition before the competition procedure is completed and the winner installed in the job; (iii) the

⁶ The Russian labour legislation analysed below was in effect till the end of 2001. For time constraints and incomplete information available computations in this and the following chapters could not be re-done for the new legislation effective as of January 2002 and therefore we do not analyze this new legislation in this place either.

period of performing a clearly specified work.⁷ In the Russian Federation, the conclusion of a fixed-term contract is allowed only in the case of (i) seasonal work up to 6 months; (ii) temporary work up to 2 months; (iii) substitution for a temporarily absent worker up to 4 months; and (iv) if the worker wishes so and it is in his/her interest. However, fixed-term contracts cannot be used for testing the ability of workers to do certain jobs as the Labour Code forbids any assessment of performance and professional abilities during the first year of employment.

Czech Republic does not allow the conclusion of fixed-term contracts with school leavers from training facilities, secondary and tertiary schools if they take up a job corresponding to their qualifications unless these persons themselves request it in writing. In contrast, fixed-term contracts can be concluded with disabled persons.

Only Poland puts a limit to the renewal of fixed-term contracts: after two renewals the third renewal is connected with its automatic change into a permanent contract. Bulgaria limits the total period of temporary employment to 3 years.

Fixed-term contracts are terminated by the expiry of the period of their fixing. However, if in Bulgaria the worker continues his/her work for at least 5 days without a written protest by the employer, the fixed-term contract is automatically changed into a permanent one. In Estonia, the employer is obliged to give notice to the worker at least 14 days before its expiry if the contract has been fixed for 1 year and more, or 5 days if the contract has been for less than 1 year otherwise the contract turns into a permanent one. The notice period for employees is 5 days; however, the contract is also terminated when the worker does not show up at work after its expiry. The notice period is not required in the case of replacement for an absent worker. In Poland the parties can agree on a notice period when concluding a fixed-term contract. In other countries the change into a permanent contract is valid when the employee continues working with the consent of the employer.

If in Estonia the notice period at the expiry is not kept by the employer he is obliged to pay compensation at the level of daily remuneration for each working day short of the notice period. In all the countries, fixed-term contract may be terminated before its expiry either by mutual agreement or by notice with compensation, usually depending on the length of the contract, or without notice, following a serious break of rules or in the case of sickness, disability, care for family members, education, etc.

Apart from fixed-term contracts, work can also be performed under the Civil Code, which usually precisely specifies the conditions for the use of “civil contracts”. In general, they are applied for seasonal work or performance of a special task and often are also strictly time-limited. As a rule, persons performing such work are not covered by occupational safety and health rules nor social and health insurance covered by the employer. When the contract expires they are not entitled to unemployment benefits. While civil contracts have been intended as agreements between independent parties on performing one-off tasks, in practice

⁷ Recently, a draft amendment to the Labour Code has been submitted for discussion in the Parliament, which moderates the conditions for using fixed-term contracts. The draft amendment allows their application for any temporary work or for recruitment of workers by enterprises in financial problems or in liquidation. In addition, any enterprise can exceptionally recruit workers on fixed-term contracts if their duration is at least 1 year (for a shorter period only upon a written request by the worker) and this contract can be renewed only once (Beleva, 2001).

they are often applied for de facto regular employment relationships while employers economize on overhead costs, protection measures and aids and get highly flexible labour. The state budget and the social and health funds lose a part of income from taxes and social contributions⁸. The precarious position of workers under civil contracts, the use of which expanded from the start of economic transformation, and the lower collection of taxes and contributions were the major reasons why several transition countries tried to stop their misuse. In Poland, the 1996 amendment to the Labour Code changed all the civil contracts actually covering employment relationship into regular employment contracts.⁹

None of the selected transition countries has any explicit regulation of agency work, which is still quite rarely used there. The strictness of the employment protection legislation described above will now be assessed by using the method suggested by the OECD. As said before, there is a need for indicators for transition countries, since only ad hoc indicators are produced according to research needs: the World Bank has for example produced EPL indicators for EU accession countries.

For lucidity, a summary EPL survey for the 5 countries is provided in Annex 1.

⁸ Persons working on civil contracts are themselves responsible for paying income tax and social contributions but due to concessions for small entrepreneurs valid in some countries, frequent underreporting of income and over reporting of costs deductible from the income tax base, the actual level of income tax and social contributions paid by them is considerably lower compared with the level paid by the employer and the employee in the case of regular employment.

⁹ Kwiatkowski, Socha and Standerska (2001), however, admit that this amendment could not cover all cases and certain misuse of civil contracts persists.

4. Measuring EPL strictness

4.1. Methodology

Measuring employment protection is a difficult task, so different indicators of EPL strictness have been developed and applied. Quantitative aspects can be easily computed like the number of months' notice required for individual dismissal and severance pay. But other aspects are more difficult to measure precisely, such as the interpretation of the definition of "just cause" for termination. However, such problems have been partly overcome when the different indicators were positively correlated to each other to produce unambiguous cross-country rankings of EPL.

Table 1 provides ranking of selected OECD countries on the basis of several indicators measuring EPL strictness. Although different methodologies obviously give varying results the overall tendency indicates that countries of Southern Europe tend to have the strictest regulations and these regulations get weaker while moving further North. Switzerland, Denmark and the United Kingdom have the weakest laws in Europe and the United Kingdom is broadly comparable with the United States in this respect (the last column of the table summarizes this).

Table 1. Ranking of selected OECD countries by "strictness" of employment protection legislation

Country	Maximum pay and notice period (1)	OECD (2)	International Organization of Employers (IOE) (3)	Bertola	Average ranking based on the four preceding columns (4)
	1993	1989	1985	1985	1985-1993
Austria	14.75	9.0	1.5	7.6*	16
Belgium	8.50	10.50	2.5	9.0	17
Denmark	4.50	3.25	1.0	2.0	5
Finland	6.00	10.50	1.0	5.5*	10
France	3.50	9.50	2.5	8.0	14
Germany	4.50	12.00	2.5	6.0	15
Greece	13.25	11.00	2.5*	9.1*	18
Ireland	14.00	2.75	1.5	6.0*	12
Italy	13.00	14.25	3.0	10.0	21
Netherlands	4.00	7.25	2.5	3.0	9
Norway	6.00	9.75	1.5	5.9*	11
Portugal	17.00	12.50	2.0	9.5*	19
Spain	15.00	11.25	3.0	10.0*	20
Sweden	6.00	8.50	2.0	7.0	13
Switzerland	5.00	1.75	0.9*	3.2*	6
United Kingdom	6.00	2.25	0.5	4.0	7
Canada	1.25	1.65*	0.6*	2.0*	3
United States	0.00	0.36*	0.4*	1.0	1
Australia	3.00	3.26*	0.9*	3.1*	4
New Zealand	0.25	0.72*	0.4*	1.3*	2
Japan	1.00	3.71*	1.0*	5.0	8

* Figures are estimates of missing values, made by regression/extrapolation, within the table: see note 4 below.

(1) The sum of maximum notice and severance pay, in months, see OECD 1993.

-
- (2) The average of OECD rankings for the strictness of protection for regular and fixed-term contract workers.
- (3) The average of the IOE scorings of obstacles to dismissal or use of regular and fixed-term contract workers (scale from 1-3), see OECD (1994) for details.
- (4) This 'average ranking' is the rank order of a weighted average of the indicators in the preceding columns. In the weighted average, the weight of each indicator is the inverse of the coefficient estimated when that indicator is regressed on the weighted average itself. The missing values for each indicator are estimated from these regressions. Mutually consistent estimates with these properties were obtained by an iterative procedure.
- Source: OECD (1994).
-

As indicated in table 1, the OECD has also produced EPL indicators (for both regular and fixed-term contract workers) to study the relationship between employment protection legislation and labour market outcomes for its member countries: these indicators consider a whole set of regulations, which are weighted according to their importance. Recently, the methodology has been updated and enlarged to consider regulation concerning collective dismissals (OECD, 1999). The methodology used here for transition countries and described below corresponds to this latest version.

Table 2 and box 2 present the twenty-two different items describing various aspects of the legislation, covering both permanent and temporary contracts, as well as collective dismissals, which are aggregated in three steps, from one level to the next using a set of weights. Level 1 refers to updated (1999-2000) and detailed information that was collected by the national experts and presented in the previous section. Some of the components can be easily quantified (e.g. the length of notice period) in months, but some others need to be transformed into quantitative terms (e.g. difficulty of dismissals), using a subjective conversion scale. In level 2 several sub-indicators are obtained referring to major components of the legislation such as procedural inconveniences, notice and severance pay for no-fault individual dismissals, or the difficulty of dismissals. Level 3 provides three groups of indicators: (1) one describing legislation for regular contracts; (2) one covering temporary contracts; and (3) one capturing the collective dismissals procedures. In a final step, these three sub-indicators are aggregated in an "overall summary indicator" using different weights. The countries with very flexible employment regulation have a low overall EPL indicator (close to 0 or 1), while those with very strict legislation have a high indicator (close to 5 or 6).

Table 2 Employment Protection Index: Selection of indicators and weighting scheme.

Level 1			Level 2		Level 3		Level 4	
Procedures		(1/2)	RC1		RC <u>Regular contracts</u> (5/12)	EPL Overall Summary Indicator		
Delay to start a notice		(1/2)	Procedural					
			Inconveniences	(1/3)				
Notice period after	9 months	(1/7)	RC2					
	4 years	(1/7)	Notice and severance					
	20 years	(1/7)	pay for no-fault individual					
Severance pay after	9 months	(4/21)	dismissals	(1/3)				
	4 years	(4/21)						
	20 years	(4/21)						
Definition of unfair dismissal		(1/4)	RC3					
trial period		(1/4)	Difficulty of dismissal	(1/3)				
compensation		(1/4)						
reinstatement		(1/4)						
valid cases other than objective		(1/2)	TC1		TC <u>Temporary contracts</u> (5/12)			
max number of successive contracts		(1/4)	Fixed-term contracts	(1/2)				
max cumulated duration		(1/4)						
types of work for which is legal		(1/2)	TC2					
restrictions on number of renewal		(1/4)	Temporary Work Agency	(1/2)				
max cumulated duration		(1/4)						
definition of collective dismissal		(1/4)						
additional notification requirements		(1/4)						
additional delays involved		(1/4)	<u>CD Collective Dismissals</u>		(2/12)			
other special costs to employers		(1/4)						

BOX 2

Indicator EPL1 is based on regulations concerning regular and temporary contract, while EPL2 is based on regulations for regular/temporary contracts and collective dismissals.

EPL1 covers therefore:

- * Regular contracts (level 3) which include three major components (level 2), referring to: procedural inconveniences, notice and severance pay for no-fault individual dismissals; and difficulty of dismissals. Each of the three elements has the same weight (i.e. 1/3).

- * Temporary contracts (level 3) which cover two major components - fixed term contracts and temporary agency work. Each of the two elements has the same weight (1/2).

EPL2 adds therefore:

- * Collective dismissals (level 3) which include definition of collective dismissals, information on notification requirements, additional delay involved; and other special costs to employers (level 2-level 1).

4.2. EPL indicators

The results of measuring EPL strictness for selected transition countries are presented in Table 3, which also compares the average level of EPL strictness for these countries with the EU average and the OECD average. Basically, the indicators range in integer values from 1 to 6: countries with very flexible EPL have a low overall value (close to 0 or 1), and those with a very strict legislation have a high value (5-6). Table 3 indicates that transition countries do not constitute a homogeneous group: when the indicator of strictness of the legislation of the selected countries is compared, Hungary, Bulgaria and Poland are amongst the most flexible for *regular employment*, followed by Estonia and the Czech Republic, while the Russian Federation has the most restrictive EPL. If regulations on regular and temporary employment are considered Hungary takes the lead as the least restrictive country, closely followed by Poland and the Czech Republic, with the Russian Federation and Slovenia on the opposite side of the scale. Finally, the indicator measuring the overall EPL strictness shows the lowest value for Hungary and Poland and the highest value again for the Russian Federation and Slovenia. The results prove that substantial disparities do exist among the transition countries, with Hungary having the most flexible legislation, closely followed by Poland and the Czech Republic, while the Russian Federation and Slovenia tend to be the most restrictive.

Table 3 EPL indicators in selected transition countries, late 1990s*

<i>Country</i>	Max pay & notice period	Index for regular contracts	Difficulty of dismissals	Index for reg. & temporary contracts	Index for reg. & temp contracts & collect. dismissals
	(1)	(2)	(3)	(4)	(5)
Bulgaria	7	2.3	2.9	2.5	2.8
Czech Republic	5	3.0	3.2	1.8	2.2
Estonia	8	2.9	2.9	2.1	2.4
Hungary	8	2.1	2.5	1.5	1.8
Poland	3	2.3	2.7	1.7	2.0
Russian Fed (a)	5	3.3	3.5	2.9	3.2
Slovakia	4	2.6	2.4	1.9	2.3
Slovenia	16	3.4	4.5	3.0	3.3
Transition average (a)	-	2.7	3.1	2.2	2.5
EU average (b)	-	2.4	-	2.2	2.4
OECD average (c)	-	2.0	-	1.9	2.0

Source: authors' calculations; OECD, 1999; and Riboud and al., 2001

* Note: These estimates are given for 1999, i.e. before the recent revisions of the labour codes of Poland, the Russian Federation and Slovenia.

(1) The sum of maximum notice and severance pay, in months (authors' calculations).

(2) Summary score for overall strictness of protection against dismissals.

(3) Covers the strictness of the legal definitions of unfair dismissal, the frequency of verdicts involving the reinstatements of the employees and the monetary compensations typically required in the case of unfair dismissals

(4) Weighted average of indicators for regular contracts and temporary contracts.

(5) Weighted average of indicators for regular contracts, temporary contracts and collective dismissals.

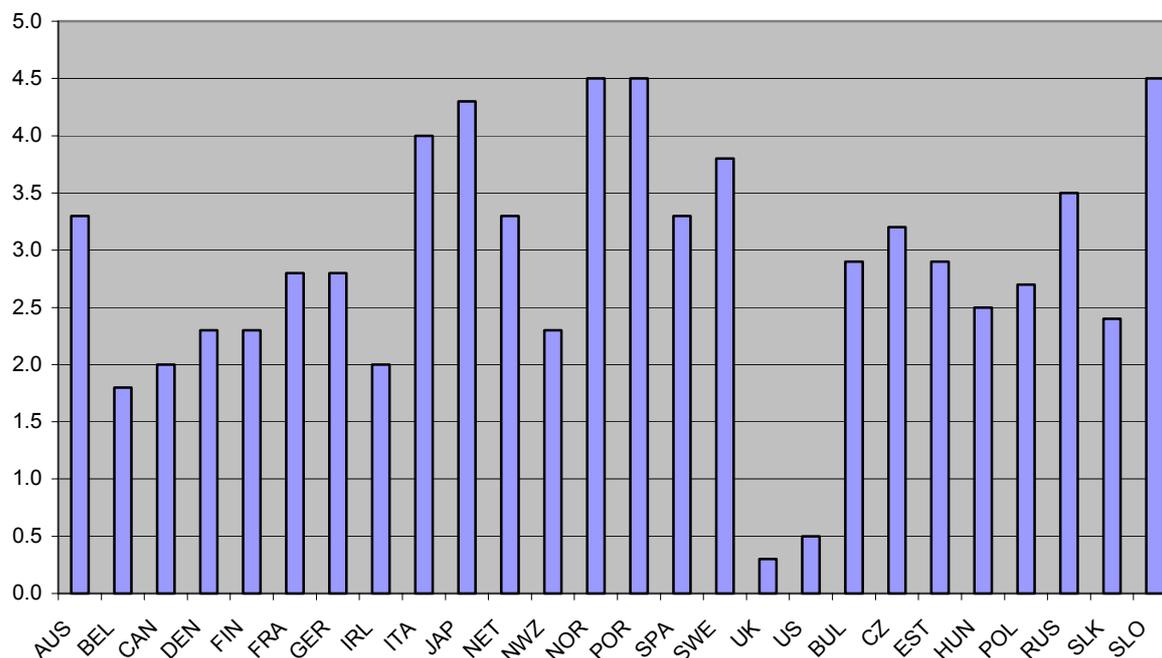
(a) Unweighted averages for transition, EU and OECD countries.

(b) Does not include Greece and Luxemburg

(c) Selected OECD countries

As mentioned before, differences also exist among OECD countries - see Nickell (1997); OECD (1999); Bertola et al. (2000). Indeed, there is a large diversity within this group of countries, between the strictness of the employment legislation in the United States or the United Kingdom and Southern Europe countries (figure 1). In fact, considering the full sample of the twenty seven selected countries, it can be seen that cross-country differences are not so much between transition and OECD countries as the average of the selected transition countries is at the same level as the EU countries and slightly above the OECD average for the two indicators covering (i) legislation on permanent and temporary contracts (the value of 2.2 compared with the same level of EU and 1.9 for OECD) and (ii) the same plus legislation on collective dismissals (2.5 compared with 2.4 for EU and 2.0 for OECD). However, if the Russian Federation and Slovenia are excluded (and EPL has very recently been indeed relaxed there), the average of the transition countries is well below the EU average as can be seen again on Figure 1. Finally, it seems that when reforming their legislation, transition countries were influenced by some western schemes: this is reflected in the overall employment protection ranking, for example in the case of Estonia and Sweden, or Slovenia and Italy.

Figure 1 EPL index in selected OECD and transition countries, late 90s
Range 1 (low) to 6 (high)



AUS: Austria	JAP: Japan	BUL : Bulgaria
BEL: Belgium	NET: Netherlands	CZ: Czech Republic
CAN: Canada	NWZ: New Zealand	EST: Estonia
DEN: Denmark	NOR: Norway	HUN: Hungary
FIN: Finland	POR: Portugal	POL : Poland
FRA: France	SPA: Spain	RUS: Russian Federation
GER: Germany	SWE: Sweden	SLK: Slovakia
IRL: Ireland	UK: United Kingdom	SLO: Slovenia
ITA: Italy	US: United States	

Source: authors' calculations, OECD (1999) and Riboud et al. (2001).

5. Preliminary evidence (bivariate associations)

5.1. Effects on employment and unemployment

Chart 1 below plots the overall indicator of EPL in the late 1990s (along the horizontal axis) against measures of employment and unemployment averaged over 1992-1998 (along the vertical axis). Chart 1 suggests that there is no association between EPL strictness and overall unemployment (part A), nor youth unemployment (part B). However, it shows a weak, but positive relationship between EPL strictness and the overall employment to population ratio (part C). This result contrasts with empirical evidence based on OECD countries (OECD (1999)). However, the scatter of data points is dispersed around two opposite trends and, taking the sole year 1998, instead of the average for employment rates makes the relationship disappear.

Chart 1. EPL strictness, unemployment and employment

A. LFS unemployment rates, averages over 1992-1998

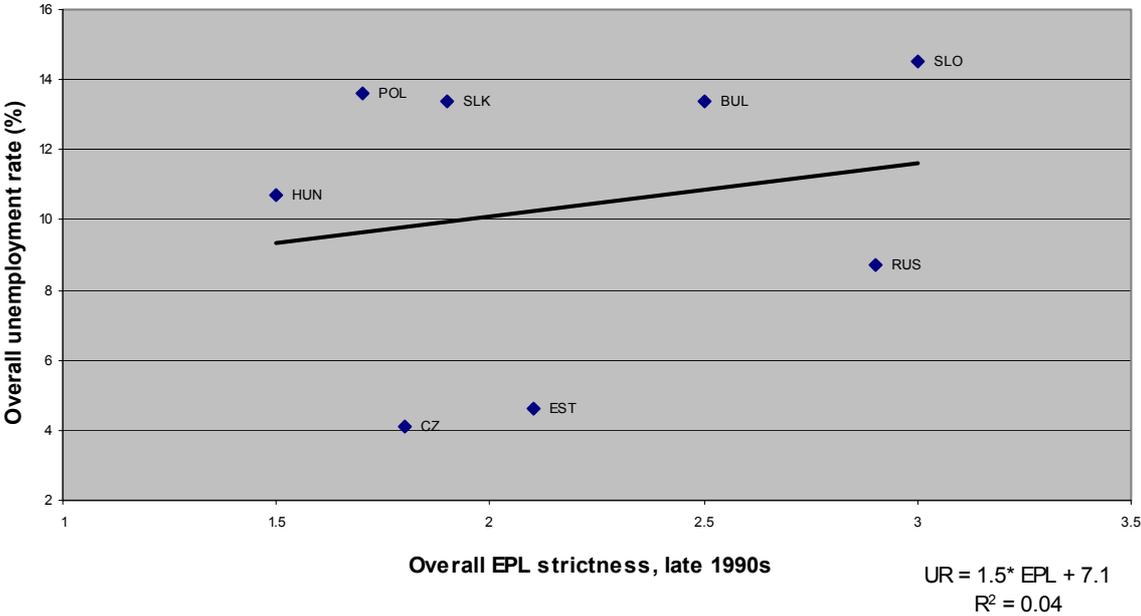


Chart 1 (cont.) EPL strictness, unemployment and employment

B. LFS youth unemployment rates, averages over 1992-1998

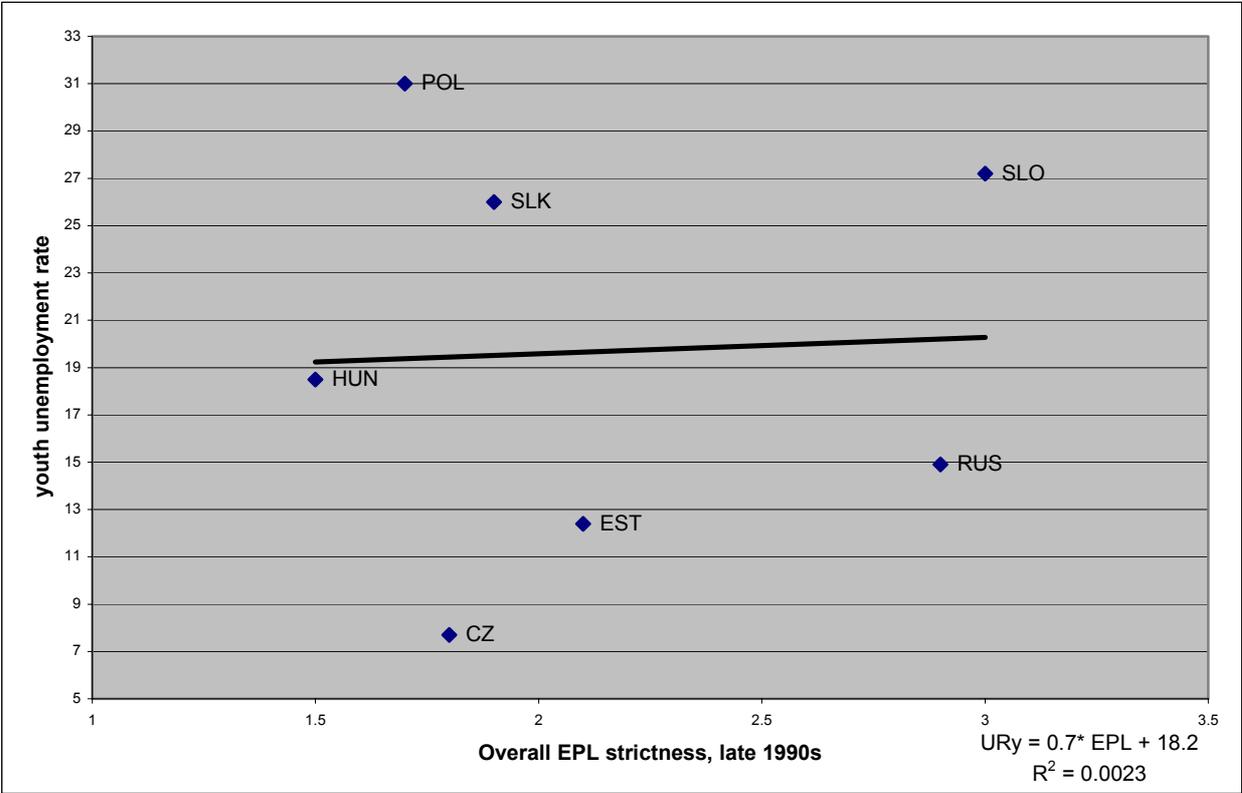
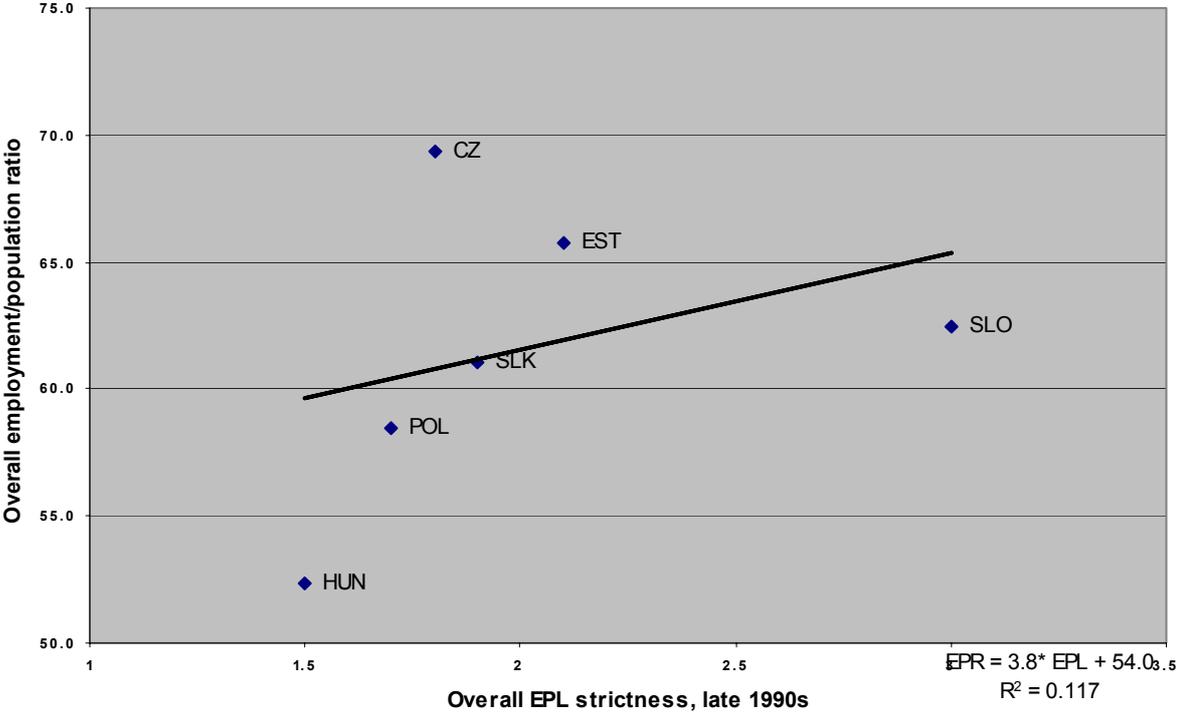


Chart 1 (cont.) EPL strictness, unemployment and employment
 C. Overall employment / population ratio, averages over 1994-1998



Part D of chart 1 shows that stricter EPL is not particularly associated with a higher share of self-employment, as it is the case for the OECD countries, but on the contrary with a lower share. However, this result should be taken with great caution, for several reasons: first, there are some important differences in the specification and pattern of self-employment between western industrialized countries and transition countries (see chapter 3); second, because few observations are available (only 1999 data are considered in the analysis); and lastly, because substantial differences exist among transition countries in their shares of self-employment, which makes the sample very heterogeneous. Finally, part E of chart 1 shows the relationship between EPL strictness and the share of temporary jobs. As mentioned before, stricter regulation of regular contracts is expected to increase the share of temporary employment, while stricter regulation of temporary contracts should reduce it so that the overall effect of employment protection legislation is rather ambiguous. Our bivariate analysis seems to indicate a positive link between overall EPL strictness and the share of temporary employment in transition countries.

Chart 1 (cont.) EPL strictness, unemployment and employment

D. Shares of self-employment, 1999

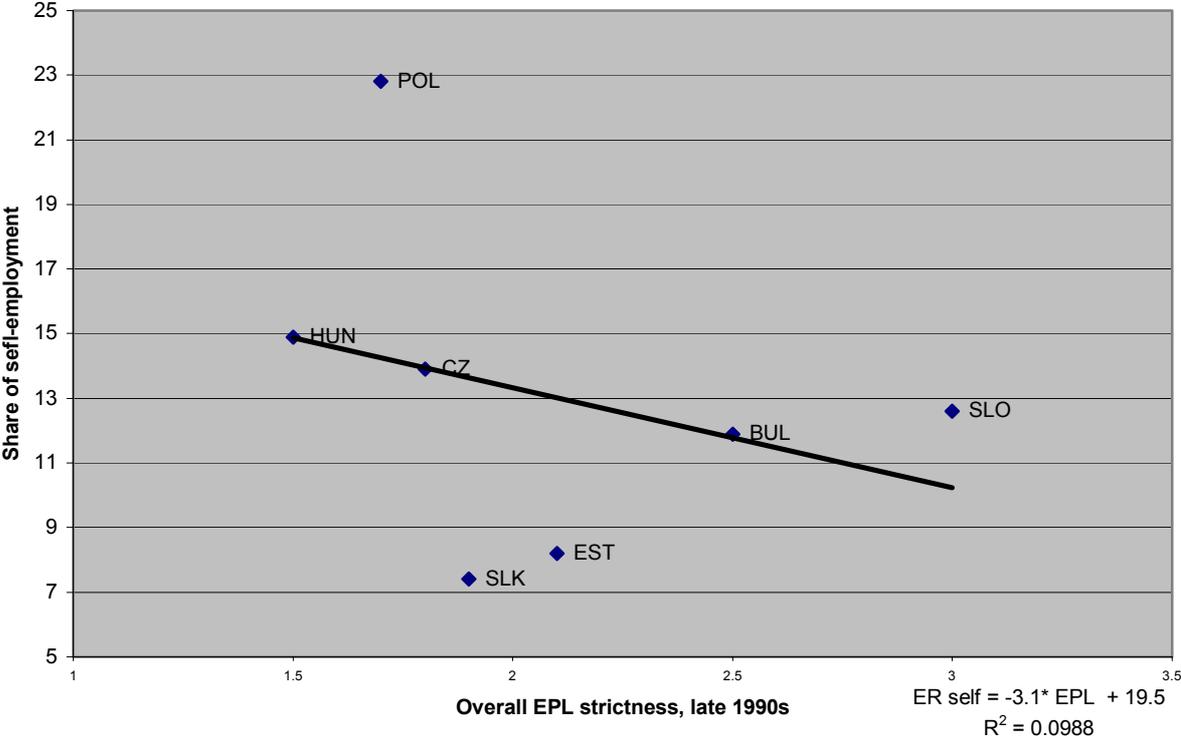
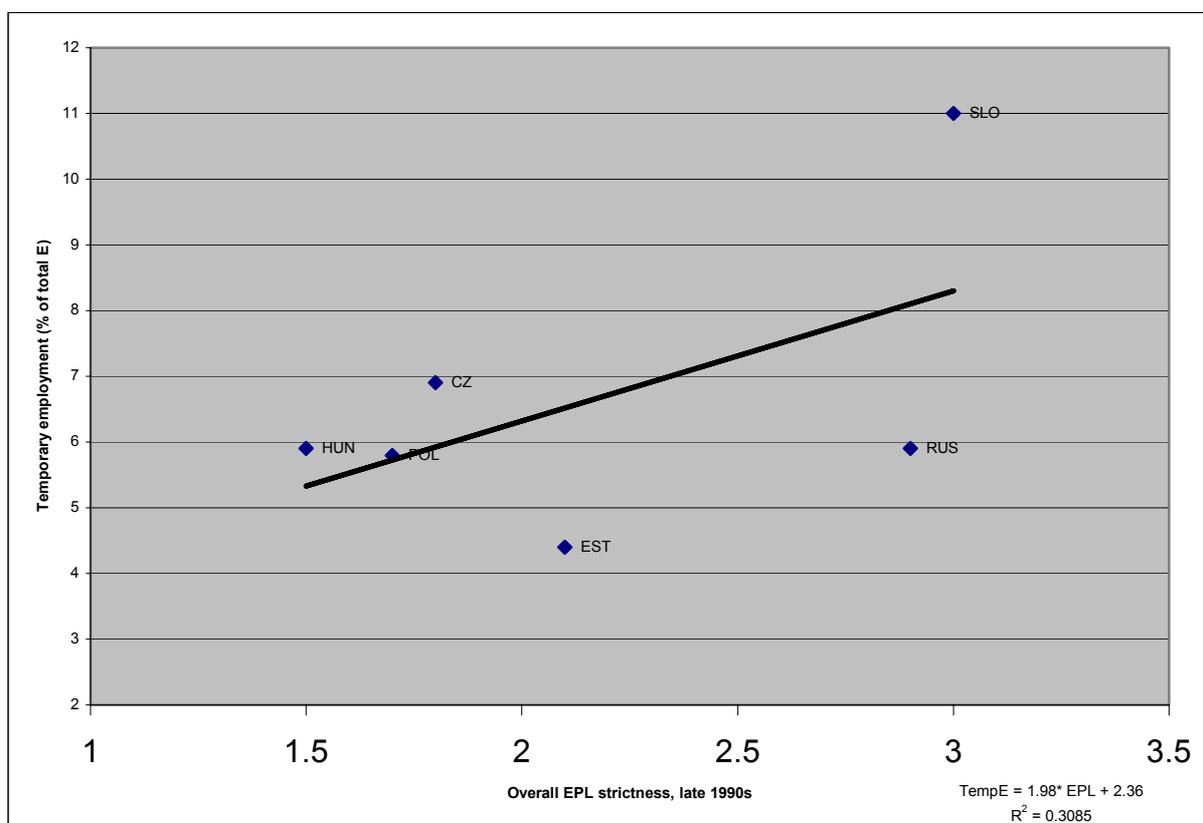


Chart 1 (cont.) EPL strictness, unemployment and employment

E. Temporary employment, 1999



5.2. Effects on labour market dynamics

Chart 2 examines the bivariate association between the overall indicator of EPL stringency (again along the horizontal axis) and various measures of labour market dynamics (along the vertical axis). These scatter plots are generally consistent with theoretical predictions (see first section of this chapter), in particular when one specific sub-index of the overall indicator of EPL is considered, namely the *difficulty of dismissals*¹⁰ (see table 3). The reason for choosing this particular indicator of the strictness of the legislation is that it is the one that bears the strongest correlation with labour market flows in the OECD countries - see Bertola et al. (2000). As just stated, some associations can be found between this sub-index and labour market dynamics. In particular, chart 2, part A shows that stricter EPL is rather strongly associated with lower rates of labour turnover in the selected transition countries, i.e. the same relationship as in the OECD countries. On the other hand, as part B of chart 2 indicates, stricter EPL is positively but rather weakly associated with average job tenure (once again as in the OECD countries). This is consistent with theoretical arguments that EPL creates more employment stability

¹⁰ This sub-index covers the strictness of the legal definitions of unfair dismissal, the frequency of verdicts involving the reinstatements of the employees and the monetary compensations typically required in the case of unfair dismissals.

and durable employment relationships. Finally, part C of chart 2 also suggests that stricter EPL tends to be positively but weakly associated with longer duration of unemployment. Related to this result, another relationship was also found between stricter EPL and lower flows into unemployment (not presented here); however, data were unfortunately not available to study the flows *out* of the unemployment pool.

Chart 2. EPL strictness and labour market dynamics

A. Labour turnover, averages over 1993-1998

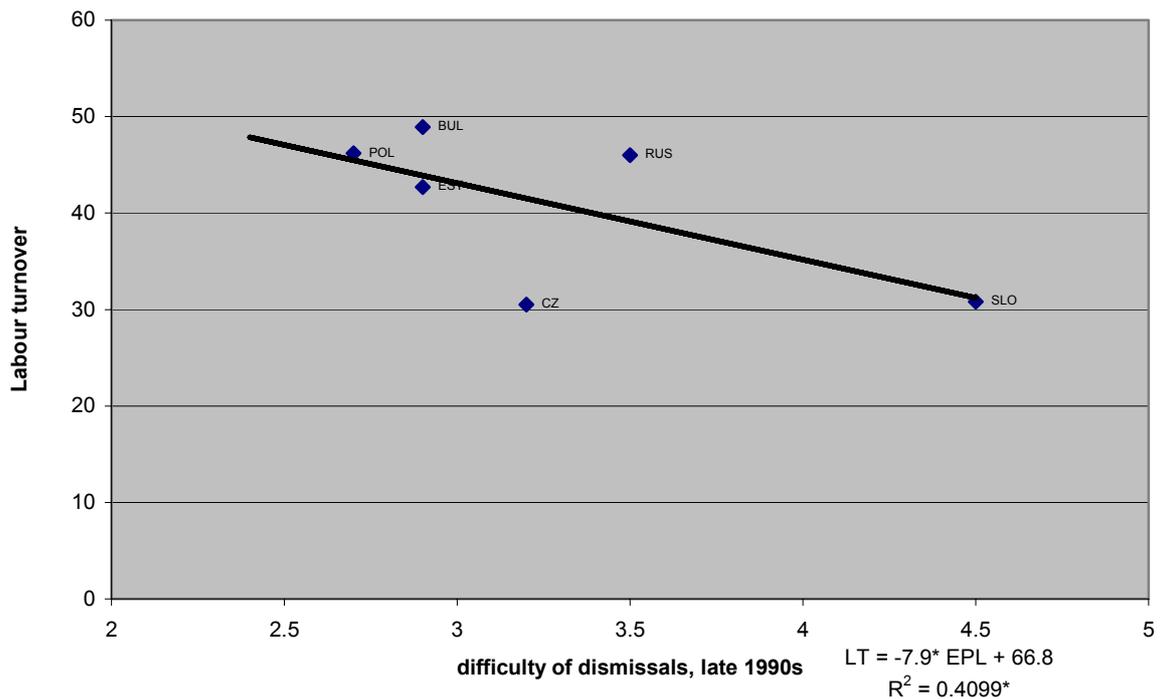


Chart 2 (cont.) EPL strictness and labour market dynamics

B. Average job tenure, 1998

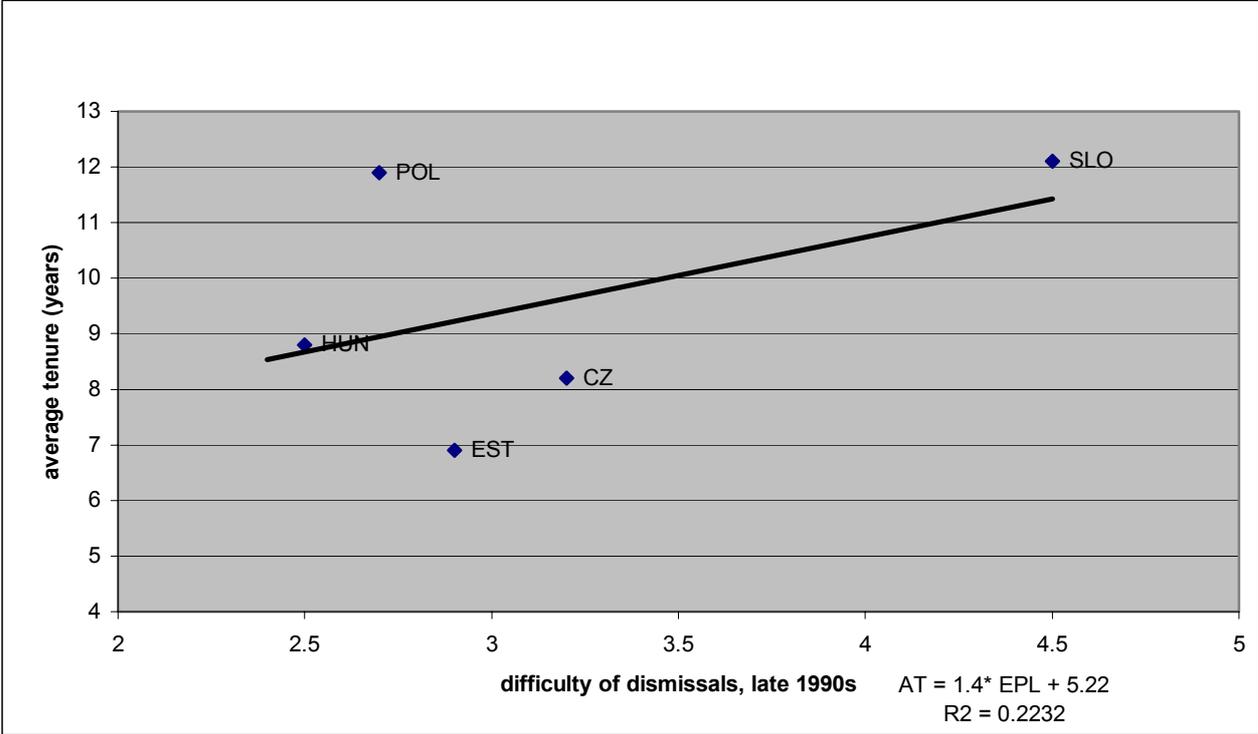
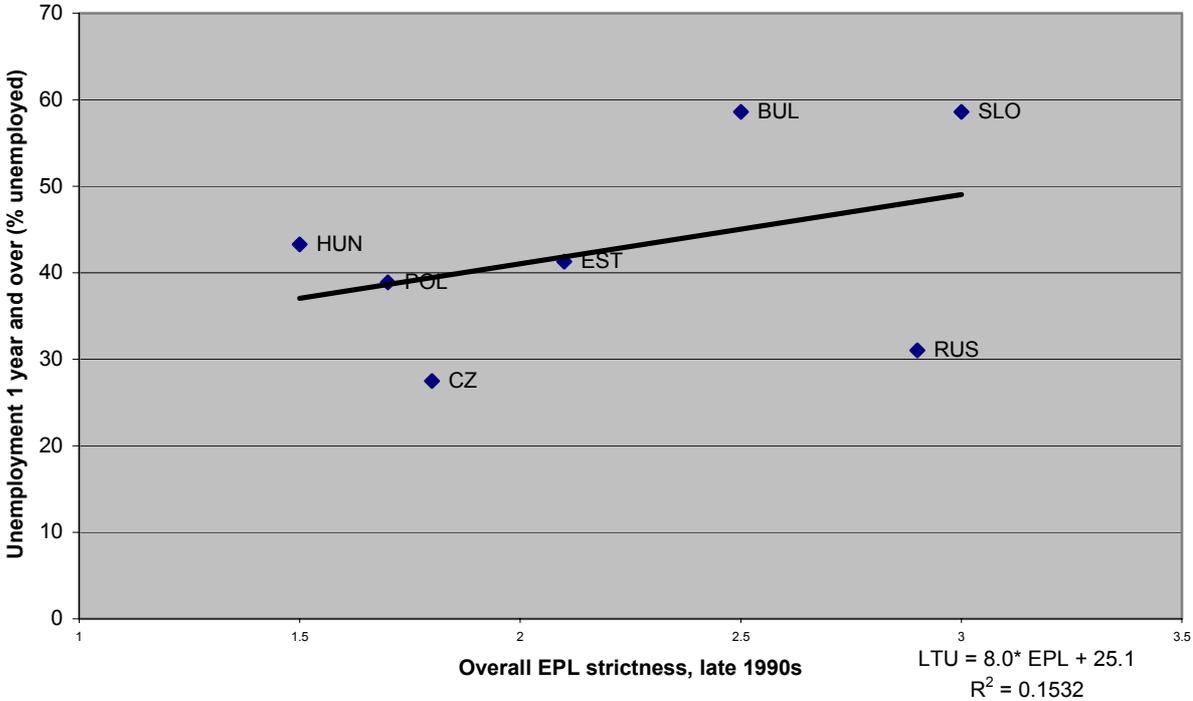


Chart 2 (cont.) EPL strictness and labour market dynamics

C. Long-term unemployment, averages over 1993-1998



6. Conclusions

This chapter presented the main changes in employment protection legislation over the 1990s. It also provided new cross-country evaluations of the strictness of employment protection legislation in selected transition economies in the late 90s using the OECD methodology. These indicators show that employment protection rules differ across transition countries, but on average the group of Central and Eastern European (CEE) countries had similarly liberal EPL rules as the EU and only slightly stricter than the OECD countries at the end of the 1990s. Moreover, after the latest Labour Code amendments in the Russian Federation, Poland and Slovenia, employment protection legislation in CEE seems to become on average more liberal compared to the EU and close to the OECD countries.

The impact of EPL on the labour market performance and labour market flows in transition countries seems to be rather modest, but is not insignificant in particular when considering the labour reallocation processes of these countries. Labour market institutions seem to have contributed to shaping the adjustment of labour market such as stricter EPL lowering labour turnover. Our analysis has also revealed positive (although weak) association of, on the one hand, stricter EPL and temporary employment, and on the other hand, difficulty of dismissal and average job tenure. This would point to a certain tendency towards labour market segmentation when stronger employment protection could lead to longer job tenures of certain groups of workers, usually permanent contract holders, while increasing the incidence of temporary employment for other more vulnerable groups of workers. In the next phase of our research we will deepen our analysis by including more countries into our survey, comparing changes in EPL in different periods and by reflecting the latest legislative changes in the EPL strictness measurement.

However, labour market adjustment in the region was for sure significantly affected by the macroeconomic and structural reforms. Also the role of other labour market institutions such as passive and active labour market policies, the power of trade unions or the tax burden on labour have to be considered. This will be elaborated in the next chapter.

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Annex 1

Employment protection legislation in selected transition countries.

Item	Bulgaria	Czech Republic	Estonia	Poland	Russian Federation
	A. Permanent contracts				
	A.1. Individual dismissal				
<i>Reason for dismissal</i>	(1) bankruptcy or closure of enterprise or its part (2) staff reduction (3) inability to perform the job due to lack of required qualifications or capacity (4) refusal to move when the job is relocated to another locality (5) change in skill requirements for a job, non-complying with worker's qualifications (6) eligibility for old-age pension but not earlier than 2 3 years after reaching retirement age	(1) bankruptcy or closure of enterprise or its part (2) staff reduction (3) inability to perform the job due to lack of required qualifications or capacity (4) refusal to move when the job is relocated to another locality	(1) bankruptcy or closure of enterprise or its part (2) staff reduction (3) inability to perform the job due to lack of required qualifications or capacity (4) age of 65 and eligibility for old-age pension	(1) bankruptcy or closure of enterprise or its part (2) staff reduction (3) inability to perform the job due to lack of required qualifications or capacity	(1) bankruptcy or closure of enterprise or its part (2) staff reduction (3) inability to perform the job due to lack of required qualifications or capacity (4) refusal to move when the job is relocated to another locality (5) long-term absence due to sickness (over 4 months)
<i>Notice period</i>	30 days possibility to agree on longer period up to 3 months	2 months if reasons (1) or (2): 3 months	For reasons (1) and (2) and length of service: <5 years: min 2 months 5-10 years: min 3 months 10+ years: min 4 months For reason (3): 1 month For reason (4) and length of service: <10 years: 2 months 10+ years: 3 months	Length of service: <6 months: 2 weeks 0.5-3 years: 1 month 3+ years: 3 months In case of reasons (1) or (2) possibility to shorten to 1 month and compensate for the rest	2 months

	Bulgaria	Czech Republic	Estonia	Poland	Russian Federation
<i>Procedural obligations</i>	Notice in writing. Consent of trade unions required only in case of TU functionaries	Notice in writing. Notification to trade union and local labour office required. Consent of TU required in case of TU functionaries. If reasons (1) or (2) and internal redeployment impossible, employer obliged to cooperate with labour office in external re-employment of dismissed workers. If reason (3), employer obliged to warn the worker 12 months in advance.	Notice in writing. If reasons (1), (2), (3), employer obliged to redeploy the worker internally if possible. Notification to trade union and local labour office required.	Notice in writing. Notification to and consent of trade union required except for bankruptcy or liquidation of enterprise.	Notice in writing. Employer obliged to redeploy the worker internally if possible. Notification to and consent of trade union required (consent valid only for 1 month).
<i>Restrictions</i>	For reasons (1 - closure of part of enterprise), (2), (3) and (5): Pregnant women, mothers of children aged below 3, persons on sickness leave, wives of conscripts and disabled persons can be dismissed only with consent of labour inspectorate.	Pregnant women and persons on sickness leave protected, employer obliged to ensure re-employment of single parents caring for children aged below 15, disabled persons and persons no more able to perform the job due to potential occupational disease, unless agreed otherwise.	Pregnant women, mothers of children aged below 3, youngsters below 18 and persons on sickness leave only with consent of labour inspectorate.	Pregnant women, women on maternity leave, persons on parental leave and sickness leave, persons having 2 years or less to retirement age and eligible for old-age pension unless in case of bankruptcy or liquidation of enterprise.	Pregnant women, mothers of children aged below 3 or disabled children below 18, single parents caring for children below 14 only when the employer offers them alternative employment. Youngsters only with consent of committee for minors.
<i>Compensation</i>	2 months of salary For people employed more than 10 years with the same employer: 6 months of salary.	2 months of salary. Collective agreement or internal directive may extend it.	For reasons (1), (2) and (4) and length of service: <5 years: 2 months of salary 5-10 years: 3 months 10+ years: 4 months. For reason (3): 1 month of salary	No compensation unless reasons (1) or (2) when the notice period is shortened to 1 month and salary is paid for the non-observed part.	For reasons (1) or (2): up to 3 months of salary (one month is obligatory and if the worker does not find a job, two more months of salary are paid but registration at labour office required for third month. For reasons (3) and (4): 2 weeks of salary.

	Bulgaria	Czech Republic	Estonia	Poland	Russian Federation
	A.2 Collective dismissal				
Definition	Collective dismissal stipulated in the Employment Act without any concrete definition.	Within 30 days dismissed at least: 10 employees in a firm with 20-100 employees or 10% of staff in a firm with 101-300 employees or 30+ employees in a firm with over 300 employees.	Does not exist	Does not exist	Collective dismissal stipulated in the Employment Act without any concrete definition.
Notice period	30 days unless longer period up to 3 months agreed	At least 30 days after notification of labour office			At least 3 months.
Procedural obligations	Notification to local labour office, local body for tripartite cooperation and local government 60 days in advance. If more than 150 redundancies expected, notification to national labour office.	Notification to trade union at least 30 days in advance. Negotiations with trade union on measures preventing or limiting the extent of redundancies. Notification to local labour office on mass redundancy, measures undertaken and results of negotiations with trade union.			Notification to trade union and local labour office at least 3 months in advance. Trade union assesses whether the employer has met all termination procedures and offered alternative employment. Final consent of trade unions necessary.
Compensation	1 month of salary; collective agreement may extend it. Alternatively: BGL 1,000 instead of unemployment benefits plus additional BGL 1,000 in case of taking up a new job or starting own business	The same as for individual dismissal.			The same as for individual dismissal.

	Bulgaria	Czech Republic	Estonia	Poland	Russian Federation
	B. Fixed-term contracts				
Restriction	Permitted only for (1) substitution for absent workers (2) jobs filled on the basis of competition until the position is filled (3) completion of specific work (4) when the person so requires	Not allowed for graduates from apprentice schools, secondary schools and universities within 2 years after completing their studies if recruited for work corresponding to their qualifications unless the person so requires	No restriction	No restriction	Permitted only for: (1) seasonal work up to 6 months (2) specific work up to 2 months (3) substitution for temporarily absent workers (up to 4 months) (4) when the person so requires
Maximum number of contracts	No limit	No limit	No limit	Two. Third contract becomes automatically permanent.	No limit
Maximum cumulative length of subsequent contracts	3 years	No limit	No limit	No limit	
Restrictions on termination of contract	In case of early termination agreement on compensation without concrete rules. If the worker continues working for at least 5 days after the term and the employer does not protest in writing, the contract becomes permanent.	Early termination upon agreement. If the worker continues working with the consent of the employer, the contract becomes permanent.	Notice period 5 days for contract below 1 year, 14 days for 1+ year contract unless the contract is for substitution for absent worker. If notice period not observed, compensation provided for non-observed part .	Contract longer than 6 months may be terminated with two week notice, if not observed, eligibility for compensation by two weeks of salary.	Pregnant women, mothers with children aged below 3 and disabled children below 18 and single parents caring for children below 14 can be dismissed only when the employer offers them alternative employment. Early termination compensated by two weeks of salary
	C. Agency work				
	No arrangement	No arrangement	No arrangement	No arrangement	No arrangement

Employment Protection Legislation in Russia: Regional Enforcement and Labour Market Outcomes. Vladimir Gimpelson Rostislav Kapeliushnikov Anna Lukiyanova October 2009. Most of the studies exploring EPL effects on labour market performance implicitly assume that EPL compliance is near to complete and therefore all firms bear full adjustment costs incurred by the regulations. This seems to be a very strong assumption for any country but it sounds especially strong and hardly plausible for developing and transition economies. The third section discusses properties of job protection and its enforcement in the Russian Federation. Here we analyze nominal and actual stringency in job protection institutions. The efficiency of the labour market critically depends on the design of its institutions with employment protection legislation (EPL) playing a special role here. However, since formal laws can be observed or ignored to varying degrees, the actual enforcement regime shapes incentives and constraints. Most of the studies exploring EPL effects on labour market performance implicitly assume that EPL compliance is near to complete and therefore all firms bear full adjustment costs incurred by the regulations. This seems to be a very strong assumption for any country but it sounds especially strong