

Labour regulation, labour market participation and undeclared work

Bucharest, 26 January 2011



Focus of the presentation

2

- Labour market – salient features

- Labour market participation
- High share of long-term unemployed
- Undeclared work

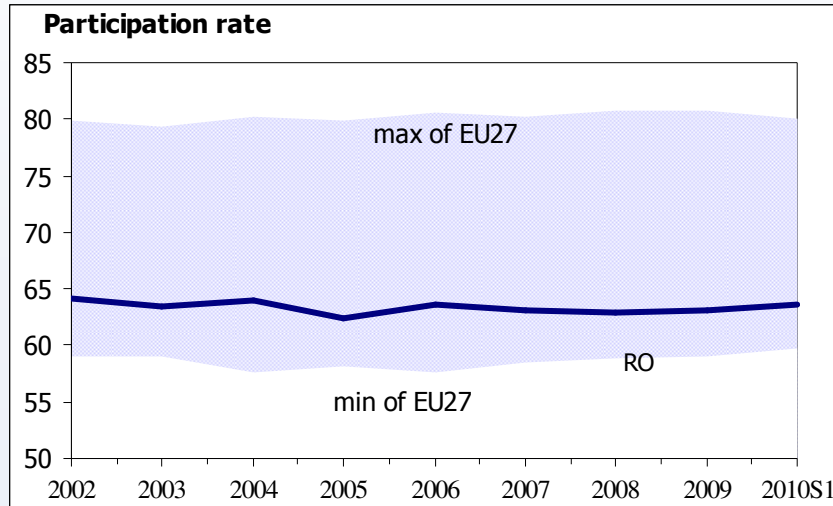
- How to support job creation and contribution of labour to potential output?

- Tax wedge
- Hiring and firing costs
- Minimum wage
- Unemployment trap



Labour market – *salient features* (1)

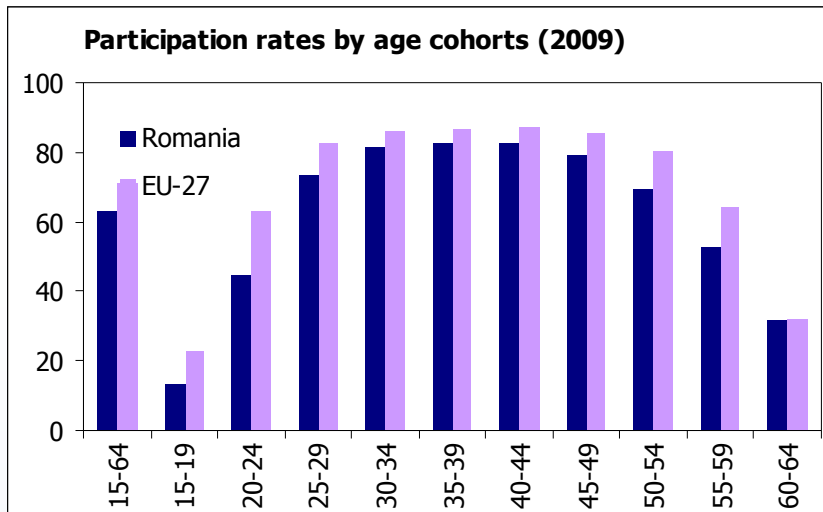
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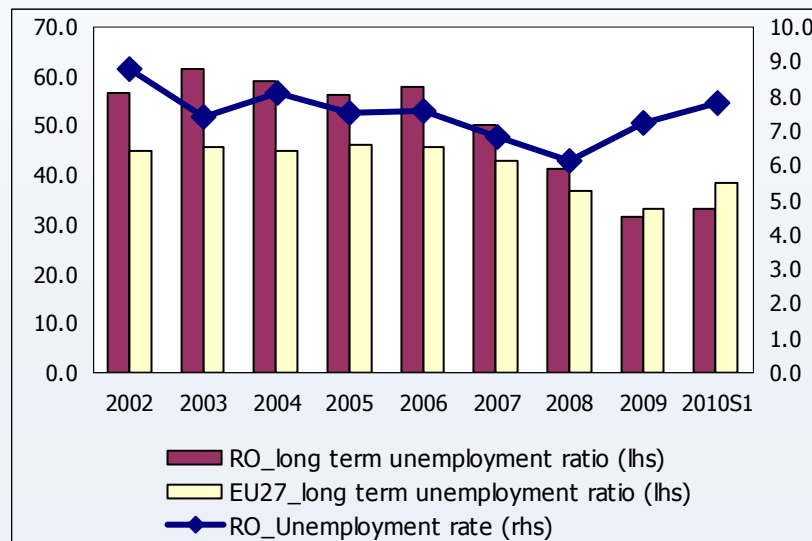
- Structural break in 2002
- Downward trend in the participation and employment rates
- Persistently low participation rates are a constraint on the full use of labour potential
- Participation rates are among the lowest in the EU

Labour market - *salient features* (2)

4

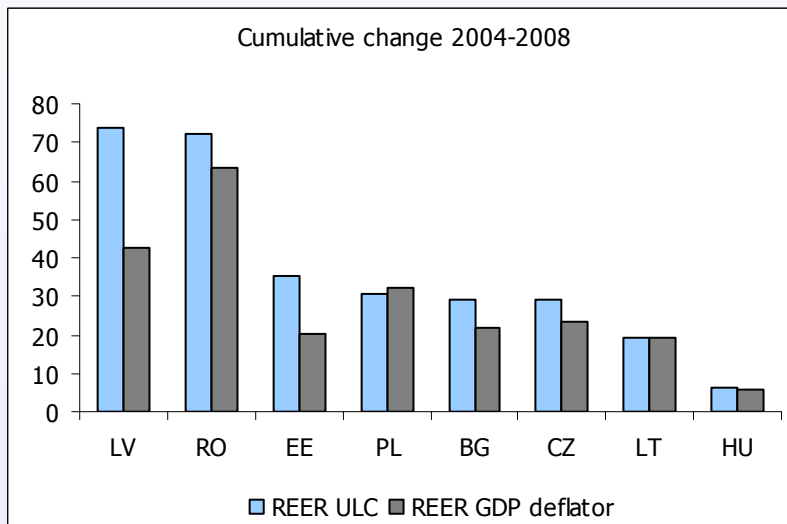
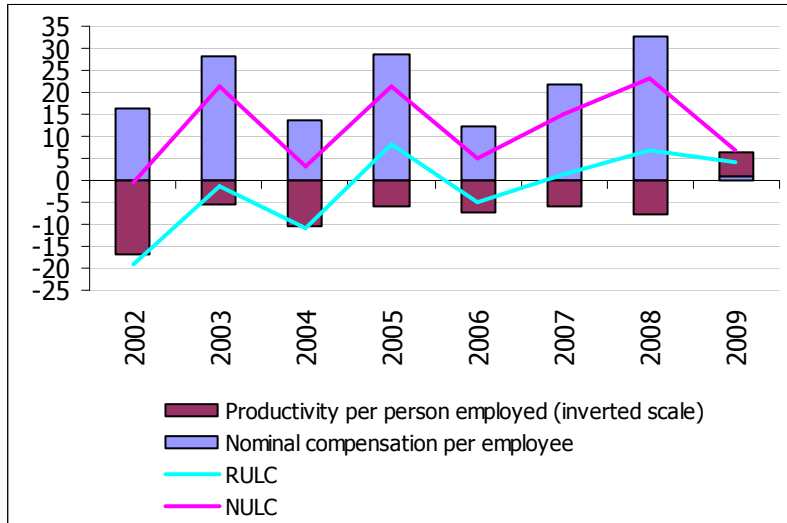


- Comparatively low participation rates for the young...
- ...suggesting persistently low employment rates looking forward
- Comparatively high long-term unemployment



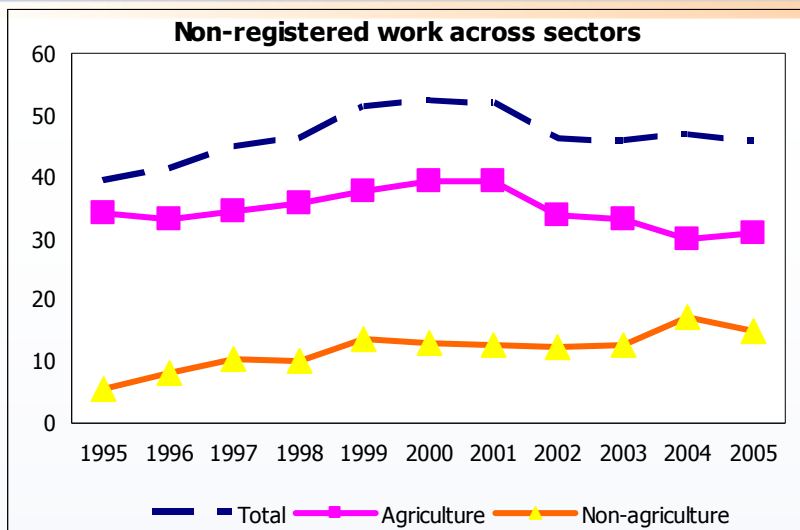
Labour market – *salient features* (3)

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- Rapid growth of nominal compensations and nominal ULC in past years
- Growth of real compensations above productivity before the crisis
- Growth in nominal ULC leading to major REER appreciation and falling price competitiveness

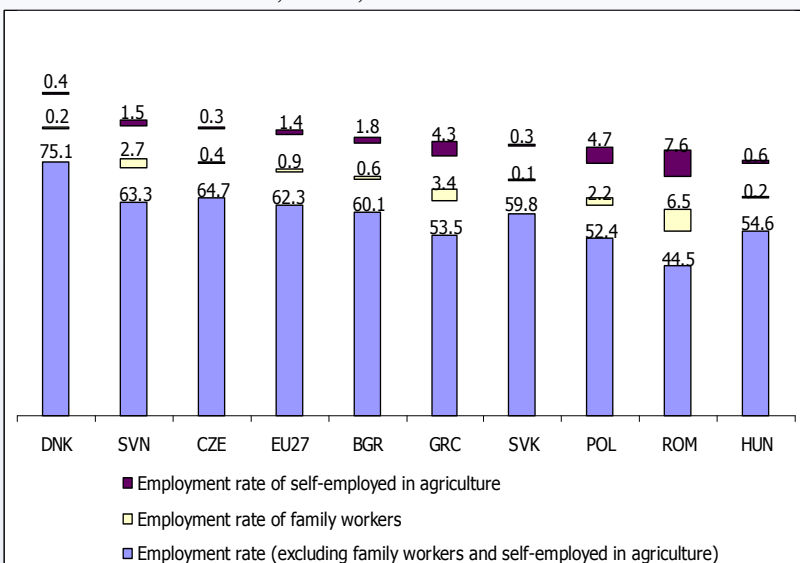
Undeclared work – unregistered labour(1)



High share of undeclared work (45.7% of total employment in 2005)

Downward trend of undeclared work in agriculture since 2001 (30.8% in 2005)

Source: Stanculescu, 2006, based on NIS data

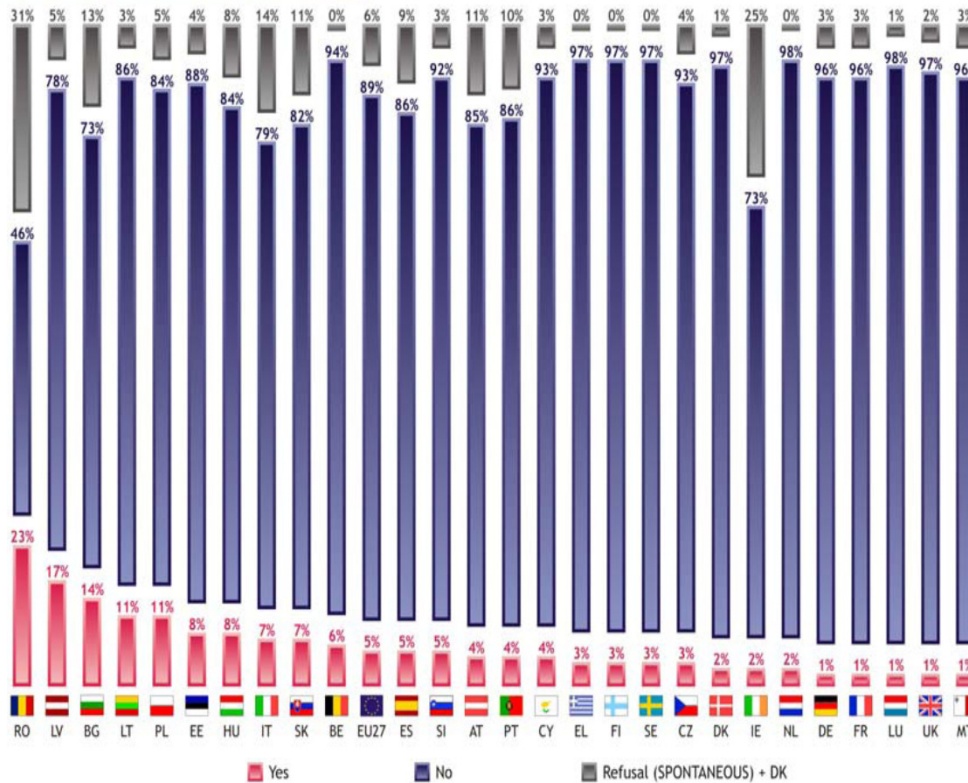


An increasing trend of undeclared work in non-agriculture (14.9% in 2005)

Employment rate without family workers and self-employed in agriculture: 44.5% in 2009

Undeclared work – envelope payments (2)

BASE: Those who are dependent employees (n=11135)



Only 46% of employees stated they have not received envelope payments, Eurobarometer 2007.

Q: Sometimes employers prefer to pay all or part of the regular salary or the remuneration for extra work or overtime hours cash-in-hand and without declaring it to tax or social security authorities.

Did your employer pay you all or part of your income in the last 12 months in this way?

Low participation, insufficient job creation, and unregistered labour: searching for the underlying reasons

8

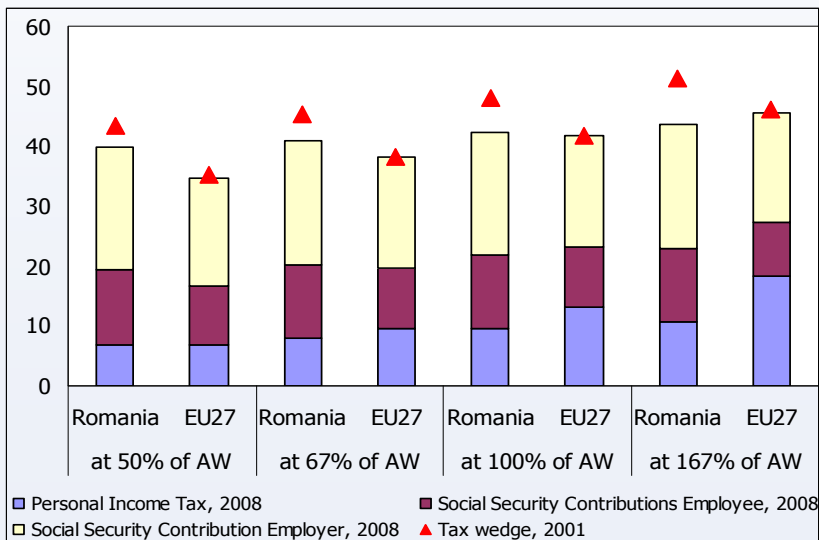
- Taxes on labour, notably social security contributions
- Contractual conditions
- Hiring and firing costs
- Enforcement of workers' registration obligations
- Design of social assistance programmes

Source: Parlevliet, J. and T. Xenogiani (2008): "Report on Informal Economy in Romania", Working Paper 271, OECD Development Centre.

Tax wedge



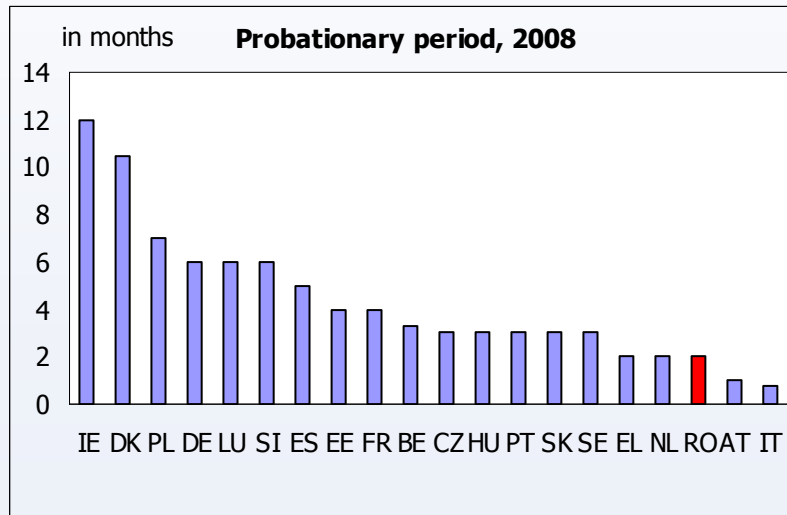
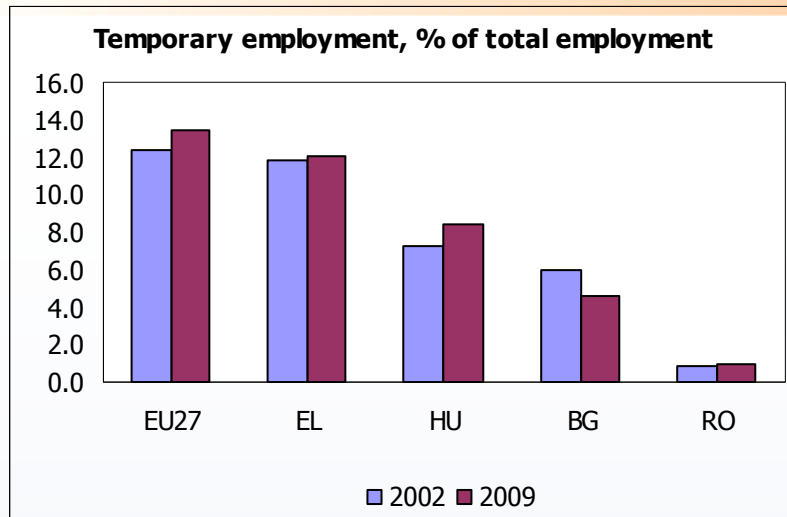
*2008 data; **2007 data



- Undeclared work is widespread in particular among the low paid persons...
- ... yet, the tax wedge for low wage persons is relatively high...
- ... with social security contributions paid by employers being the largest component of the tax wedge

Contractual conditions

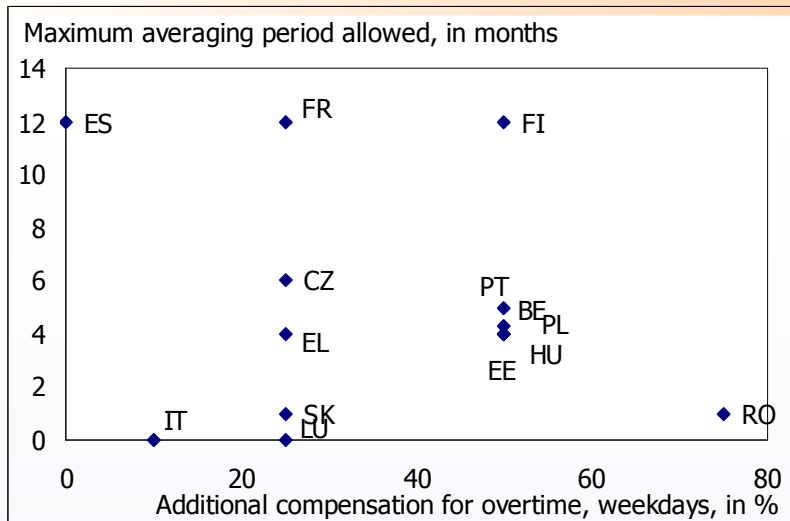
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- Fixed term contracts are very rarely used in comparison with other countries, in spite of relatively short probationary period on permanent contracts
- Are regulations on fixed-term contracts at the root of their limited use?

Averages are taken whenever different probationary periods apply (e.g. blue collar and white collar workers); Source: OECD (2008): Detailed description of EPL in OECD and selected non-OECD countries

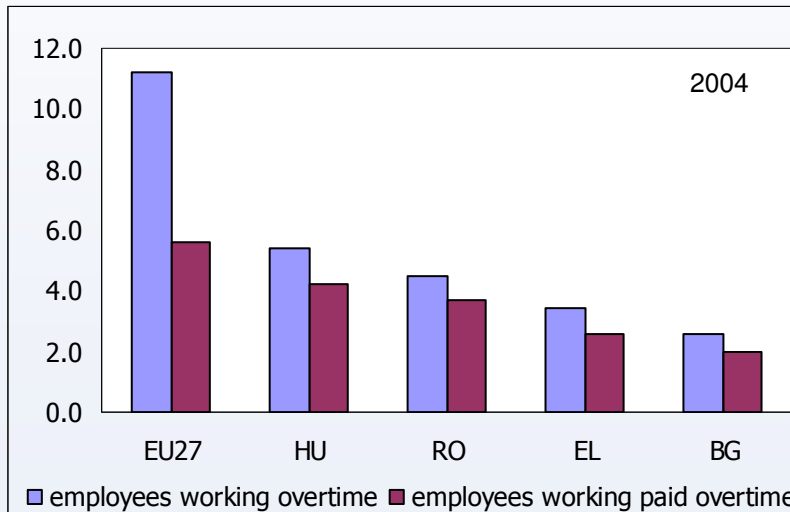
Contractual conditions



- Additional compensation for overtime: 75% in RO; 36% at the EU avg, 51% for holidays at the EU avg

Maximum averaging period: 1 month in RO; 5 months at the EU avg

- Does existing regulations explain the relatively low incidence of overtime? Is this a cause of limited room for adjusting labour inputs and for envelope payments?



Additional compensation for overtime refers to the weekdays. Additional compensation for overtime or maximum averaging period is set in collective agreements only in IE, NL, SI, SE, DK, DE and AT, respectively. Additional compensation for overtime refers to the first set of overtime hours in FI, FR, EL and PT.

Hiring and firing costs

| Rank | Country | Regular employment | Temporary employment | Collective dismissals | Overall EPL (Version 2) |
|------|-----------------|--------------------|----------------------|-----------------------|-------------------------|
| 1 | United Kingdom | 1.1 | 0.4 | 2.9 | 1.1 |
| 2 | Ireland | 1.6 | 0.6 | 2.4 | 1.3 |
| 3 | Slovak Republic | 2.3 | 0.4 | 3.8 | 1.7 |
| 4 | Hungary | 1.9 | 1.1 | 2.9 | 1.7 |
| 5 | Denmark | 1.5 | 1.4 | 3.9 | 1.8 |
| 6 | Czech Republic | 3.3 | 0.5 | 2.1 | 1.9 |
| 7 | Bulgaria** | 2.1 | 0.9 | 4.1 | 2.0 |
| 8 | Finland | 2.2 | 1.9 | 2.6 | 2.1 |
| 9 | Poland | 2.2 | 1.3 | 4.1 | 2.1 |
| 10 | Austria | 2.4 | 1.5 | 3.3 | 2.2 |
| 11 | Netherlands | 3.1 | 1.2 | 3.0 | 2.3 |
| 12 | Estonia** | 2.7 | 1.3 | 4.0 | 2.3 |
| 13 | Italy | 1.8 | 2.1 | 4.9 | 2.4 |
| 14 | Germany | 2.7 | 1.8 | 3.8 | 2.5 |
| 15 | Belgium | 1.7 | 2.6 | 4.1 | 2.5 |
| 16 | Slovenia** | 2.7 | 2.3 | 3.3 | 2.6 |
| 17 | Sweden | 2.9 | 1.6 | 4.5 | 2.6 |
| 18 | Romania* (2006) | 2.0 | 2.9 | 4.4 | 2.8 |
| 18 | Lithuania** | 2.9 | 2.4 | 3.6 | 2.8 |
| 19 | France | 2.5 | 3.6 | 2.1 | 2.9 |
| 20 | Greece | 2.4 | 3.3 | 3.3 | 2.9 |
| 21 | Spain | 2.6 | 3.5 | 3.1 | 3.1 |
| 22 | Romania* (2003) | 2.7 | 3.0 | 5.3 | 3.2 |
| 23 | Portugal | 4.2 | 2.8 | 3.6 | 3.5 |

Sources: OECD Employment Outlook 2004; *authors calculations using the OECD methodology; **Tonin (2005)

Source: Ciuca Vasilica and L. Mladen (2007): "The Impact of EPL on Flexicurity Policy- Case Study for Romania".

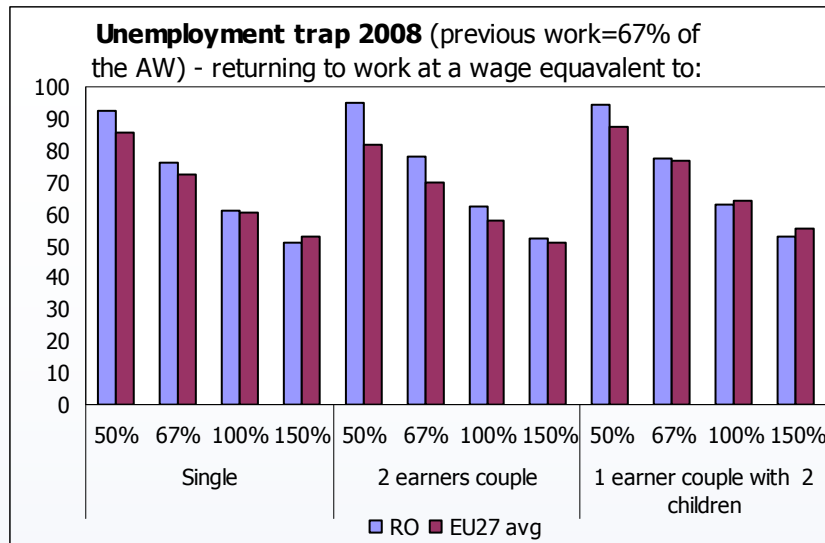
EPL indices computed for Romania score high

Main reasons?

Which effects on margins for adjusting to shocks
Effects on job creation?

Unemployment traps?

13



- Unemployment benefits encourage reporting income, yet ...
- ...they may reduce financial incentives to take up work, notably of low-wage workers (unemployment trap)
- ...in particular in case of weak job search conditionality

Questions for discussion

- Would a targeted reduction in the tax wedge help promoting job creation? How to be designed, including in light of fiscal constraints
- Why are temporary contracts rarely used? Could a greater usage of fixed term contracts facilitate job creation? Are there constraints in the legislation? Is maximum duration defined too short? Are the cases for using fixed term contracts defined too narrowly? Other reasons?
- Does the regulation of overtime limits the use for adjusting labour inputs and contribute to the incidence of envelope payments?
- Is there the risk that the tax and benefit system depresses incentives to accept job offers or participate in labour force? Can activation policies help?

Thank you