The Regulation of Labor

Juan Botero, Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer Very Preliminary Draft, November 2002

I. Introduction.

Every country in the world today has established a complex system of laws and institutions intended to protect the interests of workers and to guarantee a minimum standard of living to its population. In most countries, this system encompasses three bodies of law: the labor and employment laws, the industrial and collective relations laws, and the social security laws. Labor and employment laws govern the individual employment contract. Industrial and collective relations laws regulate the bargaining, adoption, and enforcement of collective agreements, the organization of trade unions, and the industrial action by workers and employers. Social security laws govern the social response to needs and conditions that have a significant impact on the quality of life, such as old age, disability, death, unemployment, and maternity.

In this paper, we examine government regulation of labor markets in 85 countries by considering the provisions of these three bodies of law. We are primarily interested in understanding the differences in the regulation of labor among countries, since these differences often go to the heart of institutional design. To this end, we examine the determinants of labor laws from the perspective of several theories of institutional choice. Because labor regulations influence large segments of the population, and many of them are relatively recent, the focus on the labor market is particularly helpful for understanding legal and institutional evolution.

Comparative institutional research has recently experienced dramatic growth, motivated in part by the rebirth of empirical growth economics (Barro 1991), and in part by an empirical documentation that institutions protecting property rights are crucial to economic development (e.g., North 1981, Olson 1991, Knack and Keefer 1995). As a consequences of this research, economists have recently proposed and analyzed both theoretically and empirically, a number of theories of factors shaping institutional evolution. In La Porta et al. (1999), we proposed a preliminary classification of these theories. In this paper, we consider a broader range of hypotheses regarding forces shaping institutional development in general, and the regulation of labor in particular. Specifically, we discuss and examine empirically six broad theories.

Under the first, *development* theory, countries pass through various stages of economic development at which different institutions and regulatory strategies are efficient. In particular, richer countries might be able to afford more institutions such as labor regulations.

Under the second, *law enforcement* theory, the efficiency of alternative institutional arrangements also depends on the stage of economic development, but the reason is not the cost of setting up institutions, but rather the relative costs of alternative law enforcement strategies. In particular, the regulation of markets may be least appropriate for the rich countries, because private litigation can successfully address possible market failures.

Under the third, *political power* theory, institutions are shaped by those in power to benefit themselves at the expense of those out of power. In the voting version of this theory, the regulation of the labor market is the result of leftist parties holding power and passing rules to benefit their constituents. In the interest group version of this theory, what matters the most is not which government is in power, but rather how powerful are the interest groups seeking the regulation of labor, since such groups shape legislation regardless of who holds power.

Under the fourth, *political constraints* theory, regulations are sought by all governments in power to benefit their supporters or to stay in power. The stronger are the constraints on the government, the fewer regulations materialize in the political equilibrium, regardless of whether the reigns of power are held by the right or by the left.

Under the fifth, *cultural* theory, the regulatory stance is shaped by the pervasive cultural sentiment in a country, which is given by historical factors, such as religious doctrine. Under this theory, the historical religious composition of the population, for example, shapes regulations.

Finally, under the sixth, *legal* theory, a country's approach to regulation of various markets is shaped by its legal tradition. According to this theory, common and civil law countries utilize very different strategies for dealing with potential market failures: the former relying on contract and litigation, the latter on more direct supervision of markets by the government (as well as by the judiciary that is part of the executive branch). Under the legal theory, the origin of a country's laws will influence its regulation of labor (and other) markets.

Our focus on labor laws might be particularly helpful in distinguishing political power theory from the legal theory. Several authors have recently argued that the political power of labor, and the associated institutions of social democracy, have been central to institutional design of the 20th century (Roe 2000, Pagano and Volpin 2000). In particular, these authors challenge the observation of La Porta et al. (1997, 1998) that the differences in financial development among common and civil law countries are best understood in terms of legal theories, and argue instead that legal origins are simply correlated with social democracy.

Typically, these authors only look at the OECD to test their ideas. Labor laws are an ideal testing ground for differentiating legal and political power theories in light of a theoretical consensus that leftist and labor parties seek first and foremost to protect and regulate labor markets.

To assess these theories, we collect data on employment laws, collective bargaining laws, and social security laws (as well as from national constitutions) as of 1997 for the Djankov et al. (2002) sample of 85 countries, and code these data to come up with a variety of measures of worker protection. We utilize already available data on income levels, political constraints on government (Djankov et al. 2002), the religious composition of the population in 1900 (La Porta et al. 1999), and the origin of commercial laws (La Porta et al. 1998 and 1999). We also construct a new database on the history of political orientation of governments since 1928.

The available research on the structure of labor regulations is considerably more extensive than that on most other laws. The Organization of Economic Cooperation and Development has sponsored the creation of a database of labor regulations in OECD countries (Nicoletti, Scarpetta, and Boylaud 1999; Nicoletti and Pryor 2001). The World Bank has assembled a data base of International Labor Office certifications for 119 countries, which provide a partial view of the labor laws as well (Forteza and Rama 2000). Heckman and Pages-Serra (2000) collect and examine an extensive data set of job security regulation for Latin American and Carribean countries. There have also been some attempts to assemble data on social security systems, such as Mulligan and Xala-i-Martin (2000). What distinguishes our data from the previous efforts in this area is a combination of a significant coverage of countries and a comprehensive approach to the coverage of labor market regulations.

There is also an extensive literature on the consequences of regulation of labor, including the work of Besley and Burgess (2002), Fonseca, Lopez-Garcia, and Pissarides (2000), Pissarides (2001), Heckman and Pages-Serra (2000), and Ichniowski, Freeman, and Lauer (1989), among others. Obviously, one of the goals of collecting the data on labor regulations is to examine its consequences. In this paper, however, we focus on the question that is in some sense logically prior, namely what are the sources of variation in labor regulation among countries.

In the next section, we briefly describe some of the principal theories of the development of labor regulations – and legal rules more generally, and develop our hypotheses. In section 3, we describe the data sets created for this paper. In section 4, we present the data on the regulation of labor, and some of its basic regularities. In sections 5 and 6, we test the principal hypotheses of the paper. In section 7, we present some supplementary evidence bearing on the interpretation of legal theories. Section 8 concludes.

II. Hypotheses.

In this section, we examine six specific theories of institutional choice among countries, and their implications for the government regulation of the labor market. The first two theories maintain that the observed institutional choice is efficient; the remaining four hold that political and historical factors shape this choice, and the outcome is not necessarily efficient.

Development

Demsetz (1967) and North (1981) propose that the choice of institutions is dictated

primarily by efficiency considerations. In one form, these theories hold that there are fixed costs of setting up institutions, and that it becomes socially efficient to set them up only when the benefits cover the costs. In particular, as countries develop, the benefits of institutions securing property rights or achieving other social objectives come to exceed the costs, and hence the institutions are set up. At a broad level, this theory explains why richer countries typically have better institutions securing property rights than do the poorer countries.

At a general level, the theory is complicated by the fact that, as countries develop, private institutions such as insurance also become commercially more viable. To the extent that public institutions occasionally address market failures, therefore, one might argue that the need for public institutions is greater rather than smaller in underdeveloped countries. This caveat makes it difficult to generate unambiguous empirical predictions of the development theory.

So what does the development theory suggest for the regulation of labor? In its simplest form, it would hold that richer countries should have more extensive regulations of labor markets and social insurance schemes, since poorer countries simply cannot afford the administrative costs and the distortions in the labor market associated with these regulations. In our empirical work, we always control for the level of per capita income to assess this implication.

Law Enforcement

An alternative view of how efficiency considerations shape regulatory structure has been suggested by Glaeser and Shleifer (2002, 2003a, 2003b), following an extensive legal literature. In their theory, the institutions of law enforcement in any society are often subverted by the powerful for their own benefit. In the legal literature, this problem is known as "inequality of

weapons": the situation where a richer or politically better connected litigant can overpower his opponent using both legal and illegal means, regardless of the merits of the case. An institution of law enforcement is more efficient when it is less vulnerable to such subversion by the powerful. Glaeser and Shleifer (2003a) argue, for example, that regulation may be more efficient than private litigation in environments with significant inequality or lack of law and order, because private litigation is more likely to be subverted.

At least some of the discussion of the regulation of labor is motivated by the problem of inequality of weapons between employers, who are supposed to be powerful, and employees, who are not. Thus labor contracts, hours of employment, dismissal practices, workers compensation, etc. need to be regulated, because if contracts are disputed in general interest courts, workers are likely to lose. The implication of this theory is that the rich countries should have fewer regulations of labor than poor ones, because contracts can more easily be enforced in the rich countries. In the poor countries, in contrast, government regulations – and regulators – need to be introduced to protect the workers. One caveat to this theory, noted by Glaeser and Shleifer (2003a), is that in the countries with the lowest levels of law and order and least efficient bureaucracies, regulation might be undesirable even when courts do not work, because the regulators, like the courts, are going to be subverted by the powerful.

Empirically, the enforcement theory suggests that we should see the fewest regulations of labor in the richest countries. It also suggests that the poorer countries – with the possible exception of the poorest ones – should have more regulations. A related, and more direct, implication is that countries with higher quality courts should have fewer regulations of labor.

Political Power

According to political power theories, institutions are designed not to pursue efficiency, but to transfer resources from those out of political power to those in power, as well as to entrench those in political power at the helm (Marx 1872, Olson 1993, Finer 1997). According to this theory, institutions are generally inefficient, but are designed to be so in the absence of lump sum transfers among the various social and political groups.

Political power theories come in at least two varieties. The first holds that the principal mode of political decision making is elections, and therefore the parties that win elections get to shape laws and institutions. The second variety, which applies to both democracies and dictatorships, holds that policies and institutions are shaped by political influence of interest groups (Olson 1965, Becker 1983). These two versions have somewhat different implications for what factors will shape institutional choice.

Political power theories are by far the most standard explanation of the choice of labor regulations. In the electoral version, they hold that regulations protecting workers (or at least employed workers) are introduced by socialist, social-democratic, or more generally leftist governments to benefit their political constituencies (Esping-Andersen 1999, Hicks 1999). In the interest group version, these theories hold that labor regulations are a response to the pressure from trade unions, and therefore should be more extensive when such unions are more powerful, regardless of which government is in charge. In our empirical work, we introduce a broad range of measures of political power of the left and of the trade unions.

Political Constraints

The political constraints theories are the complement of the political power theories. Originating in the work of Buchanan and Tullock (1962), they hold that the ability of governments in power or powerful interest groups to shape institutions to benefit themselves at the expense of the rest of the society are limited by the constraints on government power. Dictatorships are less constrained that democratically elected governments, and therefore will have laws and institutions that are more redistributive toward their supporters. Constitutions, legislative constraints, and other forms of checks and balances are all conducive to fewer politically-shaped institutions.

We have previously tested this theory in a study of the regulation of entry (Djankov et al. 2002), and found that indeed more constrained governments have fewer regulations for starting up a business. Here we likewise consider the question of whether constraints on government influence the extent and the nature of government regulation of the labor market. If anything, the labor market is an ideal place to test the influence of political constraints, since the political temptation to regulate is extremely high in this market.

Cultural Theory

Cultural theories of institutions are often associated with Weber (1958), and have most recently been associated with the work of David Landes (1998). In particular, these theories have focused on the effect of religious institutions and beliefs on the evolution of secular institutions, including laws and regulations. Specifically, it has been argued that Roman Catholicism is associated with a paternalistic, regulating state, and therefore countries with predominantly catholic populations have higher levels of market regulation and social insurance.

In contrast, Protestantism is associated with the ideas of self-reliance and private enterprise, and therefore countries with predominantly protestant populations have lower levels of market regulation, social insurance, and state intervention. These theories, of course, apply to the regulation of labor markets with a vengeance. We will consider the religious composition of the population in 1900 as a proxy for cultural beliefs that might shape the regulation of labor.

Legal Theory

Legal theory has received considerable attention in the discussions of institutional evolution in the last several years. According to this theory, two very distinct legal traditions evolved in Western Europe between the 12th and the 19th centuries: common law and civil law. Common law emerged from England and is characterized most clearly by the importance of decision making by juries, judiciaries independent from the executive, relative weakness of codes and strength of precedents in guiding judicial decision making, and a related reliance on broad principles and judicial discretion. From England, common law was transplanted to its colonies, including Ireland, U.S., Canada, Australia, New Zealand, India, Pakistan, Singapore, Hong Kong, Malaysia and other countries in South and East Asia, East Africa and the Caribbean.

Civil law evolved from Roman law in Western Europe through the middle ages, and was incorporated into civil codes in France and in Germany the 19th century. Civil law is characterized by state-employed judges, relative unimportance of juries, a greater role of both substantive and procedural codes, and the relatively lower significance of precedents and judicial discretion. Through Napoleonic conquest French civil law was transplanted throughout Western Europe, including Spain, Portugal, Italy, Belgium, and Holland, and subsequently to the colonies in North and West Africa, all of Latin America, and some parts of Asia.

The German code became accepted in Germanic Western Europe, but also was transplanted to Japan and from there to China, Korea, and Taiwan. We also note the predominance of socialist law in countries that came under the influence of U.S.S.R., and of an indigenous Scandinavian legal tradition in Sweden, Norway, Denmark and Finland.

The legal theories hold that the character of institutions in general, and regulation in particular, is shaped by the legal origin of a country's laws. Thus common law countries tend to have regulatory environments that are less heavy-handed, and have greater respect for private contract, than do the civil law countries. Compared to other theories, legal theories have the advantage that, because legal systems were transplanted largely through conquest and colonization, one can argue that the legal influence on institutions is exogenous to a country (in contrast to the efficiency, political power, and political constraints theories, but more similar to the cultural theories). Legal theories have also been subjected to extensive empirical testing in other areas of law. For example, it has been shown that, compared to civil law and particularly French civil law countries, common law countries have better legal protection of shareholders and creditors through company and bankruptcy laws (La Porta et al. 1997, 1998), lighter regulation of entry (Djankov et al. 2002), less formalized legal procedures (Djankov et al. 2003), and better protection of investors through some features of securities laws (La Porta et al. 2002).

The general differences between common and civil law may prevail in the regulation of labor as well. Specifically, one would expect common law countries to adhere to the general principle that private contracts, and their enforcement through private litigation, are the best way of "regulating" the labor market. In contrast, one would expect civil law countries to emphasize public regulation as a way to address whatever imperfections labor markets might have, including the possible "inequality of weapons" between employers and employees. The principal prediction of the legal theory, then, is that civil law countries and socialist law countries should regulate labor markets more extensively than do the common law countries. The legal theory would also predict that common law countries should have a less generous social security system, because they are more likely to rely on markets to provide insurance. These predictions are tested below.

Legal theories have been challenged by advocates of political power theories, such as Roe (2000) and Pagano and Volpin (2000), who argue that at least in Western Europe, the civil law tradition has often coincided with social democracy, and therefore the regulatory predisposition of civil law countries reflects their political orientation rather than legal structure per se. By collecting extensive data on political orientation and legal origins for a sample of 85 countries, we attempt to distinguish the pure political power from the pure legal origin theory.

II. Measures of Labor Regulation

Our analysis is based on a new data set that describes the legal protection of workers in 85 countries in 1997. We gathered data on the three legal components of the institutional framework for the protection of workers across countries: (i) employment laws; (ii) industrial (collective) relations laws, and (iii) social security laws.

To identify issues subject to statutory regulation in the area of employment and industrial relations laws, we used the OECD Jobs Study (1994) and the International Encyclopaedia for

Labour Law and Industrial Relations, which includes 59 detailed country-by-country monographs by one or more local experts in the field covering the individual and collective labor relations.

For social security laws, we followed the concepts embedded in the "decommodification" index proposed by Esping-Andersen (1999), generally regarded as a leading empirical comparison of social security systems among developed countries (Hicks, 1999. p. 249). This index covers the three main dimensions of social security: (i) Old age, death and disability benefits; (ii) sickness and health benefits, and (iii) unemployment benefits.

Our main data sources are the constitutions and laws of each country in the sample. Constitutions for all countries are available on-line at the Library of Congress, and employment, industrial relations and social security laws are generally available on-line at the ILO's NATLEX database. We also relied on several cross-country secondary sources, including the International Encyclopaedia for Labour Law and Industrial Relations, the ILO's Conditions of Work Digest (1994, 1995), and the U.S. Social Security Administration's *Social Security Programs Throughout the World*.

To ensure comparability and consistency across countries, we consider a "standardized" male worker with the following characteristics: (i) he is a non-executive full-time employee working in the same firm for 20 years; (ii) his salary plus benefits equal the country's GNP per worker during the entire period of employment; (iii) he has a non-working wife and two kids, and the family has always resided in the country's largest city; (iv) he is a lawful citizen who belongs to the same race and religion as the majority of the country's population; (v) he is not a member of the labor union (unless membership is mandatory). For social security, we also

assume that the worker retires at normal retirement age (as defined by the country's laws); sickness lasts for 2 months, and the unemployment spell lasts for one year. We also assume a "standardized" firm with the following characteristics: (i) it is a local company, wholly owned by nationals, with the country's largest city being both its legal domicile and its main place of business; (ii) it operates in the manufacturing sector; (iii) it has more than 200 workers; (iv) it abides by every law and regulation, but does not grant workers more prerogatives than are legally mandated. Other general assumptions are the following: (i) when both a standard duration and a possible extended period of time are provided by law, we chose the standard period; (ii) we used 30-day months and assumed 22 working days per month and 5 working days per week; (iii) when we found complementary coverage mechanisms, all applicable mechanisms were taken into account.

These assumptions are key to ensuring comparability across countries, but are not responsible for the results of the paper. In the vast majority of countries, most employment provisions uniformly apply to every kind of worker in every kind of company in every industry. Several countries—especially common law countries—have adopted different laws for different industries; for instance, labor regulation in industry tends to be more stringent than that in agriculture. Civil law countries tend to have national labor codes with standard provisions applicable to the vast majority of the workforce, although they sometimes provide exceptions for certain workers or industries. For both civil and common law countries, variations in the overall level of labor protection are by far larger across countries than across industries within a country.

Also, labor laws are national in most countries.¹

Employment laws

The definitions of all the variables used in this paper are presented in Table 1.

Employment laws govern the individual employment relation, including the formation of the individual labor contract, the mandatory minimum terms and conditions of such contract, and the termination of the contractual relation. Accordingly, we divide the field into three broad areas: (i) alternative employment contracts, (ii) conditions of employment, and (iii) job security.

The effectiveness of the protection granted by the statutory regulation of the employment contract depends on the restrictions placed on alternative employment contracts. If the regulation of alternative contracts is relatively more flexible than that of regular contracts, the former will be used to by-pass standard labor provisions. The three main alternatives to the standard employment contract are part-time, fixed-term, and family members' contracts.²

¹Regulation of industrial relations tends to be tougher for large firms than for small businesses. For instance, some countries mandate workers councils only for companies having more than a certain number of workers, ranging from 5 (Austria) to 200 (Brazil). Yet even in this area, most regulations still apply to every worker in every company in every industry. In the area of social security, the worker's income level and years of contributions may have a substantial impact on the applicable laws. We re-coded all the variables for a worker earning only one third of the GNP per worker in the country and who had only made contributions for 3 years. The results for this worker are not significantly different from those reported below, since countries that better protect standard workers also give more protections to the very poor.

² We define a *'part-time worker'* as any employee working 20 hours per week. It includes people working 4 hours per day 5 days per week, and people working full time two and a half days per week. The second case is frequently known as *'temporary worker.'* The term *'fixed-term contract'* refers to workers employed for fixed periods of weeks, months or years. In many countries a person working for two or three days per week is considered a fixed-term rather than a part-time worker.

In some countries, part-time employees are not paid the same benefits as full-time employees, which allows firms to escape potentially onerous compensation. Additionally, in some countries there are special rules for termination of part-time employees, making part-time employment less costly to employers. A second way to escape regulation of full-time employment is with fixed-term employment contracts, since such agreements end naturally at the expiration of the term without termination costs. The two main aspects of these contracts are: (1) whether they may be entered into for any reason or only for fixed-term tasks (such as temporary vacancies, training contracts and seasonal work); and (2) the maximum duration of fixed-term contracts allowed by law. Finally, some countries (Sweden, Bolivia, Ghana, Lebanon, South Korea) do not count family members working in the firm as regular hired workers, and thus allow family-owned firms to avoid onerous labor restrictions³. The normalized sum of these three components—part-time, fixed-term and family members' contracts — forms the sub-index of alternative employment contracts.

The second broad area covers the terms and conditions of the employment contract. In many countries, the conditions of employment are defined by the labor code or other statutory provisions as a matter of public policy (they may not be opted out of, except to afford greater protection to the employee). In other countries, substantial aspects of the employment relation are left to the individual agreement between the parties.

The legal provisions on conditions of employment cover three areas: (i) flexibility on working time requirements, which includes mandatory minimum daily rest, maximum number of hours in a normal workweek, premium for overtime work, and restrictions on "weekly holiday"

³To capture this dimension, this variable was coded without regard to our assumption on firm size.

(Friday, Saturday or Sunday) work and night work; (ii) mandatory payment for non-working days, which includes days of annual leave with pay, paid time off for holidays, and maternity leave⁴; and (iii) minimum wage legislation.

We also code the constitutional principles dealing with the minimum conditions of employment. In some countries the constitution extensively regulates working times, leaves and remunerations, or positively grants workers the right to certain minimum conditions of employment that shall be defined by statute; in others, the constitution defines the regulation of conditions of employment as a state public policy or public interest, or simply mentions them expressly. In still other countries, the constitution is completely silent with respect to employment, or its provisions are limited to a general prohibition of slavery.

The normalized sum of the above four elements—hours of work, leaves, minimum wage, and constitutional protection—forms the sub-index of conditions of employment.

The third broad area is job security, or workers' legal protection against dismissal. Job security legislation encompasses the areas of: (i) grounds for dismissal; (ii) procedures for dismissal (individual and collective); (iii) notice period; and (iv) severance payment. We also code the constitutional principles dealing with protection against dismissal.

The rules on grounds for dismissal range from the common law 'contract at will,' where the employment relation may be terminated by either party at any time and with no limitations other than those contained in the agreement, to allowing the termination of employment contracts only under a very narrow list of 'fair' causes, which are a matter of public policy and

⁴ Today, maternity leave is still regulated as an employment issue by the labor code in most of the developing world, but developed countries generally consider maternity a component of the social security system. We coded the statutory duration of maternity leave (in months) with 100% earnings.

may not be contracted around by the parties. Our variables sort countries incrementally according to the regulation of grounds for dismissal. First, some countries allow the parties to enter into employment contracts that may be terminated at will, while others ban such contracts by statute or by court decisions. For instance no written law requires any reason for dismissal with notice in Japan, but courts have developed a rather strict set of rules for dismissal and demand 'just cause' even for dismissal with notice (Hanami, 1985). The same is true for Sweden. The second aspect of regulation is the presence or absence of a statutory list of fair grounds for dismissal. A narrow list of fair grounds for dismissal grants workers a higher level of protection and reduces the risk of employers outspending workers in case-by-case litigation over the fairness of the employer's justification. Third, some countries grant companies leeway to dismiss workers based on economic necessity (redundancy⁵), while others make no such allowance, regardless of the employer's burdens or market conditions. Some of the latter nations have raised to the level of constitutional principle the concept that employees shall not bear the employer's economic risk.

The second area governed by job security legislation is the procedure for dismissal. The employer's freedom to dismiss may be restricted by mandatory notification or even by approval from unions, workers councils, the public employment service, a labor inspector or a judge. In addition, some countries have enacted mandatory provisions aimed at ameliorating the consequences of dismissals, such as the requirement of rehabilitative measures (retraining and

⁵ The words used to describe this concept vary widely among countries. The term "*redundancy*"⁵ is generally equivalent to "*retrenchment*" (India), "*termination for economic reasons*" (Senegal), "*objective causes*" (Portugal), or "*necessities of the company*" (Chile). The scope of economic reasons covered by these terms also varies widely from country to country.

allocation ⁶of another post within the enterprise) prior to the dismissal, and priority rules for dismissal or re-employment of redundant workers.

The third area of job security regulation is the timing and cost of the dismissal. Some countries have established a lengthy mandatory advance notice for termination, while others leave this issue to the individual employment contract. Similarly, the termination of the employment agreement sometimes carries no payment at all or a payment in lieu of notice. Typically labor laws provide for both a mandatory advance notice period and a mandatory severance payment. In France, employment laws distinguish between "notice or payment in lieu thereof" and "compensation for dismissal ('indemnite de licenciement')", and both payments are due "unless the termination occurs as a result of serious breach by the employee" (IHCE, France, p. 43). In the United States, as a general rule neither advance notice nor termination indemnity are required for the dismissal of a redundant worker. We have coded the notice a period and the severance payment mandated for the dismissal of a single redundant employee after twenty years of employment, in line with our general assumptions.

The normalized sum of the above four elements—grounds for dismissal, dismissal procedures, notice and severance payment, and constitutional protection—forms the sub-index of conditions of employment. The three sub-indices aggregate into the index of employment laws.

Industrial relations laws

⁶ We have also redone the analysis for a worker with only three years of employment. The results are not significantly different.

Industrial relations laws aim at collectively protecting workers from employers.⁷ They govern the balance of power between labor unions and other forms of organized work, and employers and associations of employers. The industrial relations laws regulate: (i) collective bargaining; (ii) workers' participation in the company's management; and (iii) collective disputes (strikes and lockouts).

Collective bargaining covers the following areas. First, in some countries the employers are required by law to bargain with workers, while in others they can simply by-pass bargaining and resolve the issues through collective dispute mechanisms. Workers' power during the collective bargaining process increases when employers may not refuse to bargain with them or if the law considers a refusal to bargain to be an unfair labor practice. Second, in some countries collective agreements between the associations of employers and the organizations of workers are extended to third parties as a matter of public policy at the national or sectoral levels. Extensions may be automatic or subject to governmental approval. In other countries collective agreements are either extended to non-signatory workers only at the plant level, or are only binding on the parties to the agreement. Third, the laws of some countries include rules allowing for the exclusive hiring of union labor in certain industries or factories.⁸ But most countries

⁷ Some provisions aim to protect workers from other workers. For instance, "right-to-work" laws in the United States protect workers from unions by prohibiting the exclusive hiring of union labor. Such cases are rare in the rest of the world. The bulk of industrial relations provisions directly protect workers from employers.

⁸ Union security legislation in general includes the following measures: (1) Pre-entry closed shops, where workers have to belong to a union prior to taking up a job; (2) post-entry closed shops (or union shops), where workers are forced to join a union after taking up a job; and (3) absolute preferences, where an employer has to give a job to a union member if equally qualified to another non-union candidate. In this study we have not considered post-entry closed shops.

recognize the individual worker's right to either join the union of their choice, or to refuse to join any labor or trade union. Closed shops have traditionally been very important in Anglo-Saxon countries, but these countries changed their laws in the 1980s and 90s to basically outlaw them.⁹ In several countries, closed shops are still expressly allowed, or tacitly permitted simply because the law does not place any restrictions on union security clauses in the private sector (Denmark, Hong Kong).

The duty to bargain, extension of collective contracts, and closed shops contribute to our measure of labor union power. We also coded the constitutional principles dealing with the rights to unionization and collective bargaining. Together, labor union power and constitutional protection of unionization and bargaining form the sub-index of collective disputes.

The second broad area is worker participation in management, which may take the form of mandatory appointment of workers to the board of directors, or workers councils. Under the German model of co-determination, workers or unions have some actual power in the management of the company, since they have the right to appoint members to the board of directors.¹⁰ Under the Swedish model, the employer still has the sole right to decide on the operations of the company, but must negotiate and decide all matters affecting workers within

⁹ See U.K. Employment Act of 1990, New Zealand Employment Act of 1991, Australia Workplace Relations Act of 1997, U.S. Supreme Court decision declaring pre-entry closed shops unconstitutional in the 1960s. Some U.S. states prohibited closed shop by passing "Right to Work" laws. OECD Jobs Study (1994), page 16. See Patrick J. Cihon and James Castagnera (xxxx) for further discussion. But in several countries closed shops are still expressly allowed, or tacitly permitted simply because the law does not place any restrictions on union security clauses in the private sector (Denmark, Hong Kong).

¹⁰ However, the mechanics of the two-tired board system in Germany have severely reduced the actual powers of workers to participate in operational decisions of the company.

the framework of workers councils (Fransson, 2000). Most countries still provide neither mechanism for worker participation. These two variables form the sub-index of worker participation in management.

The third broad area is the regulation of collective disputes. This area covers (i) legal strikes; (ii) procedural restrictions to strikes; (iii) employer defenses; and (iv) compulsory arbitration. We have also coded the constitutional protection of the right to strike.

The two main legal restrictions on the workers' right to strike are the prohibition or limitation of certain types of strikes, and procedural restrictions on the right to strike. For example, solidarity strikes (to support the claims of workers other than the striking workers), wildcat strikes (not authorized by the labor union), political strikes (for political reasons), and sit-ins are often prohibited. The procedural restrictions to the right to strike include majority voting and advance notice requirements; prohibition of strikes while a collective agreement is in force over issues covered by the agreement; and the obligation to go through lengthy conciliation procedures before the strike may take place. Some countries allow employers' retribution against strikers, which includes the termination of employment of striking workers and the hiring of replacement labor during a lawful strike. Retribution against strikers is typically not allowed, since the 'right to strike' is understood as a positive right, except in some common-law countries where the strike is considered a 'freedom' rather than a positive 'right,'¹² and in a few countries

¹¹ Lockouts may be offensive (when they are not provoked by workers) and defensive. We have coded both as if they were equivalent.

¹² In many countries, mostly common law nations, labor laws recognize not the "right" to strike, but a mere "freedom" of industrial action. The line between these two is blurry. In the U.K., "although the 'right to strike' was described by a leading British judge in 1942 as being 'an essential element

subject to limitations. Finally, in most countries collective disputes may not be referred to arbitration unless both parties consent to the referral. In many countries, however, one (normally the employer) or both of the parties may be subject to arbitration against their will.¹³

The normalized sum of the above five elements—illegal strikes, procedural restrictions to strikes, employer defenses, mandatory arbitration, and constitutional protection—forms the sub-index of collective disputes. The three sub-indices form the index of industrial relations laws.

Social Security laws

To code social security laws, we followed the design of the de-commodification index proposed by Esping-Andersen in *The Three Worlds of Welfare Capitalism*. His index covers the three main components of social security across countries: (i) old age, death and disability benefits; (ii) sickness and health benefits, and (iii) unemployment benefits. This index measures the level of protection by social security laws for 18 developed countries. The share of the relevant population covered was used as a weight for all variables in the original index. This

in the principle of collective bargaining,' *there is no legally guaranteed 'right' of the individual citizen to withdraw his of her labour in combination with others; nor do trade unions have such positive rights.*" (ELL, U.K., p. 257). The distinction between the right and the freedom, as it is understood in several countries, has substantial implications in terms of flexibility of the employment contract. The freedom of strike protects strikers from the recovery of lost profits sustained by the employer during the strike, but does not entail a protection against dismissal. Since there is no positive "right" to strike, workers may be dismissed for breach of the employment contract and replacement labor may be hired. On the other hand, since the strike is conceptually a freedom rather than a fundamental right, it may be waived by the parties -as is the case in the U.S. (IHCE, US, p. 67).

¹³ The term 'compulsory arbitration' refers to arbitration of private disputes against the will of the parties. It normally protects workers by granting them an alternative to costly strikes in case of deadlocks in the negotiation process, but it may also limit the workers' right to strike.

information is not available for a large sample of countries, so we present the un-weighted data.¹⁴

The types of risks covered by social security systems are not uniform across countries. The legal literature identifies twelve potentially independent types of programs: Old age; disability; survivor's; sickness; healthcare; employment-related temporary injury; employmentrelated permanent injury; employment related survivor's; maternity; unemployment; family benefits; child benefits. Most countries group these programs into a few independent risks as follows: (i) old-age, disability and survivor's (death); (ii) sickness, maternity and healthcare coverage; (iii) employment-related injuries and employment-related survivor's; (iv) unemployment; (v) child and family benefits. The bulk of social security expenditure across countries addresses old-age pensions, sickness and healthcare coverage, and unemployment, which are also the three components of the de-commodification index.

Our variables cover the risks of old age, death and disability, with an emphasis on oldage; sickness and healthcare, with an emphasis on sickness; and unemployment. We code five variables for each one of these three risks. The first variable is always a dummy measuring whether the laws of the country provide for a mandatory and comprehensive social security system to cover the particular risk. This enables us to exclude non-comparable mechanisms. For instance, some countries have established mandatory indemnities in case of dismissal; these payments are sometimes considered as an alternative to unemployment insurance, but they are normally concurrent.¹⁵

¹⁴ The correlation between the Esping-Andersen index and our index of social secutity laws for the 18 countries in their sample is 0.xx.

¹⁵ In many countries severance payments are viewed as an alternative to unemployment insurance. In others, severance payments are considered remedies (indemnities) for unfair dismissals, so they coexist with unemployment insurance. In still others neither severance

Old age, disability and death.

The first indicator of the level of pension protection is the difference between the legal retirement age and the worker's life expectancy. Ideally we would use the worker's life expectancy at the moment of initiation of the productive life. These data are not available for a large sample of countries, so we use the country's life expectancy at birth as a proxy.

The second aspect is the required time of contributions to access a pension. We measure the number of months of contribution or covered employment required by law to qualify for a standard pension. This excludes voluntary early and late retirement schemes. Lump-sum and private pension systems do not define the number of months of contributions for normal retirement by law. In these cases, the amount of the pension depends solely on the number of months of contributions; thus we assume twenty years of contributions for normal retirement.

Third, we consider the percentage of the worker's monthly salary deducted by law to cover old-age, disability, and death benefits.

Our last indicator of the level of protection of the pension system is the "replacement rate," calculated as the percentage of the pre-retirement salary covered by the standard old-age cash-benefit pension. Old age, disability and death benefits are defined in some countries as a fixed amount in local currency, rather than as a percentage. In these cases, the replacement rate was calculated based on a pre-retirement salary equal to the country's GNP per worker. Lump-sum systems provide a one-time payment at the age of retirement equal to the sum of contributions plus accrued interest, rather than a monthly pension. In these cases, the monthly

payment nor unemployment insurance are mandated. Most countries have both severance payment and unemployment insurance. Severance payments are reported in the sub-index of job security above.

old-age cash-benefit pension was calculated using the lump-sum payment divided by the difference between the average life expectancy and retirement age in months. As in the case of fixed-monthly payment systems, the pre-retirement salary was calculated to be equal to the nation's GNP per worker. The interest rate used for these calculations was the 1986 to 1996 average monthly Libor rate. The same methodology was applied to private pension systems.

The normalized sum of the above four elements—difference between retirement age and life expectancy, months of contributions, worker's share of financing, and replacement rate—form the sub-index of old age, disability and death.

Sickness and health, and unemployment

The other two components of the social security index use the same variables as the oldage sub-index, with only minor modifications. The difference between retirement age and life expectancy is not applicable to sickness or unemployment. For these two categories of coverage, we use the waiting period to gain access to coverage as the counterpart of the retirement age for the old-age category. The waiting period here is the number of days from the occurrence of the risk until the moment the worker gains legal entitlement to coverage by the social security system. The other three variables in each category—months of contributions, worker's share of financing, and replacement rate—are calculated the same way as in the previous category.

The three sub-indices—old age, disability and death; sickness and health; and unemployment—form the index of social security laws.

III. Independent Variables

In Section II, we described the five broad theories of the determinants of labor regulations. In this section, we briefly summarize the variables we use to measure these determinants. As before, precise variable definitions are contained in Table 1 and the data for each country are presented in Appendices I, II and III.¹⁶

To proxy for the level of economic development, we use the (logarithm of) per capita income in 1997 – the same year as when the regulations are measured.

To test the political power theories, constructed a data base of political leanings of governments. Our data base follows the idea of the World Bank data base, which records the fraction of years between 1975 and 1995 that a chief executive and the legislature in each country was rightist, leftist, or centrist.

Since labor laws were developed in many countries prior to the 1970s, we started our data base in 1928, the first year for which many publications are available across countries. We constructed six variables: chief executive left orientation, chief executive left or center orientation, legislature left orientation, legislature left or center orientation, chief executive AND legislature left orientation, and chief executive AND legislature left or center orientation. Our main measures concern the period 1975-1995, but we also present measures for 1928-1995. All variables are coded as the percentage of years between 1928 and 1995 during which the particular branch (or combination) was of the described political orientation. If a country was not independent in 1928, we calculate each variable for the years since independence.¹⁷ The

¹⁶ All the data may be downloaded from <u>http://iicg.som.yale.edu//.</u>

¹⁷ There are a few countries that resulted from the break-up of a larger nation. For these countries we use the political orientation of the former (and larger) country until the time of the split and then we follow the political orientation of each of the individual nations. Countries in this group

details of the procedure for identifying the political orientation are summarized in Appendix IV.

In addition to the data on the left political power, we consider a number of measures of political influence of the left, such as union density, percentage of the labor force covered by collective agreements, and whether collective bargaining occurs at the central or sectoral level. In the same spirit, but less directly, we look at the transfers and subsidies relative to GNP as an index of the share of the population dependent on the state, and hence supportive of regulation.

To test the political constraints theories, we follow Djankov et al. (2002), and collect variables from secondary sources on three different elements of "constraints" on government. The first covers a measure of de facto independence of the executive and an index of constraints on the executive. The second includes an index of the effectiveness of the legislature and a measure of competition in the legislature's nominating process. The third element includes a measure of autocracy and an index of political rights, and democracy.

Our proxies for cultural predisposition to regulate are the percentages of population from different religious orientations as of 1900. The use of data from 1900 allows us to treat the religious influence as exogenous to the formation of labor laws (or any other recent institution).

Finally, to test legal theories, we use legal origin of commercial laws from La Porta et al. (1999), which classifies close to 200 countries.

IV. A Look at the Data.

Table 2 presents the sub-indices and indices of employment protection and industrial

are: Czech Republic, Slovak Republic, Croatia, Slovenia, Armenia, Russia and the rest of the break-up republics from the former Soviet Union.

relation laws for each country in the sample. Countries are ordered by per capita income in 1997 and divided into the poorest quartile, the next 50 percent, and the richest quartile. We also compare the means and the medians of the various sub-indices and indices across income groups. Recall that all variables are coded so higher values mean more protection/regulation.

Most countries extensively restrict alternative employment contracts, conditions of employment, and job security. There is no evidence of any difference in regulation between the poorest and the middle income countries, but there is clear evidence that the richest countries, if anything protect employment *less*. This is true for all three sub-indices, and the overall employment protection index. This result is inconsistent with the theory that market regulation requires a set up cost, and hence is only practicable in richer countries. On the other hand, if interpreted from the efficiency perspective, this result is consistent with the idea that regulation might be of greater use to poorer countries because contracting is less enforceable in courts. Of course, the result can also mean that poorer countries regulate employment more heavily because they are more leftist or have less constrained governments.

With respect to industrial relations laws, collective bargaining mandates are extremely common, but appear to be more common in the middle income countries than in either the poorest or the richest countries. Worker participation in management is uncommon everywhere. The data on regulation of collective disputes are similar to that on employment protection: regulation is common everywhere. For the overall index of regulation of industrial relations, collective bargaining mandates dominate, and show the greatest empowerment of collective bargaining in the middle income countries.

As a robustness check of these findings, we sort the data by a measure of efficiency of

courts rather than per capita income. The measure of court efficiency we use comes from Djankov et al. (2003) study of courts around the world. Their measure of court efficiency is the expected duration of taking a simple dispute, namely the collection of a bounced check, through a country's court system. When we look at our measures of labor market regulation as a function of court efficiency (Table 2A), we confirm the finding that countries with most efficient courts have the lightest regulation of labor. As before, this finding can mean either that regulation is an efficient substitute for the failure of courts, or that countries with poor institutions use regulation to pursue political objectives.

Table 3 focuses on social security protections. Here the results are clear: richer countries have more extensive social security protection in all areas, including old age, disability, and death, sickness, and unemployment. Interpreted in light of the efficiency theories, these results would suggest that social security systems are expensive to set up, and hence become available to more people in richer countries. Notice that this evidence is inconsistent with the proposition that social security replaces private insurance scheme, since such a proposition would imply that richer countries, with better markets, should have smaller social security programs. Indeed, most poor nations do NOT have social security programs for sickness (54%) and unemployment (27%) as compared to the almost 100% availability of these programs in the richest quartile countries.

V. Testing the theories.

In this section, we present the evidence on the efficiency, political power, political influence, political constraints, cultural, and legal theories of regulation. In each regression, we

control for the logarithm of GNP per capita, so efficiency theories are put to the test. We only include one other set of variables in this section. In the next section, we present the results of specifications that allow for competition among the theories.

In Table 4, we examine the relationship between protection of workers and legal origin, holding income constant. We present the results for all three areas of law. Note first that the results confirm our earlier observation that employment protection laws are generally weaker in richer countries, regulation of industrial relations does not monotonically depend on income, and social security protections sharply and significantly increase with income.

The results show that, relative to common law countries, socialist and French legal origin countries have sharply higher employment protection (which is similar among the latter two groups). German legal origin countries have somewhat higher employment protection than do the common law countries (but not in the area of restricting employment contracts, while Scandinavian countries are about the same as the common law countries overall. The magnitude of the difference between common law and French civil law countries (holding GNP per capita constant) is huge: it is 1.5 times the difference between the richest and the poorest countries.

In the area of industrial relations, we see a somewhat different pattern. As with worker protection, socialist and French legal origin countries have sharply higher worker protection through industrial relations laws than do the common law countries. But here, although the evidence for the sub-indices is weak, there is also evidence that German and Scandinavian law countries have more protective collective relations laws than do the common law countries.

In the area of social security, there is clear evidence of more generous regulation in the socialist legal origin countries than in the common law countries (except in the area of old age

benefits). Next to the socialist countries, the Scandinavian countries have the most generous social security systems relative to the common law countries. The difference between French civil law and common law countries is less pronounced, and is the greatest for sickness and health benefits. And there is no statistically significant difference between German legal origin and common law countries in the generosity of social security schemes.

Before we consider other potential determinants of protection of workers, we would like to summarize Table 4 with a preliminary message. Specifically, in the protection of workers through employment and industrial relations laws, we see a repetition of a now well-documented result that civil law countries, and especially French civil law countries, regulate markets more heavily than do the common law countries (see, e.g., La Porta et al. 1999, Djankov et al. 2002). In the area of social security, however, what seems to be important is not the difference between common and civil law, but rather the level of development, as well as the Scandinavian effect.

Table 5 examines the effect of left political power on the protection of workers. On several measures, countries with longer histories of leftist governments between 1975 and 1995 have heavier regulation of labor markets, as measured by either employment laws or industrial relations laws. In addition, there is extremely strong evidence that, on any measure of leftist government, countries with a longer history of such government have more generous social security laws. As a robustness check, we rerun these results using our new data on leftist governments starting in 1928 (Table 5A). For these longer horizon variables, there is absolutely no evidence that the fraction of years that the leftist executives, or legislatures, or both, spent in office has influenced the structure of employment and collective relations laws. This might suggest either that leftist power is irrelevant, or that our new measures of leftist power are

empirically poor or theoretically unsound. At the same time, the fact that all measures of leftist power continue to be associated with more generous social security regimes undermines the claim that we have a poor measure of leftist power.

Table 6 considers the measures of worker influence. The first measure we use is quite indirect, namely the size of the welfare state. The idea is that this measure reflects the potential number of beneficiaries from government intervention in the labor market, and hence captures the political pressure to regulate. The size of the welfare state is strongly positively correlated with employment protections, industrial relations protections, and social security. There is also striking evidence that a higher percentage of the labor force covered by collective agreements is associated with more protective labor and industrial relations laws, though not with more generous social security systems. The evidence on the role of the structure of collective bargaining is mixed. The crucial message of Table 6 is that measures of influence of unions or of beneficiaries of transfers and subsidies are indeed associated with greater regulation of labor.

Table 7 examines the constraints on government. The table presents strong evidence that more limited or restrained governments have lighter regulation of labor markets in both the employment protection and industrial relations areas. Basically, every measure of limited government works. What is perhaps also interesting is that the measures of limited government eliminate the negative effect of development on employment regulation; put differently, that effect might have come from the fact that richer countries have more limited governments. Likewise, we now see a positive effect of development on the regulation of industrial relations, holding constraints on the government constant. With respect to social security, the evidence is much less consistent, but again shows that more limited governments have smaller systems. Table 8 considers the effects of the religious composition of the population in 1900 on contemporary labor laws. Here there are a few statistically significant coefficients indicating that catholic countries have more protective labor laws, but the evidence is not strong.

So what findings emerge from this analysis? First, richer (and Scandinavian) countries have larger social security systems. Second, socialist and French legal origin countries are more interventionist in their employment protection and industrial relations laws than are the common law countries. Third, leftist government, higher union presence, less constrained governments, and Catholicism are (with varying degrees of statistical significance) associated with heavier regulation of labor markets, although many of these results are not consistent across specifications. This evidence raises the question of whether, in an empirical horse race, some of these variables are more powerful than others. This is the question addressed in the next section.

VI. Competition among the theories.

In setting up a horse-race between the theories, we first look at, in Table 9, the correlations among all the independent variables we have considered. A key point in this table is a strong positive correlation between socialist legal origin and left political power. This is obvious, since socialist countries have socialist laws. Accordingly, in trying to distinguish the theories, we remove the socialist legal origin countries from the sample.

Table 10 presents the horse-race between legal origin and measures of left political power, holding per capita income constant. In these regressions, richer countries show unambiguously lower levels of regulation of employment, insignificantly lower levels of regulation of collective relations, and as before sharply higher levels of social security benefits. In a regression with legal origins, none of the measures of left political power work, except in a couple of regressions for social security coverage. At the same time, we confirm the earlier results for legal origin, specifically, that compared to common law countries 1) French and German legal origin but not Scandinavian countries have more protective employment laws, 2) all civil law countries have more pro-labor regulation of industrial relations, and 3) French and Scandinavian, but not German, legal origin countries have more generous social security systems. Table 11 replaces our indices of the political power of the left with measures of transfers and subsidies relative to GNP and of union influence. All of these measures are statistically insignificant when legal origin is in the regressions, while the effects of legal origins remain. Likewise, the results in Table 12 show that our measures of constraints on government do not survive the inclusion of legal origins. Finally, Table 13 shows that religion does not matter when included with legal origin.

In many ways, the results of the horse races are consistent with the findings of our earlier papers (La Porta et al. 1999, Djankov et al. 2002). While political and religious factors appear to influence the structure of laws, including labor laws, these influences disappear in regressions that control for per capita income and legal origin. The heavier regulatory stance of civil law (and socialist) countries, especially French civil law countries, is the most robust aspect of the regulation of labor. In the next section, we try to interpret this finding.

VII. Legal Origin: a Possible Interpretation.

In some of our earlier work, we have argued that legal origin proxies for the government's inclination to intervene in markets. Put differently, societies have different

strategies of addressing the basic property rights problems of a market economy. Relatively speaking, common law countries are more likely to rely on contracts and litigation in resolving disputes. Civil law countries, in contrast, with no separation between the executive and the judiciary, are more likely to rely on regulation. On this theory, civil law is seen as a tool box which, as compared to common law, lowers the relative cost of regulation.

This tool box view has a number of implications. First, it suggests that civil law, and particularly French civil law countries, should exhibit heavier regulation of many markets, and not just labor markets. Second, it suggests that, in response to a demand for regulation, civil law countries are relatively more likely to resort to it than are the common law countries. Below we briefly examine both of these implications.

With respect to the first implication, note that we have already established in earlier work, that French civil law countries regulate entry of new firms, dispute resolution, and other activities more heavily than do common law countries (La Porta et al. 1999, Djankov et al. 2002, 2003). In this respect, the findings of this paper are broadly consistent with this research. Going further, Table 14 presents the correlations between our new measures of regulation of labor markets and the measures of regulation of entry from Djankov et al. (2002) and measures or legal formalism from Djankov et al. (2003). The data reveal striking evidence that all these aspects of regulation go together. Legal origin is indeed the unifying force of regulation of different markets.

A way to address the second implication is to return to our earlier discussion of the pressure for regulation, and to ask whether leftist or less constrained governments in French civil law countries are more likely to regulate labor markets than are such governments in common
law countries. To this end, we present in Tables 15A and 15B the results of regressions of labor laws (using the sub-sample of French legal origin and common law countries only) on legal origins and the interactions between those and our measures of leftist and unconstrained governments, respectively. The results are mixed, but provide some support for the idea that leftist and less constrained governments have a bigger added effect on regulation in civil law than in common law countries. This evidence is consistent with the tool box view of legal origin.

Finally, as the last empirical point, we return to the question of whether heavier regulation of labor in poorer countries is evidence of efficient institutional choice. In Table 16, we consider the size of the unofficial economy as a function of labor regulations. The size of the unofficial economy can be seen here as a measure of avoidance, or subversion, of regulation. The results show that, even controlling for per capita income, countries with heavier regulation of labor have much larger unofficial economies. This result is consistent with the efficiency interpretation if social outcomes would be even worse without regulation. On the other hand, the evidence of massive flows of resources into the unofficial economy suggests that if countries followed efficient strategies, fewer regulations of labor might be advisable in the poorest nations.

VIII. Conclusion.

In this paper, we have examined six theories of the sources of government regulation of labor markets. Overall, we found some support for each of these theories, but in the end, most of that support was not robust. Specifically, the evidence does not support the development, political power, political influence, government constraints, or cultural theories of the regulation of labor. In particular, the results are broadly inconsistent with the view that regulation is just the consequences of leftist power and political pressure, or social democracy. There is some stronger, but far from conclusive, support for the law enforcement theory. The view that emerges as a clear empirical winner is that the legal origin of a country's laws is an important determinant of regulation of labor markets. This view is also consistent with a range of earlier empirical findings obtained by us and by other researchers.

We attempted to pull some of this evidence together, and to argue that legal origin proxies for regulation as a strategy for solving perceived social problems. Because of the organization of their legal systems, civil law countries are more likely to resort to regulation to address perceived social ills than are the common law countries. This view may help integrate a variety of disparate findings into a more unified theory of institutional structure of market economies. References

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Table IDescription of the variables

The table describes the variables in the paper. Unless otherwise specified, the sources for the variables are the laws each country.

Variable	Description						
Employment laws							
	Alternative employment contracts						
Part-time employment is prohibited	This variable equals one if part-time employment is prohibited by the labor laws. Equals zero if part-time work is expressly allowed or if labor laws are silent thereon.						
Part-time workers are not exempt from mandatory benefits of full- time workers	This variable equals one if a part-time worker working half the time of a full-time worker enjoys at least half of the benefits enjoyed by the full-time worker. The variable equals zero if part-time workers are not entitled to: (i) at least half of the maximum hours of work, leaves, and overtime premiums; (ii) social security coverage (pensions, health, unemployment); or (iii) if there are entitlement thresholds of more than half the legally mandated regular workweek for premiums, leaves, or social security coverage. In countries where there are minimum-earnings thresholds to obtain benefits (rather than time-based thresholds), the analysis is done considering a salary equal to half of the country's GNP per worker.						
It is not easier or less costly to terminate part-time workers than full-time workers	This variable equals one if part-time workers working half time enjoy at least half of the legal rights to advance notice and separation fees for the termination of the employment contract of full time workers. The variable equals zero otherwise.						
Part-time contracts	This variable measures the protection of part-time workers in the labor law. The variable is computed as the normalized sum of the above three variables.						
Fixed-term contracts are only allowed for fixed-term tasks	This variable equals one if fixed-term contracts are allowed only: (i) for jobs that are temporary by nature; (ii) temporary vacancies to replace a permanent worker in maternity or sickness leave; (iii) for training contracts; (iv) for seasonal work, or (v) if the law expressly states that the will of the parties involved in the contract is not a good enough reason for entering into a fixed-term contract. The variable equals zero otherwise.						
Maximum duration of fixed-term contracts.	This variable measures the maximum cumulative duration of fixed-term contracts, normalized from 0 to 1, where higher values mean lower allowed duration of fixed-term contracts (higher protection). If there is no legally mandated ceiling or if fixed-term contracts may be renewed without limit, the variable equals zero. The highest observation in our sample was 96 months and the lowest observation was 0 months.						
Fixed-term contracts	This variable measures the protection of workers through the limits in the use of fixed-term contracts. This variable is computed as the normalized sum of the above two variables.						
Family members are not exempt from any aspect of the labor law	This variable equals one if family members enjoy the protection of the labor law, or if the labor law is silent regarding family members. The variable equals zero if family members are not entitled to maximum hours of work, leaves, overtime premiums, advance notice and severance payment for termination of the employment contract, social security coverage, or non-salary benefits.						
Subindex: Alternative employment contracts	This index measures whether the law allows alternatives to the standard employment contract, which entail lower protection to the worker. This index is computed as the normalized sum from 0 to 1 of: (i) Part-time contracts. (ii) Fixed-term contracts, and (iii) Family members are not exempt from any aspect of the labor law.						
	Conditions of employment						
Mandatory minimum daily rest.	This variable measures the mandatory minimum daily rest, normalized from 0 to 1, where higher values mean higher duration of mandatory daily rest (higher protection). If there is no legally mandated ceiling, the variable equals zero. Limits may be defined either as mandatory minimum rest hours per day, or mandatory maximum regular and overtime working hours per day. The highest observation in our sample was 14 hours and the lowest observation was 0 hours.						

Variable	Description							
Maximum number of hours in a regular work week.	This variable measures the maximum duration of the regular workweek (excluding overtime), normalized from 0 to 1, where higher values mean less hours of work (higher protection). If there is no legally mandated limit, the variable equals zero. The highest observation in our sample was 52 hours and the lowest observation was 37 hours.							
Premium for overtime work.	This variable measures the premium for overtime work, as defined by the law or mandatory collect agreement, normalized from 0 to 1, where higher values mean higher premium (higher protection). If the l provides for a variable schedule of overtime premium, we code the basic premium for the first hour overtime. The highest observation in our sample was 100% and the lowest observation was 0%.							
There are restrictions on night work	This variable equals one if by law or mandatory collective agreement: (I) there are restrictions on the maxim number of hours of work that can be performed at night; and/or (ii) if there are specific premiums for ni time work. The variable equals zero if night-time work is not subject to express limitations, i.e., if it is subject to the general restrictions on the maximum length of the workday or workweek, and the reg overtime premium. For codifying this variable we only consider specific regulations on night-time work defined by each country, and did not consider regulations on work-shifts.							
There are restrictions on "weekly holiday" work	This variable equals one if by law or mandatory collective agreement there are restrictions on work during the weekly holiday (Sunday, Saturday or Friday, depending on the country). Restrictions include: (I) complete prohibition; (ii) express designation of certain day of the week as weekly holiday, which the employer cannot change unless with the worker's consent; (iii) specific maximum hours of work on such day; and (iv) special premiums for work on such day. The variable equals zero if work during the weekly holiday is: (I) allowed without restriction, or (ii) it is only subject to the general limitations on the maximum length of the workweek or workday and it does not entail higher than regular overtime premiums.							
Hours of work	This variable measures the protectionism of the regulation on hours of work. This variable is computed as the normalized sum of the above five variables.							
Days of annual leave with pay in manufacturing.	This variable measures the length of the annual paid leave in manufacturing after twenty years of employment, normalized from 0 to 1, where higher values mean longer annual paid leave (higher protection). If there is no minimum by law or mandatory collective agreement, the variable equals zero. If annual leave entails less than full pay, the number of days are discounted proportionally. The highest observation in our sample was 30 days and the lowest was 0 days. We assume that 7 calendar days equal 5 working days.							
Paid time off for holidays is mandatory	This variable equals one if workers are granted paid time-off for national or local holidays by law or mandatory collective agreement. The value is zero otherwise.							
Statutory duration of maternity leave with 100% earnings	This variable measures the length of the statutory duration of maternity leave with 100% earnings, for a delivery birth of a normal child, normalized from 0 to 1, where higher values mean longer maternity (higher protection). If maternity leave is unpaid the variable equals zero. If payment is less than 100% is reduced proportionally. The highest observation in our sample was 12 months and the lowest observation was 0 months. <i>Source: ILO. Conditions of Work Digest, 1994.</i>							
Leaves	This variable measures the protectionism of the regulation on leaves of absence. This variable is computed as the normalized sum of the above three variables.							
There is a mandatory minimum wage	This variable equals one if there is a mandatory minimum wage by law or mandatory collective agreement, and zero otherwise.							
Conditions of employment in the constitution	This variable measures the degree to which the regulation of conditions of employment appear in the country's constitution. The variable equals one if there is a 'right' to certain minimum conditions of employment expressly granted by the constitution. It equals 0.67 if the minimum conditions of employment are mentioned as a State public policy or public interest (or simply mentioned within the chapter on rights). It equals 0.33 if conditions of employment are mentioned in the constitution. It equals 2.33							
Subindex: Conditions of employment	This index measures the level of protectionism in the law on conditions of employment. It is computed as the normalized sum of: (I) hours of work; (ii) leaves; (iii) there is a mandatory minimum wage; and (iv) conditions of employment in the constitution.							

Variable	Description						
Job security							
It is unfair to terminate the employment contract without cause	This variable measures the parties' leeway to agree on the conditions of termination of the employment contract. The variable equals one: (i) if the employer may not terminate the employment contract without cause; (ii) if the termination without cause always entails a mandatory penalty; or (iii) if the law bans the parties to enter into employment contracts that may be terminated by either party entirely at will or with a simple advance notice without any mandatory penalty. The variable equals zero otherwise.						
The law establishes a public policy list of "fair" grounds for dismissal	This variable equals one if the law establishes a public policy list of "fair" grounds for dismissal. The varia equals zero if there is no list of grounds for dismissal or if parties are allowed to contract out.						
Redundancy is not considered a "fair" ground for dismissal	This variable equals one if redundancy ('retrenchment', 'termination for economic reasons', 'necessities of company') is not considered a "fair" ground for dismissal by law, or if such dismissal always entail mandatory penalty. It equals zero otherwise.						
Protectionism of grounds for dismissal.	This variable measures the protectionism of the rules on grounds for dismissal. This variable is computed the normalized sum of the above three variables.						
The employer must notify a third party before dismissing one redundant employee	This variable equals one if by law or mandatory collective agreement the employer must notify a third party (labor union, workers' council or government agency) before dismissing one redundant worker. The variable equals zero if the employer may dismiss one worker without notifying a third party, or if the employer may contract out of the prohibition.						
The employer needs the approval of a third party to dismiss one redundant worker	This variable equals one if by law or mandatory collective agreement the employer needs the approval of a third party (labor union, workers' council or government agency) to dismiss one redundant worker. The variable equals zero if the employer may dismiss one worker without the approval of a third party, or if the employer may contract out of the prohibition.						
The employer must notify a third party prior to a collective dismissal	This variable equals one if by law or mandatory collective agreement the employer must notify a third party (labor union, workers' council, government agency) before making a collective dismissal. The variable equals zero if the employer may dismiss more than one worker without notifying a third party, or if the employer may contract out of the prohibition.						
The employer needs the approval of a third party prior to a collective dismissal	This variable equals one if by law or mandatory collective agreement the employer needs the approval of a third party (labor union, workers' council or government agency) prior to a collective dismissal. The variable equals zero if the employer may dismiss workers without third party approval, or if the employer may contract out of the prohibition.						
The law mandates retraining or replacement prior to dismissal	This variable equals one if by law or mandatory collective agreement the employer must consider relocation or retraining alternatives for redundant employees prior to dismissal. It equals zero otherwise.						
There are priority rules applying to dismissal or lay-offs	This variable equals one if by law or mandatory collective agreement there are priority rules applying to dismissal or lay-offs, i.e., in order to fire redundant employees, the employer must follow a specific order of seniority, marital status, number of dependants or other objective priority criteria. It equals zero otherwise.						
There are priority rules applying to re-employment	This variable equals one if by law or mandatory collective agreement there are priority rules applying to re- employment. The variable equals zero if former redundant employees need not be considered for new positions (i.e. there are no priority rules for re-employment).						
Protectionism of dismissal procedures.	This variable measures the protectionism of collective dismissal procedures. The variable is computed as the normalized sum of the above seven variables.						
Legally mandated notice period.	This variable measures the length of the mandatory notice period for the dismissal of one redundant worker in manufacturing after twenty years of employment, normalized from 0 to 1, where higher values mean longer notice (higher protection). If there is no minimum notice period by law the variable equals zero. The highest observation in our sample was 24 weeks and the lowest was 0 weeks.						
Legally mandated severance payment.	This variable measures the amount of the mandatory severance payment (including mandatory indemnity) for the dismissal of one redundant worker after twenty years of employment in manufacturing, normalized from 0 to 1, where higher values mean higher amounts (higher protection). If there is no severance payment by law the variable equals zero. The highest observation in our sample was 28 and a half months and the lowest observation was 0 months.						

Variable	Description						
Notice and severance payment	This variable measures the level of protectionism of the notice period and the severance payment for the unilateral termination of the employment contract by the employer. The variable is computed as the normalized sum of the above two variables.						
Right to job security in the constitution	This variable measures the presence of rules on termination of the employment contract in the country's constitution. The variable equals one if there is a 'right' to job security or to the stability in the employment relation expressly granted by the constitution. It equals 0.67 if job security is mentioned as a State public policy or public interest (or simply mentioned within the chapter on rights). It equals 0.33 if job security is mentioned in the constitution. It equals zero otherwise.						
Subindex: Job security	This index measures the level of protectionism of the rules governing the termination of the employment contract. This index is computed as the normalized sum of: (I) protectionism of grounds for dismissal; (ii) protectionism of dismissal procedures; (iii) notice and severance payment; and (iv) right to job security in the constitution.						
Index: Employment laws	This index measures the level of protection of labor and employment laws. The index is formed by normalized sum of: (I) subindex: alternative employment contracts. (ii) subindex: conditions of employment (iii) subindex: job security.						
	Industrial (collective) relations laws						
	Collective bargaining						
Employers have the legal duty to bargain with unions	This variable equals one if employers have the legal duty to bargain with unions, workers councils or other organizations of workers. It equals zero if employers may lawfully refuse to bargain with workers. The variable only measures the duty to bargain, as opposed to the duty to bargain in good faith or any positive obligation to reach an agreement.						
Collective contracts are extended to third parties by law	This variable equals one if collective contracts are extended by law to third parties at the national or sectoral level. The variable equals zero if collective contracts may not be extended to non-signatory workers or unions, or if collective contracts may be extended only at the plant level. Mandatory administrative extensions of collective contracts are considered here as equivalent to mandatory extensions by law.						
Law allows closed shops	This variable equals one if the law allows closed shops, and zero otherwise. Closed shops are agreements providing for mandatory union membership, which are binding on non-signatory and new employees.						
Labor union power	This variable measures the level of statutory protection of unions. This variable is computed as the normalized sum of the above three variables.						
Right to unionization in the constitution	This variable measures the protection of the right to form labor unions in the country's constitution. It equals one if there is a 'right' to form labor unions expressly granted by the constitution. It equals 0.67 if labor unions are mentioned as a State public policy or public interest (or simply mentioned within the chapter on rights). It equals 0.33 if labor unions are mentioned in the constitution, It equals zero otherwise.						
Right to collective bargaining in the constitution	This variable measures the protection of the right to collective bargaining or the right to enter into collective labor contracts in the country's constitution. It equals one if there is a 'right' to collective bargaining expressly granted by the constitution. It equals 0.67 if collective bargaining is mentioned as a State public policy or public interest (or simply mentioned within the chapter on rights). It equals 0.33 if collective bargaining is mentioned in the constitution. It equals zero otherwise.						
Subindex: Collective bargaining	This index measures the level of legal protection of the right to unionization and collective bargaining. This index is computed as the normalized sum of: (I) labor union power. (ii) right to unionization in the constitution. (iii) right to collective bargaining in the constitution.						
	Worker participation in management						
Workers and/or unions have a right to appoint members to the boards of directors	This variable equals one if the law gives workers and/or unions the right to appoint members to the boards of directors of individual companies, and zero otherwise.						
Workers councils are mandated by law	This variable equals one if workers councils, committees or equivalent bodies are mandated by law. The variable equals zero if workers councils are not regulated by law or if their creation is voluntary for the employer. Workers councils are institutions of employers and workers created for the discussion of company's policies affecting workers at the company level.						

Variable	Description						
Worker participation by law	This variable measures the statutory rights of workers to participate in the management of the companies. This variable is computed as the normalized sum of the above two variables.						
Right to participation in management in the constitution	This variable measures the protection of the workers' right to participation in management in the country's constitution. The variable equals one if there is a 'right' to participation in management expressly granted by the constitution. It equals 0.67 if participation in management is mentioned as a State public policy or public interest (or simply mentioned within the chapter on rights). It equals 0.33 if participation in management is mentioned in the constitution. It equals zero otherwise.						
Subindex: Worker participation in management	This index measures the legal rights of workers to participate in the management of the companies. This index is computed as the normalized sum of: (I) worker participation by law; and (ii) right to worker participation in management in the constitution.						
	Collective disputes						
Workers have the right to strike	This variable equals one if the laws grant workers the right or the freedom to strike. It is zero otherwise.						
Wildcat strikes are legal	This variable equals one if wildcat strikes are legal. The variable equals zero if wildcat strikes are prohibited. Wildcat strikes are defined as strikes not authorized by the labor union or legally required assembly of workers.						
Political strikes are legal	This variable equals one if political strikes are legal, and zero otherwise. Political strikes are defined as strikes for political reasons or to protest government's policy, i.e., not work-related issues.						
Sympathy / solidarity / secondary strikes are legal	This variable equals one if the law allows sympathy, solidarity or secondary strikes used to force decisions affecting workers other than those joining the strike. The variable equals zero if they are prohibited. Sympathy or solidarity strikes are strikes by union members or workers who have no grievances against their employer, but who want to show solidarity with another union or workers. Secondary strikes are those against another employer who has business dealings with the employer involved in a dispute with the union or workers.						
Legal strikes	This variable measures the level of protection of the right to strike in the law. The variable is computed as the normalized sum of the above four variables.						
There is no mandatory waiting period or notification requirement before strikes can occur	This variable equals one if by law there is no mandatory waiting period or notification requirement before strikes can occur, and zero otherwise.						
A strike is not illegal even if there is a collective agreement in force	This variable equals one if a strike is not illegal even if there is a collective agreement in force, and zero otherwise.						
Laws do not mandate reconciliation procedures before a strike	This variable equals one if laws do not mandate conciliation procedures or other alternative-dispute-resolution mechanisms (other than binding arbitration) before the strike, and zero otherwise.						
Procedural restrictions to strikes	This variable measures the absence of procedural restrictions to the right to strike in the law. This variable is computed as the normalized sum of the above three variables.						
Employer lockouts are not allowed	This variable equals one if employers' lockouts (strikes by employers) are not allowed, and zero otherwise.						
Employers are not allowed to fire or replace striking workers	This variable equals one if the law prohibits employers both to fire striking workers and to hire replacement labor to maintain the plant in operation during a non-violent and non-political strike. The variable equals zero otherwise.						
Employer defenses	This variable measures the powers of employers during a collective dispute. This variable is computed as the normalized sum of the above two variables.						

Variable	Description							
Compulsory third party arbitration during a labor dispute is mandated by law	This variable equals one if compulsory third party arbitration during a labor dispute is mandated by law or if the government is always entitled to impose compulsory arbitration on the parties to a labor dispute. It equals zero otherwise.							
Right to industrial action in the constitution	This variable measures the protection of the right to industrial action (i.e. strike, go-slow or work-to-rule) in the country's constitution. It equals one if there is a 'right' to industrial action expressly granted by the constitution. It equals 0.67 if strikes are mentioned as a State public policy or public interest (or simply mentioned within the chapter on rights). It equals 0.33 if strikes are mentioned in the constitution. It equals zero otherwise.							
Subindex: Collective disputes	This index measures the level of protection of workers during a collective dispute. The index is computed as the normalized sum of: (I) legal strikes; (ii) procedural restrictions to strikes; (iii) employer defenses; (iv) compulsory third party arbitration during a labor dispute; and (v) right to industrial action in the constitution.							
Index: Industrial (collective) relations laws	This index measures the level of protection of industrial (collective) relations laws. The index is computed as the normalized sum of: (I) subindex of collective bargaining; (ii) subindex of worker participation in management; (iii) subindex of collective disputes.							
	Social security laws							
	Old age, disability and death benefits							
The Social Security system covers the risk of old age, disability and death	This variable equals one if the social security system covers the risk of old age, disability and death.							
Difference between retirement age and life expectancy	This variable measures the difference between the minimum legal age for normal retirement and the country's life expectancy at birth, normalized from 0 to 1, where higher values mean post-retirement life expectancy (higher protection). Normal retirement is the legally defined age for retirement with standard pension, and it excludes voluntary early or late retirement schemes. If the life expectancy is lower than the retirement age, the variable equals zero. The highest observation in our sample was 23.8 years and the lowest was 0 years. <i>Source: Human Development Report, 1997.</i>							
Months of contributions or employment required for normal retirement by law	This variable measures the number of months of contributions or employment required by law for normal retirement, normalized from 0 to 1, where higher values mean less contribution (higher protection). The highest observation in our sample was 540 months and the lowest was 0 months. Normal retirement is the legally defined age for retirement with standard pension, and it excludes voluntary early or late retirement schemes. If the law requires the worker to have a combination of certain number of months of work and a different number of months of contributions, we use the number of months of the highest part of the constant since it is the one that is binding. Lump-sum and private pension systems do not define the number of months of contributions, thus we assume twenty years of contributions for normal retirement.							
Percentage of the worker's monthly salary deducted by law to cover old-age and disability benefits	This variable measures the share of the worker's monthly salary deducted by law to cover old-age, disability, and death benefits, normalized from 0 to 1, where higher values mean lower deductions (higher protection). If the risk of disability and death was not included in the contribution for old -age pension, we added the percentage of contribution for the individual components. The highest observation in our sample was 20% and the lowest was 0%. In some countries the social security contribution for old age, disability and death benefits also covers sickness and health benefits and/or unemployment benefits. In these cases, we calculated the share of contributions for each benefit for the average country in our sample, and apportioned the total contribution among the several risks covered accordingly.							

Variable	Description					
Percentage of the pre-retirement salary covered by the old-age cash-benefit pension	This variable is the equivalent to the "replacement rate", which is the percentage of the pre-retirement salary covered by the average old-age cash-benefit pension, normalized from 0 to 1, where higher values mean higher percentage (higher protection). The highest observation in our sample was 90% and the lowest was 0%. For the countries that provide workers more than 12 payments a year for the pension, we added up to the amount of all the payments and devided the total by 12 to get the equivalent "monthly" old-age cash benefit pension. Where the pension plan provided for fixed monthly payments, rather than a percentage, the replacement rate was calculated using a pre-retirement salary equal to the country's GNP per worker. For lump-sum systems, where at the time of retirement a one-time payment is made that is equal to the worker's contributions plus accrued interest, the monthly old -age cash-benefit pension was calculated using the lump-sum payment divided by the difference between the average life expectancy and retirement age in months. As in the case of fixed monthly payment systems the pre-retirement salary was calculated to be equal to the country's GNP per worker. The interest used in the calculation was the previous ten years' average monthly Libor. The same methodology as in the lump-sum systems was applied to the private pension systems. If there are more than twelve payments per year we the adjust percentage accordingly.					
Subindex: Old age, disability and death benefits	This index measures the level of protection of the old age, disability and death benefits. This index is computed as the normalized sum of the above four variables.					
	Sickness and health benefits					
The social security system covers the risk of sickness	This variable equals one if the social security system covers the risk of sickness.					
Months of contributions or employment required to qualify for sickness benefits by law Percentage of the worker's monthly salary deducted by law to cover sickness and health benefits	This variable measures the number months of contributions or employment required by law to qualify for sickness benefits, normalized from 0 to 1, where higher values mean less contribution (higher protection). If the law requires the worker to have a combination of certain number of months of work and a different number of months of contributions, we use the number of months of the highest part of the constant since it is the one that is binding. The highest observation in our sample was 24 months and the lowest was 0 months. This variable measures the share of the worker's monthly salary deducted by law to cover sickness and health benefits, normalized from 0 to 1, where higher values mean lower deductions (higher protection). If the risks of sickness and health demand separate contributions, we added the percentages for the individual components. The highest observation in our sample was 11.8% and the lowest observation was 0%. In some countries the social security contribution for old age, disability and death benefits also covers sickness and health benefits and/or unemployment benefits. In these cases we calculated the share of contributions for each benefit for the average country in our sample, and apportioned the total contribution among the several risks covered accordingly.					
Waiting period for sickness benefits	This variable measures the waiting period for obtaining sickness cash benefits from the first day of sickness, normalized from 0 to 1, where higher values mean lower waiting periods (higher protection). The waiting period is the number of days until legal entitlement to coverage by the social security system. The highest observation in our sample was 42 days and the lowest observation was 0 days.					
Percentage of the salary covered by sickness cash benefits for two month sickness	This variable measures the percentage of the salary covered by the average sickness cash benefit for a two- month sickness, normalized from 0 to 1, where higher values mean higher percentage (higher protection). If maximum duration of benefits lasts less than 2 months the percent of salary is discounted proportionally. The highest observation in our sample was 100% and the lowest observation was 0%. Sickness cash benefits are defined in some countries as a fixed amount in local currency, rather than as a percentage. In these cases, the percentage of the salary covered was calculated based on a salary equal to the country's GNP per worker.					
Subindex: Sickness and health benefits	This index measures the level of protection of sickness and health benefits. The index is computed as the normalized sum of the above four variables.					
	Unemployment benefits					
The Social Security system covers the risk of unemployment	This variable equals one if the social security system covers the risk of unemployment.					
Months of contributions or employment required to qualify for unemployment benefits by law	This variable measures the number of months of contributions or employment required by law to qualify for unemployment benefits, normalized from 0 to 1, where higher values mean less contribution (higher protection). If the law requires the worker to have a combination of certain number of months of work and a different number of months of contributions, we use the number of months of the highest part of the constant since it is the one that is binding. The highest observation in our sample was 120 months and the lowest observation was 0 months.					

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Variable	Description						
Percentage of the worker's monthly salary deducted by law to cover unemployment benefits	This variable measures the share of the worker's monthly salary deducted by law to cover unemployment benefits, normalized from 0 to 1, where higher values mean lower deductions (higher protection). The highes observation in our sample was 6.1% and the lowest observation was 0%. In some countries the social security contribution for old age, disability and death benefits also covers sickness and health benefits and/o unemployment benefits. In these cases we calculated the share of contributions for each benefit for the average country in our sample, and apportioned the total contribution among the several risks covered accordingly						
Waiting period for unemployment benefits	This variable measures the waiting period for obtaining unemployment benefits from the first day of unemployment, normalized from 0 to 1, where higher values mean lower waiting periods (higher protection). The waiting period is the number of days until legal entitlement to coverage by the social security system. The highest observation in our sample was 70 days and the lowest observation was 0 days.						
Percentage of the salary covered by unemployment benefits for one year	This variable measures the percentage of the pre-retirement salary covered by unemployment benefits for one year unemployment from social security system, normalized from 0 to 1, where higher values mean higher percentage of salary (higher protection). If maximum duration of benefits lasts less than one year the percent of salary is discounted proportionally. The highest observation in our sample was 90% and the lowest observation was 2.78%. Unemployment benefits are defined in some countries as a fixed amount in local currency, rather than as a percentage. In these cases the percentage of the salary covered was calculated based on a salary equal to the country's GNP per worker.						
Subindex: Unemployment benefits	This index measures the level of protection of unemployment benefits. The index is computed as the normalized sum of the above four variables.						
Average of dummies on coverage of three risks (old age, sickness and unemployment)	This variable is an average of the following three variables: (I) social security system covers the risk of old age, disability and death; (ii) social security system covers the risk of sickness and health; (iii) social security system covers the risk of unemployment.						
Index: Social security laws	This index measures the level of protection of social security laws. The index is formed by the normalized sum of: (I) subindex of old age, disability and death benefits; (ii) subindex of sickness and health benefits; and (iii) subindex of unemployment benefits.						
	Left political power						
Chief Executive's party has left political orientation.	This variable measures the percentage of years between 1928 and 1995, and between 1975 and 1995, during which the party of the country's chief executive was of left orientation. The variable was constructed by the authors assigning a value of 1 to each year during which the party of the chief executive of the country was of left orientation, and then dividing by the number of years in the period of analysis. If the country was not independent in the initial year of the period, we calculated the variable for the number of years since it became independent. For the countries that were part of a larger country in the initial year of the period and subsequently broke-up during the period we considered the political orientation of the larger country until the breakup. In the case of military regimes, where political affiliations were not clear, we classified the regime based on its policies. Source: <i>Authors' calculations based on descriptions and classifications coming from: Political Handbook of the World, Europa Yearbook, Statement database (<u>http://www.worldstatement.org)</u>, <u>http://www.countryreports.org</u>, <i>World Bank data set on political institutions, various regional and country sources</i>.</i>						
Chief Executive's party has left or center political orientation.	This variable measures the percentage of years between 1928 and 1995, and between 1975 and 1995, during which the party of the country's chief executive was of left or center orientation. The variable was constructed by the authors assigning a value of 1 to each year during which the party of the chief executive of the country was of left or center orientation, and then dividing by the number of years in the period of analysis. If the country was not independent in the initial year of the period, we calculated the variable for the number of years since it became independent. For the countries that were part of a larger country in the initial year of the period, and subsequently broke-up during the period we considered the political orientation of the larger country until the breakup. In the case of military regimes, where political affiliations were not clear, we classified the regime based on its policies. Source: <i>Authors' calculations based on descriptions and classifications coming from: Political Handbook of the World, Europa Yearbook, Statement database (http://www.worldstatement.org), http://www.countryreports.org, World Bank data set on political institutions, various regional and country sources.</i>						
Largest party in congress have left political orientation.	This variable measures the percentage of years between 1928 and 1995, and between 1975 and 1995, during which the largest party in congress was of left orientation. The variable was constructed by the authors assigning a value of 1 to each year during which the largest party in congress in the country was of left						

Variable	Description						
	orientation, and then dividing by the number of years in the period of analysis. If the country was not independent in the initial year of the period, we calculated the variable for the number of years since it became independent. For the countries that were part of a larger country in the initial year of the period, and subsequently broke-up during the period we considered the political orientation of the larger country until the breakup. In the case of military regimes, where political affiliations were not clear, we classified the regime based on its policies. Source: <i>Authors' calculations based on descriptions and classifications coming from: Political Handbook of the World, Europa Yearbook, Statement database (<u>http://www.worldstatement.org),</u> <u>http://www.countryreports.org,</u> World Bank data set on political institutions, various regional and country</i>						
Largest party in congress have left or center political orientation.	<i>sources</i> This variable measures the percentage of years between 1928 and 1995, and between 1975 and 1995, during which the largest party in congress was of left or center orientation. The variable was constructed by the authors assigning a value of 1 to each year during which the largest party in congress in the country was of left or center orientation, and then dividing by the number of years in the period of analysis. If the country was not independent in the initial year of the period, we calculated the variable for the number of years since it became independent. For the countries that were part of a larger country in the initial year of the period, and subsequently broke-up during the period we considered the political orientation of the larger country until the breakup. In the case of military regimes, where political affiliations were not clear, we classified the regime based on its policies. Source: <i>Authors' calculations based on descriptions and classifications coming from: Political Handbook of the World, Europa Yearbook, Statement database (<u>http://www.worldstatement.org),</u> <u>http://www.countryreports.org,</u> World Bank data set on political institutions, various regional and country sources</i>						
Chief Executive and largest party in congress have left political orientation.	This variable measures the percentage of years between 1928 and 1995, and between 1975 and 1995, during which the party of the chief executive and the largest party in congress were of left orientation. The variable was constructed by the authors assigning a value of 1 to each year during which the party of the chief executive and the largest party in congress in the country was of left orientation, and then dividing by the number of years in the period of analysis. If the country was not independent in the initial year of the period, we calculated the variable for the number of years since it became independent. For the countries that were part of a larger country in the initial year of the period, and subsequently broke-up during the period we considered the political orientation of the larger country until the breakup. In the case of military regimes, where political affiliations were not clear, we classified the regime based on its policies. Source: <i>Authors' calculations based on descriptions and classifications coming from: Political Handbook of the World, Europa Yearbook, Statement database (<u>http://www.worldstatement.org), http://www.countryreports.org,</u> World Bank data set on political institutions.</i>						
Chief Executive and largest party in congress have left or center political orientation.	This variable measures the percentage of years between 1928 and 1995, and between 1975 and 1995, during which the party of the chief executive and the largest party in congress were of left or center orientation. The variable was constructed by the authors assigning a value of 1 to each year during which the party of the chief executive was of left or center orientation and the largest party in congress in the country was of left or center orientation, and then dividing by the number of years in the period of analysis. If the country was not independent in the initial year of the period, we calculated the variable for the number of years since it became independent. For the countries that were part of a larger country in the initial year of the period, and subsequently broke-up during the period we considered the political orientation of the larger country until the breakup. In the case of military regimes, where political affiliations were not clear, we classified the regime based on its policies. Source: <i>Authors' calculations based on descriptions and classifications coming from: Political Handbook of the World, Europa Yearbook, Statement database (http://www.worldstatement.org), http://www.countryreports.org, World Bank data set on political institutions, various regional and country sources</i>						
	Interest groups						
Transfers and subsidies / GDP (1972-2000)	Total government transfers and subsidies as a percentage of GDP. Scale from 0 to 100. Average for the years between 1972 and 2000. Source: <i>Gwartney, Lawson , and Block, 2001 (with data from the World Bank indicators and the International Monetary Fund).</i>						
Union density	World Bank.						
Percentage of the labor force covered by collective agreements	This variable measures the percentage of the labor force covered by collective agreements. Source: <i>ILO</i> , <i>Laborista, World Bank</i> .						
Collective bargaining takes place at central or sectoral level	This variable equals one if collective bargaining takes place at the sectoral (industry-wide) level and/or the national (central) level. It equals zero if collective bargaining only takes place at the plant level. Source: <i>International Encyclopaedia for Labor Law and Industrial Relations, OECD Job Study, ILO, Laborista.</i>						

Variable	Description							
Predominant level of collective bargaining is at the central or sectoral level	This variable equals one if the predominant level of collective bargaining is either the sectoral or the nat levels. It equals zero if the predominant level of collective bargaining is at the plant level. So <i>International Encyclopaedia for Labor Law and Industrial Relations, OECD Job Study, ILO, Laborist.</i>							
	Political Attributes							
Executive de facto independence	ndex of "operation (de facto) independence of chief executive." Descending scale from 1 to 7 (1=pure ndividual; 2=intermediate category; 3=slight to moderate limitations; 4=intermediate category; 5=substantial imitations; 6=intermediate category; 7=executive parity or subordination). Average of the years 1945 through 1998. Source: <i>Jaggers and Marshall, [2000]</i> .							
Constraints on executive power	index of constraints on the executive power based on the number of effective veto points in a country. Veto points include: (1) an effective legislature (represents two veto points in the case of bicameral systems); (2) an independent judiciary; and (3) a strong federal system. Average of the years 1945 through 1998. Source: <i>Henisz [2000]</i> .							
Effectiveness of legislature	Index of the effectiveness of the legislature. Ascending scale from 1 to 4 (1=no legislature; 2=largely ineffective; 3=partly effective; 4=effective;). Average of the years 1945 through 1998. Source: <i>The Cross-National Time-Series Data Archive (www.databanks.sitehosting.net/www/main.htm)</i> .							
Competition in the legislature's nominating process	Index of the competitiveness of the nominating process for seats in the legislature. Ascending scale from 1 to 4 (1=no legislature; 2=non-competitive; 3=partly competitive; 4=competitive). Average of the years 1945 through 1998. Source: <i>The Cross-National Time-Series Data Archive (www.databanks.sitehosting.net/www/main.htm)</i> .							
Autocracy	Indicates the "general closedness of political institutions." Scale from 0 to 10 with 0 being low in autocracy and 10 being high in autocracy. Average of the years 1945 through 1998. Source: <i>Jaggers and Marshall</i> , <i>[2000]</i> .							
Political rights	Index of political rights. Higher ratings indicate countries that come closer "to the ideals suggested by the checklist questions of: (1) free and fair elections; (2) those elected rule; (3) there are competitive parties or other competitive political groupings; (4) the opposition has an important role and power; and (5) the entities have self-determination or an extremely high degree of autonomy. Average of the years 1972 through 1998.							
Democracy	Average of democracy score for the period 1970-1994. Scale from 0 to 10, with lower values indicating a le democratic environment. Source: <i>Jaggers and Gurr, 1996</i> .							
	Religion							
Protestant	Identifies the percentage of the population of each country that belonged to the Protestant religion in 1900. The numbers are in percent (scale from 0 to 100). Sources: <i>Barrett, 1982, Worldmark Encyclopedia of Nations 1995, Statistical Abstract of the World 1995, United Nations, 1995, CIA 1996.</i>							
Roman Catholic	Identifies the percentage of the population of each country that belonged to the Roman Catholic religion in 1900. The numbers are in percent (scale from 0 to 100). Sources: <i>Barrett, 1982, Worldmark Encyclopedia of Nations 1995, Statistical Abstract of the World 1995, United Nations, 1995, CIA 1996.</i>							
Muslim	Identifies the percentage of the population of each country that belonged to the Muslim religion in 1900. The numbers are in percent (scale from 0 to 100). Sources: <i>Barrett, 1982, Worldmark Encyclopedia of Nations</i> 1995, Statistical Abstract of the World 1995, United Nations, 1995, CIA 1996.							
Other religions	Identifies the percentage of the population of each country that belonged to other religions different than Protestant, Roman Catholic, and Muslims in 1900. The numbers are in percent (scale from 0 to 100). Sources: <i>Barrett, 1982, Worldmark Encyclopedia of Nations 1995, Statistical Abstract of the World 1995, United Nations, 1995, CIA 1996.</i>							
	Other variables							
Size of the unofficial economy	Size of the shadow economy as a percentage of GDP (varying time periods). Source: Authors owns computations based on averaging over all estimates reported in Schneider and Enste (2000) for any given country as well as Sananikone [1996] for Burkina Faso, Chidzero [1996] for Senegal, Turnham and Schwartz [1990] for Indonesia and Pakistan, and Kasnakoglu and Yayla [2000] for Turkey.							

Variable	Description								
Employment in the unofficial economy	Share of the labor force employed in the unofficial economy in the capital city of each country as a percent of the official labor. Figures are based on surveys and, for some countries, on econometric estimates. Source: Schneider [2000] and the Global Urban Indicators Database [2000] (www.urbanobservatory.org/indicators/database)								
Log of GNP per capita	Logarithm of GNP per capita in 1997, Atlas method, expressed in current US dollars. Source: World Developmen Indicators.								
Legal origin	Identifies the legal origin of the company law or commercial code of each country(English, French, Socialist, German, Scandinavian). <i>Source: La Porta, et al. (1999).</i>								

Table II Employment laws and industrial (collective) relations laws by GNP per capita

The table classifies countries by GNP per capita and shows the employment laws index, the industrial (collective) relations laws index, and their respective subindices. The components of each subindex are not included in the table but can be found in Appendices 1 and 2 in http://iicg.som.yale.edu/. All the variables are described in Table I.

	Employment laws				Industrial (collective) relations laws			
Countries sorted by GNP per capita	Subindex: Alternative employment contracts	Subindex: Conditions of employment	Subindex: Job security	Employment laws index	Subindex: Collective bargaining	Subindex: Worker participation in management	Subindex: Collective disputes	Industrial (collective) relations laws index
Bottom 25 percentile								
Mozambique	0.72	0.82	0.71	2.25	0.44	0.00	0.8	1.24
Malawi	0.56	0.75	0.44	1.74	0.44	0.00	0.25	0.69
Tanzania	0.58	0.67	0.50	1.76	0.11	0.25	0.38	0.74
Burkina Faso	0.6	0.72	0.23	1.54	0.56	0.00	0.77	1.32
Madagascar	0.6	0.74	0.56	1.9	0.78	0.00	0.62	1.39
Mali	0.6	0.80	0.21	1.61	0.44	0.00	0.70	1.14
Nigeria	0.44	0.61	0.26	1.32	0.22	0.00	0.25	0.47
Uganda	0.44	0.79	0.50	1.74	0.78	0.00	0.32	1.09
Vietnam	0.62	0.77	0.43	1.82	0.33	0.75	0.62	1.7
Kenya	0.56	0.53	0.17	1.26	0.44	0.00	0.30	0.74
Zambia	0.56	0.62	0.00	1.17	0.22	0.25	0.22	0.69
Ghana	0.22	0.75	0.16	1.14	0.89	0.25	0.35	1.49
India	0.35	0.65	0.19	1.19	0.00	0.58	0.50	1.08
Mongolia	0.56	0.64	0.19	1.39	0.17	0.00	0.40	0.57
Kyrgyz Republic	0.83	0.84	0.36	2.02	0.33	0.25	0.57	1.15
Pakistan	0.18	0.70	0.18	1.06	0.11	0.25	0.45	0.81
Armenia	0.62	0.81	0.40	1.82	0.44	0.00	0.75	1.19
Senegal	0.64	0.71	0.29	1.63	0.78	0.00	0.63	1.41
Georgia	0.62	0.61	0.51	1.74	0.44	0.25	0.68	1.38
China	0.56	0.62	0.42	1.59	0.00	1.00	0.40	1.40
Zimbabwe	0.56	0.13	0.20	0.89	0.44	0.25	0.52	1.21
Sri Lanka	0.56	0.53	0.42	1.5	0.44	0.25	0.58	1.28
Bolivia	0.39	0.89	0.57	1.85	0.44	0.00	0.67	1.11
Ukraine	0.72	0.81	0.68	2.21	0.56	0.25	0.62	1.42
Indonesia	0.78	0.47	0.43	1.68	0.22	0.00	0.57	0.79
Bulgaria	0.51	0.85	0.31	1.66	0.44	0.25	0.55	1.24
Mean	0.55	0.69	0.36	1.59	0.40	0.19	0.52	1.11
Median	0.56	0.71	0.38	1.65	0.44	0.13	0.56	1.17
Middle 50 percentile								
Egypt, Arab Rep.	0.56	0.79	0.46	1.81	0.44	1.00	0.30	1.74
Philippines	0.39	0.67	0.57	1.63	0.89	0.50	0.65	2.04
M0F0CC0 Kazakhstan	0.56	0.64	0.11	1.30	0.33	0.00	0.88	1.22
Romania	0.52	0.79	0.39	2.00	0.78	0.23	0.70	1.59
Ecuador	0.49	0.59	0.67	1.75	0.78	0.00	0.83	1.61
Jordan	0.39	0.55	0.55	1.49	0.56	0.00	0.45	1.01
Dominican Rep.	0.56	0.76	0.33	1.64	0.56	0.00	0.38	0.94
Jamaica	0.56	0.45	0.13	1.13	0.44	0.00	0.15	0.59
Tunisia	0.81	0.51	0.38	1.70	0.44	0.25	0.32	1.01
Lithuania Latvia	0.66	0.82	0.34	1.82	0.44	0.00	0.65	1.09
Peru	0.27	0.76	0.70	1.74	0.89	0.58	0.82	2.29
Colombia	0.56	0.85	0.62	2.02	0.78	0.33	0.70	1.81
Russian Federation	0.83	0.72	0.68	2.23	0.78	0.25	0.62	1.64
Thailand	0.65	0.64	0.43	1.72	0.67	0.00	0.32	0.98
Panama	0.74	0.86	0.67	2.28	0.44	0.00	0.80	1.24
Turkey	0.72	0.82	0.20	1.74	0.89	0.00	0.55	1.44
Lebanon	0.26	0.48	0.40	1.14	0.22	0.00	0.53	0.76
Poland	0.70	0.80	0.04	2.20	0.89	0.00	0.57	1.40

		Employm	ent laws		Industrial (collective) relations laws				
Countries sorted by GNP per capita	Subindex: Alternative employment contracts	Subindex: Conditions of employment	Subindex: Job security	Employment laws index	Subindex: Collective bargaining	Subindex: Worker participation in management	Subindex: Collective disputes	Industrial (collective) relations laws index	
South Africa	0.56	0.33	0.16	1.05	0.89	0.25	0.60	1.74	
Mexico	0.41	0.80	0.71	1.91	0.89	0.00	0.72	1.61	
Sloivak Republe	0.51	0.85	0.61	1.97	0.89	0.00	0.45	1.34	
Croatia	0.78	0.86	0.42	2.06	0.56	0.25	0.45	1.26	
Hungary	0.66	0.87	0.22	1.75	0.89	0.25	0.60	1.74	
Malaysia Brazil	0.36	0.25	0.09	0.90	0.00	0.00	0.42	0.42	
Chile	0.70	0.80	0.09	2.51	0.30	0.75	0.33	1.00	
Czech Republic	0.33	0.58	0.35	1 30	0.78	0.00	0.40	0.77	
Uruguay	0.72	0.55	0.03	1.29	0.56	0.00	0.47	1.02	
Argentina	0.39	0.74	0.44	1.58	0.89	0.33	0.72	1.94	
Slovenia	0.60	0.85	0.45	1.90	0.44	0.75	0.57	1.76	
Taiwan	0.74	0.57	0.34	1.65	0.33	0.42	0.35	1.10	
Portugal	0.78	0.81	0.70	2.29	0.89	0.75	0.62	2.26	
Korea	0.26	0.75	0.26	1.27	0.89	0.25	0.55	1.69	
Greece	0.78	0.75	0.29	1.82	0.44	0.25	0.57	1.26	
Spain New Zealand	0.78	0.82	0.50	2.10	0.89	0.58	0.65	2.12	
New Zealand	0.56	0.44	0.04	1.03	0.00	0.00	0.43	0.43	
Ireland	0.50	0.38	0.10	1.29	0.22	0.00	0.52	0.54	
Mean	0.58	0.69	0.12	1.67	0.50	0.00	0.55	1 38	
Median	0.56	0.75	0.40	1.74	0.67	0.25	0.55	1.44	
Top 25 percentile									
Canada	0.56	0.46	0.17	1.19	0.11	0.00	0.22	0.33	
Italy	0.63	0.48	0.24	1.36	0.78	0.50	0.75	2.03	
United Kingdom	0.56	0.26	0.20	1.02	0.00	0.00	0.25	0.25	
Australia	0.22	0.52	0.14	0.89	0.22	0.00	0.52	0.74	
Finland	0.30	0.21	0.01	0.78	0.44	0.00	0.00	1.04	
France	0.65	0.50	0.31	1.73	0.78	0.25	0.60	2.13	
Belgium	0.72	0.79	0.22	1.74	0.44	0.25	0.33	1.03	
Netherlands	0.56	0.77	0.37	1.69	0.22	0.58	0.47	1.27	
Singapore	0.56	0.18	0.11	0.85	0.11	0.00	0.53	0.64	
Sweden	0.24	0.27	0.39	0.90	0.67	0.25	0.52	1.43	
Austria	0.22	0.37	0.18	0.77	0.11	0.50	0.23	0.84	
Germany	0.89	0.37	0.50	1.76	0.78	0.50	0.48	1.76	
United States	0.56	0.31	0.08	0.94	0.11	0.00	0.25	0.36	
Denmark	0.56	0.22	0.12	0.90	0.33	0.50	0.20	1.03	
Norway	0.61	0.34	0.30	1.26	0.56	1.00	0.58	2.14	
Japan Switzerland	0.4/	0.61	0.19	1.27	1.00	0.00	0.53	1.53	
Moon	0.56	0.40	0.26	1.28	0.33	0.00	0.43	0.77	
Median	0.55	0.42	0.24	1.21	0.41	0.25	0.43	1.03	
Mean all countries	0.57	0.63	0.35	1.55	0.51	0.22	0.51	1.24	
Median all countries	0.56	0.67	0.34	1.63	0.44	0.25	0.53	0.53	
				Tests of Moan	s (t-stats)				
Bottom 25 vs middle 50 nercentile	-1.04	-0.91	-2.07 ^b	-1.97°	-3.47ª	-0.33	-1.33	-2.84ª	
Bottom 25 vs ton 25 percentile	-0 19	5 15 ^a	2 28 ^b	3 42ª	0.12	-0.51	1 49	0.29	
Middle 50 vs top 25 percentile	0.77	6.62ª	4.43ª	5.73ª	3.38ª	-0.3	3.16 ^a	2.63 ^b	
				Tests of Media	ns (z-stats)				
Bottom 25 vs Middle 50 percentile	-0.78	-1.51	-1.97 ^b	-1.92°	-3.33ª	-0.54	-1.22	-2.62ª	
Bottom 25 vs Ton 25 percentile	0.21	1 25ª	2 26b	2 Q6ª	0.22	.0.32	1 44	0.80	
Middle 50 vs Top 25 percentile	0.21	т.23 Л 01 ^a	2.20 2.04a	2.70 A 52ª	2 1 2ª	0.02	2 0/2	0.00 2 47 ^b	
windle 50 vs 10p 25 percentile	0.//	4.71	3.74	4.33	5.12	0.00	5.04	2.4/	

a=Significant at 1% level; b=Significant at 5% level; c=Significant at 10% level.

Table II.A Employment laws and industrial (collective) relations laws by duration of check collection

The table classifies countries by duration of check collection and shows the employment laws index, the industrial (collective) relations laws index, and their respective subindices. The components of each subindex are not included in the table but can be found in Appendices 1 and 2 in http://iicg.som.yale.edu/. All the variables are described in Table I.

		Employm	ent laws		Ir	ndustrial (collecti	ve) relations la	WS
Countries sorted by duration of check collection in courts	Subindex: Alternative employment contracts	Subindex: Conditions of employment	Subindex: Job security	Employment laws index	Subindex: Collective bargaining	Subindex: Worker participation in management	Subindex: Collective disputes	Industrial (collective) relations laws index
Bottom 25 percentile								
Mean	0.54	0.53	0.24	1.32	0.45	0.23	0.45	1.14
Median	0.55	0.61	0.20	1.25	0.44	0.25	0.47	1.08
Middle 50 percentile								
Mean	0.59	0.62	0.38	1.59	0.50	0.23	0 49	1.23
Median	0.55	0.61	0.39	1.63	0.44	0.25	0.50	1.21
Top 25 percentile								
Mean	0.55	0.71	0.40	1.67	0.55	0.19	0.58	1.33
Median	0.57	0.78	0.39	1.74	0.50	0.00	0.59	1.30
Mean all countries	0.57	0.63	0.35	1.55	0.51	0.22	0.51	1.24
Median all countries	0.56	0.67	0.34	1.63	0.44	0.25	0.53	0.53
				Tests of Mean	s (t-stats)			
Bottom 25 vs middle 50 percentile	-1.11	-1.51	-3.04 ^a	-2.61 ^b	-0.70	0.02	-0.92	-0.71
Bottom 25 vs top 25 percentile	-0.21	3 09 ^a	3 01ª	-3.12 ^a	-1 13	0.57	2.93ª	-1.32
Middle 50 vs top 25 percentile	0.88	-2.30 ^b	-0.39	-0.82	-0.75	0.63	-2.20 ^b	-0.85
				Tests of Mediar	ıs (z-stats)			
Bottom 25 vs Middle 50 percentile	-1.11	-1.19	-2.83ª	-2.36 ^b	-0.69	-0.08	-0.94	-0.51
Bottom 25 vs Top 25 percentile	-0.63	-2.91ª	-2.81ª	-2.95 ^a	-1.07	0.44	-2.76ª	-1.25
Middle 50 vs Top 25 percentile	0.57	-2.30 ^b	-0.33	-1.03	-0.68	0.59	-2.16 ^b	-0.98

a=Significant at 1% level; b=Significant at 5% level; c=Significant at 10% level.

Table IIISocial security laws by GNP per capita

The table classifies countries by GNP per capita and shows the social security laws index and its subindices. The components of each subindex are not included in the table but can be found in Appendix 3 in http://iicg.som.yale.edu/. All the variables are described in Table I.

Countries sorted by GNP per capita	The Social security system covers the risk of old age, disability and death	Subindex: Old age, disability and death benefits	The social security system covers the risk of sickness	Subindex: Sickness and health benefits	The Social security system covers the risk of unemployment	Subindex: Unemployment benefits	Social security index
Bottom 25 percentile							
Mozambique	1	0.00	1	0.76	0	0.00	0.76
Malawi	0	0.00	0	0.00	0	0.00	0.70
Tonzonio	0	0.00	0	0.00	0	0.00	0.00
I alizallia Durkina Easo	1	0.20	0	0.00	0	0.00	0.20
Madagagaga	1	0.43	0	0.00	0	0.00	0.43
Madagascar	1	0.30	0	0.00	0	0.00	0.50
Man	1	0.49	0	0.00	0	0.00	0.49
Nigeria	1	0.55	1	0.61	0	0.00	1.16
Uganda	1	0.33	0	0.00	0	0.00	0.33
Vietnam	l	0.62	l	0.94	0	0.00	1.55
Kenya	l	0.33	l	0.91	0	0.00	1.24
Zambia	1	0.32	0	0.00	0	0.00	0.32
Ghana	1	0.47	0	0.00	0	0.00	0.47
Mongolia	1	0.00	1	0.89	1	0.82	1.71
India	1	0.43	1	0.80	0	0.00	1.22
Kyrgyz Republic	1	0.57	1	0.97	1	0.82	2.36
Pakistan	1	0.53	1	0.89	0	0.00	1.42
Armenia	1	0.47	1	0.98	1	0.75	2.21
Senegal	1	0.51	1	0.67	0	0.00	1.17
Georgia	1	0.60	0	0.00	1	0.75	1.35
China	1	0.56	1	0.96	1	0.72	2.24
Zimbabwe	1	0.48	0	0.00	0	0.00	0.48
Sri Lanka	1	0.59	0	0.00	0	0.00	0.59
Bolivia	1	0.23	1	0.90	0	0.00	1.13
Ukraine	1	0.57	1	1.00	1	0.91	2.48
Indonesia	1	0.53	0	0.00	0	0.00	0.53
Bulgaria	1	0.60	1	0.00	1	0.84	2 32
Mean	0 96	0.42	0 54	0.07	0 27	0.04	1 11
Median	1.00	0.42	1.00	0.47	0.27	0.22	1.11
Mitulali	1.00	0.49	1.00	0.04	0.00	0.00	1.14
Middle 50 percentile							
Esent	1	0.50	1	0.90	1	0.90	2.25
Egypt	1	0.56	l 1	0.89	l	0.80	2.25
Philippines	1	0.62	l 1	0.90	0	0.00	1.52
Morocco	1	0.68	1	0.89	0	0.00	1.56
Kazakhstan	l	0.56	0	0.00	0	0.00	0.56
Romania	I	0.52	l	0.75	I	0.82	2.09
Ecuador	1	0.62	1	0.85	1	0.49	1.96
Jordan	1	0.63	0	0.00	0	0.00	0.63
Dominican Republic	1	0.63	1	0.83	0	0.00	1.46
Jamaica	1	0.50	0	0.00	0	0.00	0.50
Tunisia	1	0.68	1	0.76	1	0.69	2.14
Lithuania	1	0.48	1	0.96	1	0.74	2.18
Latvia	1	0.51	1	0.80	1	0.80	2.11
Peru	1	0.42	1	0.85	0	0.00	1.27
Colombia	1	0.66	1	0.80	1	0.85	2.31
Russia	1	0.57	1	1.00	1	0.90	2.47
Thailand	- 1	0.62	1	0.82	0	0.00	1.44
Panama	1	0.69	1	0.93	1	0.60	2.22
Turkey	1	0.67	1	0.76	0	0.00	1.42
Lebanon	1	0.56	1	0.66	Õ	0.00	1 22
Venezuela	1	0.50	1	0.85	1	0.63	2 12
Poland	1 1	0.04	1	0.05	1	0.03	1 00
South Africa	1	0.33	1	0.74	1	0.03	1.70
Movico	1	0.34	1	0.04	1	0.73	1./2
NICAICO	1	0.73	1	0.81	U 1	0.00	1.55
зючак керионс	1	0.50	1	0.80	1	0.79	2.22

Countries sorted by GNP per capita	The Social security system covers the risk of old age, disability and death	Subindex: Old age, disability and death benefits	The social security system covers the risk of sickness	Subindex: Sickness and health benefits	The Social security system covers the risk of unemployment	Subindex: Unemployment benefits	Social security index
Croatia	1	0.49	1	0.76	1	0.80	2.05
Hungary	1	0.55	1	0.85	1	0.78	2.18
Malaysia	1	0.57	0	0.00	0	0.00	0.57
Brazil	1	0.51	1	0.70	1	0.56	1.77
Chile	1	0.46	1	0.82	1	0.73	2.01
Czech Republic	1	0.51	1	0.80	1	0.74	2.05
Uruguay	1	0.48	1	0.78	1	0.76	2.01
Argentina	1	0.37	1	0.94	1	0.85	2.15
Slovenia	1	0.53	1	0.82	1	0.86	2.21
Taiwan	1	0.67	1	0.75	1	0.67	2.09
Portugal	1	0.59	1	0.76	1	0.85	2.21
Korea	1	0.60	1	0.72	1	0.72	2.03
Greece	1	0.71	1	0.81	1	0.80	2.32
Spain	1	0.73	1	0.83	1	0.81	2.37
New Zealand	1	0.84	1	0.75	1	0.56	2.15
Israel	1	0.69	1	0.84	1	0.85	2.37
Ireland	1	0.72	1	0.70	1	0.76	2.18
Mean	1.00	0.58	0.90	0.73	0.71	0.53	1.84
Median	1.00	0.57	1.00	0.80	1.00	0.73	2.05
Top 25 percentile							
Canada	1	0.74	1	0.89	1	0.70	2.33
Italy	1	0.64	1	0.88	1	0.73	2.26
United States	1	0.61	1	0.69	1	0.78	2.07
Australia	1	0.75	1	0.72	1	0.79	2.25
Hong Kong	1	0.81	1	0.92	1	0.72	2.45
Finland	1	0.71	1	0.82	1	0.91	2.45
France	1	0.83	1	0.68	1	0.82	2.32
Belgium	1	0.50	1	0.61	1	0.86	1.97
Netherlands	1	0.48	1	0.68	1	0.68	1.83
Singapore	1	0.56	1	0.86	0	0.00	1.42
Sweden	1	0.82	1	0.85	1	0.94	2.61
Austria	1	0.54	1	0.91	1	0.63	2.07
Germany	1	0.69	1	0.53	1	0.78	2.00
United Kingdom	1	0.57	1	0.67	1	0.66	1.90
Denmark	1	0.82	1	0.99	1	0.90	2.71
Norway	1	0.74	1	0.95	1	0.82	2.50
Japan	1	0.61	1	0.67	1	0.82	2.10
Switzerland	1	0.65	1	0.86	1	0.74	2.26
Mean	1.00	0.67	1.00	0.79	0.94	0.74	2.20
Median	1.00	0.67	1.00	0.84	1.00	0.78	2.26
Mean all countries Media all countries	0.99	0.55	0.81	0.66	0.62	0.48	1.69
Media all countries	1.00	0.56	1.00	0.80	1.00	0.70	2.01
Bottom 25 vs Middle 50 nercentile	-1.39	<i>Tests of</i> -3.86 ^a	Means (t-stats) -3.62 ^a	-3.27 ^a	-3.62ª	-3.51ª	-4.76 ^a
Bottom 25 vs Top 25 percentile	-0.98	-5.55ª	-4.47 ^a	-3.51ª	-6.93 ^a	-6.71 ^a	-7.18 ^a
Middle 50 vs Top 25 percentile	n.a.	-4.18ª	-1.66	-0.92	-2.60 ^b	-2.62 ^b	-3.07 ^a
		Tests of M	Medians (z-stats)		0.510		
Bottom 25 vs Middle 50 percentile	-1.38	-3.41ª	-3.32ª	-1.91°	-3.31ª	-3.06 ^a	-3.80 ^a
Bottom 25 vs 1 op 25 percentile	-0.98	-4.69 ^a	-3.71°	-2.03	$-4./6^{a}$	-4.25°	-4.69 ^a
whome 50 vs 1 op 25 percentile	n.a.	-3.39"	-1.03	-0.26	-2.49°	-1.94°	-2.//

a=Significant at 1% level; b=Significant at 5% level; c=Significant at 10% level; na=Not applicable.

Table IVRegulation of labor and legal origin

Ordinary least squares regressions of the cross section of countries. The dependent variables are the employment laws index, the industrial (collective) relations laws index, the social security index and their respective components. Robust standard errors are in parentheses. All the variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

Dependent variables:	Log GNP Socialist French German per capita legal origin legal origin legal origin		German legal origin	Scandinavian legal origin	Constant	N [R ²]	
		Pan	el A: Employn	nent laws and	legal origin		
Employment laws index	-0.0505 ^b (0.0205)	0.6009^{a} (0.0815)	0.5620 ^a (0.0770)	0.2537° (0.1444)	0.1352 (0.1902)	1.5865 ^a (0.1819)	85 [0.50]
Alternative employment contracts subindex	0.0127 (0.0093)	0.1184 ^a (0.0391)	0.0976^{a} (0.0377)	-0.0054 (0.1066)	0.0269 (0.1135)	0.3999 ^a (0.0810)	85 [0.10]
Conditions of employment subindex	-0.0361 ^a (0.0106)	0.2704 ^a (0.0421)	0.2237 ^a (0.0410)	0.1118 ^c (0.0662)	-0.1026 ^b (0.0487)	0.7719^{a} (0.0923)	85 [0.55]
Job security subindex	-0.0271 ^b (0.1119)	0.2120 ^a (0.0438)	0.2406 ^a (0.0439)	0.1473 ^a (0.0530)	0.2109 ^b (0.0870)	0.4146 ^a (0.1060)	85 [0.33]
		Panel B: Inc	dustrial (collec	ctive) relation	laws and legal of	rigin	
Industrial (collective) relations laws index	0.0094 (0.0292)	0.5847 ^a (0.1114)	0.6505 ^a (0.1123)	0.4540 ^b (0.1995)	0.5565 ^b (0.2685)	0.7336 ^a (0.2331)	85 [0.33]
Collective bargaining subindex	0.0013 (0.0189)	0.2070^{b} (0.0853)	0.2928^{a} (0.0705)	0.2424 (0.1548)	0.1679 ^c (0.0966)	0.3182° (0.1628)	85 [0.18]
Worker participation in	0.0166	(0.0105) (0.0055) (0.0705)		0 1430	0 3606 ^b	-0.0329	85
management subindex	(0.0185)	(0.0734)	(0.0638)	(0.1024)	(0.1658)	(0.1559)	[0.12]
Collective disputes	-0.0085	0.1912 ^a	0.2248ª	0.0686	0.0279	0.4483ª	85
subindex	(0.0105)	(0.0420)	(0.0401)	(0.0608)	(0.0948)	(0.0846)	[0.34]
		Pan	el C: Social se	curity laws and	d legal origin		
Social security	0.3146ª	0.8775ª	0.2951ª	0.0942	0.4970 ^a	-1.1885ª	85
laws index	(0.0295)	(0.1460)	(0.1185)	(0.1368)	(0.1260)	(0.2526)	[0.65]
Old age, disability and	0.0591ª	0.0075	0.0273	-0.0304	0.0971 ^b	0.0623	85
death benefits subindex	(0.0131)	(0.0430)	(0.0375)	(0.0446)	(0.0455)	(0.1109)	[0.37]
Sickness and health	0 0954ª	0 3533ª	0 1658 ^b	0.0308	0 1845 ^b	-0 2750	85
benefits subindex	(0.0222)	(0.0975)	(0.0809)	(0.0900)	(0.0725)	(0.2101)	[0.31]
Unemployment benefits	0.1600ª	0.5166ª	0.1019	0.0938	0.2153ª	-0.9758ª	85
subindex	(0.0149)	(0.0712)	(0.0665)	(0.0783)	(0.0806)	(0.0986)	[0.62]

Table VRegulation of labor and left political power (1975-1995)

Ordinary least squares regressions of the cross-section of countries. The dependent variables are the employment index, the industrial (collective) relations index and the social security index. Robust standard errors are in parenthesis. All the variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

		Chief ex	xecutive	Legis	lature	Chief exe legis	cutive and lature		
Dependent variables:	Log GNP per capita 1997	Left party	Left or center party	Left party	Left or center party	Left party	Left or center party	Constant	N [R ²]
			Pane	l A: Employ	ment laws	and legal o	rigin		
Employment laws index	-0.0631 ^b (0.0265) -0.0539 ^b (0.0276) -0.0671 ^a	0.1630 (0.1095)	0.2381 ^b (0.1194)	0.1747°				$\begin{array}{c} 1.9770^{a} \\ (0.2323) \\ 1.8345^{a} \\ (0.2603) \\ 1.9950^{a} \end{array}$	85 [0.11] 85 [0.13] 85
	(0.0260) -0.0603 ^b (0.0271) -0.0626 ^b (0.0274)			(0.1046)	0.2372 ^b (0.1082)	0.1444 (0.1094)		(0.2280) 1.8769 ^a (0.2506) 1.9859 ^a (0.2405)	[0.11] 85 [0.13] 85 [0.10]
	-0.0538° (0.0281)						0.2236° (0.1160)	1.8490^{a} (0.2609)	85 [0 13]
	(0.0201)	Par	nel B: Indu	strial (colle	ctive) relat	ion laws an	d legal orig	in	[0.15]
Industrial (collective) relations laws index	0.0260 (0.0365) 0.0477 (0.0365)	0.1808 (0.1395)	0.3990^{a} (0.1479)	, , , , , , , , , , , , , , , , , , ,			0 0	0.9443 ^a (0.3206) 0.6090 ^c (0.3413)	85 [0.02] 85 [0.08]
	0.0186 (0.0350) 0.0343 (0.0361) 0.0251		(01117)	0.1224 (0.1397)	0.3516 ^b (0.1500)	0.1416		$\begin{array}{c} 1.0266^{a} \\ (0.3032) \\ 0.7324^{b} \\ (0.3373) \\ 0.9749^{a} \end{array}$	85 [0.01] 85 [0.07] 85
	(0.0373) 0.0469 (0.0371)					(0.1379)	0.3648 ^b (0.1399)	(0.3255) 0.6465° (0.3398)	[0.01] 85 [0.07]
			Panel	C: Social se	ecurity laws	s and legal	origin		
Social security laws index	$\begin{array}{c} 0.3245^{a} \\ (0.0304) \\ 0.3334^{a} \\ (0.0313) \end{array}$	0.5594ª (0.1550)	0.5535^{a} (0.1484)					-1.2076^{a} (0.2960) -1.3499^{a} (0.3139)	85 [0.52] 85 [0.52]
	(0.0313) (0.0313) (0.03157^{a}) (0.0320)		(0.1101)	0.4869 ^a (0.1437)	0.5031^{a} (0.1477)			(0.2933) -0.0474 ^a (0.2933) -1.1963 ^a (0.3102)	[0.52] 85 [0.51] 85 [0.51]
	0.3301 ^a (0.0310) 0.3357 ^a (0.0313)				()	0.5437 ^a (0.1521)	0.5431ª (0.1418)	(0.3002) -1.2311 ^a (0.3003) -1.3473 ^a (0.3080)	85 [0.52] 85 [0.52]

Table V.ARegulation of labor and left political power

Ordinary least squares regressions of the cross-section of countries. The dependent variables are the employment index, the industrial (collective) relations index and the social security index. Robust standard errors are in parenthesis. All the variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

		Chief e	xecutive	Legis	lature Chief executive and legislature				
Dependent variables:	Log GNP per capita 1997	Left party	Left or center party	Left party	Left or center party	Left party	Left or center party	Constant	N [R ²]
			Pane	l A: Employ	ment laws	and legal o	rigin		
Employment laws index	-0.0755 ^a (0.0260) -0.0702 ^a	0.0175 (0.1166)	0.0626			C		2.1654 ^a (0.2279) 2.0769 ^a	85 [0.08] 85
	(0.0261) -0.0715 ^a (0.0253) 0.0671 ^a		(0.1313)	0.0461 (0.1122)	0 1296			(0.2431) 2.1038 ^a (0.2176) 2.0118 ^a	[0.09] 85 [0.09]
	(0.0252) -0.0718^{a} (0.0265)				(0.1286)	0.0272 (0.1151)		$\begin{array}{c} 2.0118 \\ (0.2295) \\ 2.1167^{a} \\ (0.2309) \end{array}$	[0.09] 85 [0.08]
	-0.0646 ^b (0.0262)						0.1165 (0.1274)	2.0056 ^a (0.2417)	85 [0.09]
L. 1	0.0070	Pa	nel B: Indu	strial (colle	ctive) relat	ion laws an	d legal orig	in 1 2170ª	05
relations laws index	-0.0078	-0.0821 (0.1557)						(0.3282)	85 [0.01]
relations laws mack	0.0139	(0.1557)	0.0048					(0.3202) 1 1279 ^a	85
	(0.0371)		(0.1710)					(0.3471)	[0.01]
	0.0116		(*****)	-0.0338				1.1655ª	85
	(0.0365)			(0.1490)				(0.3166)	[0.01]
	0.0200			. ,	0.1148			1.0122ª	85
	(0.0365)				(0.1726)			(0.3382)	[0.01]
	-0.0114					-0.0246		1.1613 ^a	85
	(0.0389)					(0.1555)		(0.3402)	[0.01]
	0.0162						0.0318	1.0946 ^a	85
	(0.0387)						(0.1715)	(0.3591)	[0.01]
			Panel	C: Social se	ecurity laws	s and legal	origin		
Social security laws	0.3167 ^a	0.4352 ^b						-1.0654 ^a	85
index	(0.0341)	(0.1812)						(0.3268)	[0.48]
	0.3202 ^a		0.5257^{a}					-1.2147 ^a	85
	(0.0340)		(0.1869)					(0.3409)	[0.45]
	0.3174 ^a			0.5183ª				-1.1138 ^a	85
	(0.0298)			(0.1506)				(0.2752)	[0.50]
	0.3221ª				0.6483 ^a			-1.3068 ^a	85
	(0.0312)				(0.1606)			(0.2942)	[0.52]
	0.3351ª					0.5478^{a}		-1.2421^{a}	85
	(0.0303)					(0.1614)	0 (00 43	(0.2871)	[0.50]
	0.3424°						0.6804°	-1.4509°	85
	(0.0305)						(0.1083)	(0.2984)	[0.52]

Table VIRegulation of labor and interest groups

Ordinary least squares regressions variables of the cross-section of countries. The dependent variables are the employment law index, the industrial (collective) relations index and the social security index. Robust standard error are in parentheses. All the variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

Dependent variables:	Log of GNP per capita	Transfers and subsidies /GNP (1972-00)	Union density	% of labor covered by collective agreements	Collective bargaining at central or sectoral level	Predominant collective bargaining at central or sectoral level	Constant	N [R ²]
			Panel A	: Employment,	transfers and un	tion power		
Employment	-0.0942 ^a	0.9976°					2.1665ª	76
laws index	(0.0318)	(0.5194)					(0.2275)	[0.08]
	-0.0832ª		0.2363				2.1432 ^a	70
	(0.0299)		(0.2227)				(0.2481)	[0.08]
	-0.1171ª			0.4629 ^b			2.2390 ^a	42
	(0.0443)			(0.1905)			(0.4050)	[0.17]
	-0.0815 ^a				-0.0872		2.2731ª	72
	(0.0299)				(0.1457)		(0.2522)	[0.10]
	-0.0906 ^b					0.2160	2.1104 ^a	42
	(0.0477)					(0.2909)	(0.4088)	[0.08]
		Panel E	3: Industrial	(collective) re	elation laws, trans	sfers and union powe	er	
Industrial	-0.0104	0.9614 ^a					1.2046 ^a	76
(collective)	(0.0429)	(0.7067)					(0.3017)	[0.02]
relations laws	0.0240		0.2189				1.3999 ^a	70
index	(0.0430)		(0.2464)				(0.3277)	[0.01]
	-0.0635			0.7624ª			1.4183 ^b	42
	(0.0618)			(0.2648)			(0.5287)	[0.16]
	-0.0170				-0.0493		1.4546 ^a	72
	(0.0392)				(0.1639)	h	(0.3129)	[0]
	-0.0369					0.6726°	1.1982°	42
	(0.0608)					(0.3327)	(0.5137)	[0.07]
			Panel C: So	ocial security l	aws, transfers an	d union power		
Social security	0.2320	2.4392 ^a					-0.5218	76
laws index	(0.0426)	(0.8100)					(0.3144)	[0.58]
	0.2303ª		0.6229 ^b				-0.3231	70
	(0.0392)		(0.2715)				(0.3325)	[0.45]
	0.1953 ^a			0.3631			0.0037	42
	(0.0581)			(0.2318)			(0.5205)	[0.41]
	-0.2784ª				-0.2870 ^b		-0.3513	72
	(0.0334)				(0.1537)		(0.2922)	[0.45]
	-0.2007 ^a					0.4559	-0.1045 ^b	42
	(0.0605)					(0.3108)	(0.5281)	[0.40]

Table VIIRegulation of labor and political attributes

Ordinary least squares regressions of the cross section of countries. The dependent variables are the employment laws index, the industrial (collective) relations laws index and the social security index and their respective subindices. Robust standard errors are in parentheses. All the variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

Dependent variables:	Log GNP per capita	Executive de facto independence	Constraints on executive power	Effectiveness of legislature	Competition in the legislature nominating process	Autocracy	Political rights average 1972-99	Democracy	Constant	N [R ²]
				Panel A:Emplo	oyment laws and	political attrib	utes			
Employment laws index	0.0181 (0.0365)	-0.1126 ^a (0.0311)		·	-	-			1.9019 ^a (0.2070)	84 [0.21]
	0.0019 (0.0372)		- 0.0890ª (0.0320)						1.9290 ^a (0.2118)	84 [0.17]
	0.0195 (0.0441)			-0.2000 ^b (0.0785)					1.7013 ^a (0.2483)	84 [0.16]
	-0.0239 (0.0309)				-0.1989 ^b (0.1006)				1.9940 ^a (0.2008)	73 [0.11]
	0.0063 (0.0322)					0.0695ª (0.0185)			1.2670 ^a (0.3076)	84 [0.20]
	-0.0210 (0.0425)						-0.3181 (0.2236)		1.9035 ^a (0.2489)	84 [0.10]
	-0.0504 (0.0413)							-0.0110 (0.0173)	2.0188^{a} (0.2645)	83 [0.08]
				Panel B: Industria	al relation laws a	and political at	tributes			
Industrial (collective) relations laws index	0.0904 ^b (0.0459)	-0.0971 ^b (0.0424)							0.9419ª (0.2651)	84 [0.06]
iaws mucx	0.0769° (0.0455)		-0.0775 ^c (0.0406)						0.9639 ^a (0.3211)	84 [0.04]
	0.1111 ^b (0.0575)			-0.2347 ^b (0.1074)					0.7397 ^a (0.3218)	73 [0.07]
	0.0654 ^c (0.0386)				-0.2614 ^b (0.1152)				1.0822 ^a (0.2648)	73 [0.04]
	0.0734° (0.0414)					0.0536° (0.0247)	0.0007		0.4704 (0.3839)	84 [0.33]
	0.0504 (0.0459)						-0.2326 (0.2521)	0.0264	(0.9699°) (0.2812)	84 [0.01]
_	(0.0621) (0.0450)							(0.0182)	(0.2937)	83 [0.02]
				Panel C: Social	security laws and	d political attri	ibutes			
Social security laws index	0.3295 ^a (0.0487)	-0.0587 (0.0432)							-0.7181 ^b (0.3152)	84 [0.45]
	0.3165 ^a (0.0516)		-0.0406 (0.0464)						-0.6924 ^b (0.3230)	84 [0.44]
	0.3638 ^a (0.0572)			-0.1355 (0.1044)					-1.0788 ^a (0.3389)	73 [0.55]
	0.3665 ^a (0.0351)				-0.3074 ^b (0.1367)				-0.8868ª (0.2739)	73 [0.57]
	0.3668 ^a (0.0438)					0.0767 ^b (0.0298)	0.4255		-1.5384 ^a (0.4358)	84 [0.48]
	(0.3492°) (0.0645)						-0.4355 (0.3473)		-0.8891° (0.3789)	84 [0.45]
	0.2493^{a} (0.0634)							0.0203 (0.0287)	-0.4359 (0.4113)	83 [0.44]

Table VIIIRegulation of labor and religion

Ordinary least squares regressions variables of the cross-section of countries. The dependent variables are employment law index, the industrial (collective) relations index, the social security index and their respective components. Robust standard error are in parentheses. All the variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

Dependent variables:	Log GNP per capita	% of Catholic 1900	% of Muslim 1900	% of other religions 1900	Constant	N [R ²]
		Panel	A: Employmen	nt laws and legal orig	gin	
Employment	-0.1173 ^a	0.0041 ^b	-0.0003	-0.0016	2.3770 ^a	72
laws index	(0.0304)	(0.0019)	(0.0020)	(0.0021)	(0.3650)	[0.32]
Alternative employment contracts subindex	0.0071	-0.0001	-0.0001	-0.0002	0.5036 ^a	72
	(0.0139)	(0.0010)	(0.0011)	(0.0010)	(0.1736)	[0.01]
Conditions of employment subindex	-0.0611 ^a	0.0031 ^a	0.0013	-0.0008	0.9471ª	72
	(0.0170)	(0.0006)	(0.0009)	(0.0010)	0.1910	[0.42]
Job security subindex	-0.0633 ^a	0.0010 ^a	-0.0017	-0.0022 ^b	0.9262 ^a	72
	(0.0134)	(0.0009)	(0.0010)	(0.0009)	(0.1637)	[0.34]
		Panel B: Indus	trial (collective	e) relation laws and l	legal origin	
Industrial (collective)	-0.0340	0.0046	-0.0013	-0.0011	1.4134 ^a	72
relations laws index	(0.0484)	(0.0029)	(0.0031)	(0.0031)	(0.5152)	[0.18]
Collective bargaining subindex	-0.0137	0.0030 ^a	-0.0004	0.0003	0.5113	72
	(0.0307)	(0.0012)	(0.0016)	(0.0018)	(0.3408)	[0.16]
Worker participation in management subindex	-0.0055	-0.0007	-0.0020	-0.0023	-0.4073°	72
	(0.0189)	(0.0016)	(0.0018)	(0.0016)	(0.2390)	[0.06]
Collective disputes subindex	-0.0147	0.0023 ^a	0.0012	0.0008	0.4946 ^a	72
	(0.0152)	(0.0008)	(0.0011)	(0.0009)	(0.1793)	[0.15]
		Panel (C: Social secur	ity laws and legal or	igin	
Social security laws index	0.2816 ^a	0.0005	-0.0002	-0.0020	-0.5985	72
	(0.0391)	(0.0017)	(0.0031)	(0.0024)	(0.4513)	[0.57]
Old age, disability and death benefits subindex	0.0623ª	-0.0005	-0.0011 ^c	-0.0008	0.0847	72
	(0.0133)	(0.0006)	(0.0006)	(0.0006)	(0.1443)	[0.44]
Sickness and health benefits subindex	0.0691 ^a	0.0013	0.0005	-0.0009	0.0501	72
	(0.0240)	(0.0010)	(0.0017)	(0.0012)	(0.2744)	[0.26]
Unemployment benefits subindex	0.1501 ^a	-0.0002	-0.0019	-0.0003	-0.7334 ^a	72
	(0.0255)	(0.0009)	(0.0018)	(0.0015)	(0.2833)	[0.56]

Table IXCorrelations between determinants

The table shows the pairwise correlations between determinants of regulation of labor across countries.

	Chief's executive party		Legislature Chi party		Chief exe party and 1	ecutive's legislature	Transfers and		Percentage of the labor	Collective bargaining takes place	Predominant collective bargining
	Left political party	Left or center political party	Left party	Left or center party	Left political party	Left or center party	subsidies / GDP (avg. 1972-00)	Union density	force covered by collective agreements	at central or sectoral level	central or sectoral level
				Panel A:	Correlations	between left	t political power of	and union po	ower		
Chief exec. Left party	1.0000										
Chief Exec. Left or center party	0.8298ª	1.0000									
Legislature left party	0.9033ª	0.7359 ^a	1.0000								
Legislature left or center party	0.7666ª	0.8704 ^a	0.8257ª	1.0000							
Chief Exec. and Legislature left party party	0.9853ª	0.7997ª	0.9138ª	0.7489^{a}	1.0000						
Chief Exec. and Legislature left or party center	0.8441ª	0.9791	0.7583ª	0.9003 ^a	0.8271ª	1.0000					
Transfers and subsidies / GDP (avg. 1972-00)	0.2228	0.1343	0.2785	0.1965	0.1748	0.1152	1.0000				
Union density	0.2968	0.2454	0.3731°	0.2908	0.2707	0.2313	0.5142ª	1.0000			
Percentage of the labor force covered by collective	0.3052	0.3442	0.3640	0.3789	0.2342	0.3105	0.6261ª	0.4541	1.0000		
Collective bargaining takes place at central or	0.1941	0.0679	0.1930	0.1276	0.1636	0.0973	0.2393	0.1210	0.4561	1.0000	
Predominant collective bargining central or	0.0378	-0.0148	-0.0820	0.0792	0.0118	-0.0047	0.2412	0.1577	0.6723ª	0.3455	1.0000
			Pan	el B: Correl	ations betwe	en left politi	cal power, union	power and	legal origin		
Log of GNP per capita 1997	-0.2969	-0.3660 ^b	-0.1704	-0.2571	-0.0341°	-0.3802 ^b	0.6093ª	0.2775	0.3885	0.1033	0.1628
English legal origin	-0.1131	-0.2096	-0.1612	-0.2374	-0.0952	-0.1869	-0.2604	-0.2138	-0.3640	-0.1105	-0.0448
Socialist legal origin	0.5561ª	0.4329 ^b	0.4781ª	0.3728 ^b	0.5717ª	0.4400ª	0.3629°	0.2594	-0.0136	0.0428	-0.1970
French legal origin	-0.3169	-0.1135	-0.3015	-0.1305	-0.3370 ^c	-0.1560	-0.2054	-0.2789	0.2269	0.0695	0.0792
German legal origin	-0.1670	-0.1863	-0.1176	-0.1073	-0.1736	-0.1681	0.0420	-0.0036	0.0461	-0.0707	0.0084
Scandinavian legal origin	0.0735	0.0789	0.2341	0.1996	0.0587	0.0918	0.3291	0.5708ª	0.1960	0.0796	0.2494

	Chief's exec	utive party	Legislature Chief executive's party and legislature			Transfers and		Percentage of the labor	Collective bargaining takes place	Predominant collective bargining	
	Left political party	Left or center political party	Left party	Left or center party	Left political party	Left or center party	subsidies / GDP (avg. 1972-00)	Union density	force covered by collective agreements	at central or sectoral level	central or sectoral level
			Panel C	C: Correlation	ons between	left political	power, union pov	wer and pol	itical attributes		
Executive de facto independence	-0.1489	-0.2211	-0.0154	-0.1404	-0.1953	-0.2458	0.4887 ^a	0.2729	0.3442	0.1375	0.1584
Constraints on executive power	-0.1231	-0.2060	0.0068	0.1360	-0.1673	-0.2264	0.4692 ^b	0.2840	0.3380	0.2044	0.1447
Effectiveness of legislature	-0.1017	-0.2320	0.0299	-0.1349	-0.1446	-0.2378	0.5272 ^a	0.3331	0.4003	0.2657	0.2529
Competition in the legislature nominating process	-0.0086	-0.1622	0.0832	-0.1095	-0.0444	-0.1786	0.3545	0.2775	0.3350	0.2933	0.1969
Autocracy	0.3097	0.3082	0.1888	0.2535	0.3581	0.3488	-0.2970	-0.1178	-0.2299	-0.1243	-0.0887
Political rights average 1972-99	-0.2323	-0.2763	-0.0872	-0.1582	-0.2916	-0.3005	0.4666 ^b	0.2041	0.4633	0.2006	0.2268
Democracy	-0.0669	-0.1715	0.0533	-0.0954	-0.1152	-0.1902	0.5827ª	0.2843	0.4498	0.2000	0.2157
			Ра	nel D: Corr	relations bet	ween left pol	litical power, unic	n power an	d religion		
% Protestant in 1900	0.0542	-0.0181	0.3082	0.2168	0.0470	0.0085	0.4216 ^a	0.5514ª	0.1999	0.1590	0.3059
% Catholic in 1900	-0.0762	-0.0197	-0.1464	-0.0745	-0.1480	-0.0600	0.2575	-0.0136	0.2736	0.2700	0.0320
% Muslim in 1900	-0.1724	-0.0751	-0.1558	-0.0914	-0.1424	-0.1037	-0.1799	-0.1765	0.0377	-0.3405	-0.0421
% Rest in 1900	0.1733	0.0896	0.0528	-0.0042	0.2343	0.1344	-0.3599ª	-0.2712	-0.4825°	-0.1698	-0.2120

a=Significant at 1% level; b= Significant at 5% level; c=Significant at 10% level

Table XRegulation of labor, left political power (1975-1995) and legal origin

Ordinary least squares regressions of the cross-section of countries, excluding all socialist countries. The dependent variables are the employment law index, the industrial (collective) relations index and the social security index. Robust standard errors are in parentheses. All the variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

Dependent variables:	Log of GNP per capita	Left power*	French legal origin	German legal origin	Scandinavian legal origin	Constant	N [R ²]			
	Panel A: Employment laws, left power and legal origin									
Employment laws index	-0.0545 ^b	0.0898	0.5701 ^a	0.2769 ^c	0.1281	1.5790 ^a	66			
	(0.0239)	(0.1317)	(0.0785)	(0.1549)	(0.1948)	(0.2412)	[0.49]			
	-0.0524 ^b	0.0822	0.5564ª	0.2687°	0.1188	1.5605 ^a	66			
	(0.0266)	(0.1319)	(0.0765)	(0.1526)	(0.1938)	(0.2733)	[0.49]			
	-0.0535 ^b	0.1404	0.5694 ^a	0.2697 ^c	0.0718	1.5473 ^a	66			
	(0.0225)	(0.1166)	(0.0772)	(0.1515)	(0.2133)	(0.2241)	[0.50]			
	-0.0502^{b}	0.1292	0.5519 ^a	0.2535°	0.0734	1.5159 ^a	66			
	(0.0250)	(0.1134)	(0.0749)	(0.1514)	(0.2082)	(0.2526)	[0.50]			
	-0.0539 ^b	0.0805	0.5710 ^a	0.2762 ^c	0.1312	1.5803 ^a	66			
	(0.0249)	(0.1343)	(0.0795)	(0.1537)	(0.2008)	(0.2500)	[0.48]			
	-0.0497°	0.1014	0.5581 ^a	0.2643°	0.1053	1.5312 ^a	66			
	(0.0275)	(0.1322)	(0.0761)	(0.1544)	(0.1948)	(0.2807)	[0.49]			
		Panel B:	Industrial (colle	ctive) relation la	ws, left power and	d legal origin				
Industrial (collective) relations laws index	0.0085	0.1312	0.6617 ^a	0.4769 ^b	0.5338 ^b	0.6842 ^b	66			
	(0.0347)	(0.1664)	(0.1149)	(0.2126)	(0.2740)	(0.3261)	[0.36]			
	0.0220	0.2345	0.6326 ^a	0.4558 ^b	0.4636 ^c	0.5172 ^b	66			
	(0.0344)	(0.1565)	(0.1099)	(0.2213)	(0.2852)	(0.3248)	[0.37]			
	0.0017	0.0295	0.6527 ^a	0.4732 ^b	0.5610 ^c	0.7802 ^a	66			
	(0.0335)	(0.1505)	(0.1133)	(0.2028)	(0.2902)	(0.3065)	[0.35]			
	0.0157	0.2010	0.6342 ^a	0.4407 ^b	0.4457	0.5783°	66			
	(0.0352)	(0.1618)	(0.1124)	(0.2180)	(0.2981)	(0.3293)	[0.37]			
	0.0076	0.0958	0.6610 ^a	0.4755 ^b	0.5458 ^b	0.7080 ^b	66			
	(0.0362)	(0.1657)	(0.1159)	(0.2087)	(0.2732)	(0.3367)	[0.35]			
	0.0246	0.2385	0.6400 ^a	0.4486 ^b	0.4523	0.4988	66			
	(0.0352)	(0.1535)	(0.1096)	(0.2225)	(0.2874)	(0.3278)	[0.38]			
		Р	anel C: Social se	ecurity laws, left	power and legal of	origin				
Social security laws index	0.3510 ^a	0.1891	0.3075 ^a	0.0423	0.3691 ^a	-1.5534 ^a	66			
	(0.0319)	(0.1608)	(0.1155)	(0.1488)	(0.1340)	(0.3035)	[0.72]			
	0.3630 ^a	0.2567 ^c	0.2721 ^b	0.0185	0.3081 ^a	-1.6948 ^a	66			
	(0.0319)	(0.1563)	(0.1164)	(0.1508)	(0.1403)	(0.3145)	[0.73]			
	0.3453 ^a	0.1305	0.2987^{a}	0.0336	0.3534 ^b	-1.4864 ^a	66			
	(0.0322)	(0.1514)	(0.1170)	(0.1504)	(0.1544)	(0.3001)	[0.71]			
	0.3564^{a}	0.2249	0.2735 ^b	0.0010	0.2852 ^c	-1.6333ª	66			
	(0.0328)	(0.1588)	(0.1173)	(0.1606)	(0.1549)	(0.3186)	[0.72]			
	0.3522 ^a (0.0330)	0.1712 (0.1581)	0.3098 ^a (0.1161)	0.0408 (0.1479)	0.3748 ^a (0.1346)	-1.5526 ^a (0.3132)	66 [0.72]			
	0.3658 ^a (0.0324)	0.2613 ^c (0.1484)	0.2802 ^b (0.1155)	0.0106 (0.1520)	0.2956 ^b (0.1428)	-1.7152 ^a (0.3151)	66 [0.73]			

a=significant at 1 percent level; b=significant at 5 percent level; c=significant at 10 percent level.

* The rows in the Left power column consist of the values of: first row=chief executive left power; second row=chief executive left or center party; third row=legislature left party; fourth row=legislature left or center party; fifth row=chief executive and legislature left party; sixth row=chief executive and legislature left or center party.

Table XIRegulation of labor, interest groups and legal origin

Ordinary least squares regressions variables of the cross-section of countries, excluding all socialist countries. The dependent variables are the employment law index, the industrial (collective) relations index and the social security index. Robust standard errors are in parentheses. All the variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

Dependent variables:	Log GNP per capita	Interest groups*	French legal origin	German legal origin	Scandinavian legal origin	Constant	\mathbf{N} $[\mathbf{R}^2]$		
	Panel A: Employment, transfers and union power								
Employment laws index	-0.0478 (0.0323)	0.0910 (0.5704)	0.5680 ^a (.0775)	0.2072 (0.1698)	0.1333 (0.1966)	1.5382 ^a (0.2347)	63 [0.49]		
	-0.0498 ^b (0.0242)	0.0969 (0.2409)	0.6140^{a} (0.0829)	0.2790 (0.1458)	0.1097 (0.2251)	1.5237 ^a (0.2098)	57 [0.51]		
	-0.0635ª (0.0208)	0.0971 (0.1603)	0.6497 ^a (0.1064)	0.3554 ^b (0.1760)	0.0241 (0.1344)	1.5867 ^a (0.2025)	38 [0.61]		
	-0.0542 ^b (0.0241)	-0.1199 (0.1219)	0.6359 ^a (0.0797)	0.2965 ^b (0.1432)	0.2190 (0.1953)	1.6607 ^a (0.2257)	58 [0.53]		
	-0.0548 ^a (0.0198)	-0.0118 (0.2361)	0.6741 ^a (0.0952)	0.3624 ^b (0.1715)	0.0509 (0.1473)	1.5464 ^a (0.2174)	38 [0.61]		
Panel B: Industrial (collective) relation laws, transfers and union power									
Industrial	-0.0070	0.1720	0.6693ª	0.5321 ^b	0.5826 ^b	0.8354 ^a	57		
(collective)	(0.0377)	(0.8407)	(0.1175)	(0.2325)	(0.2867)	(0.2/29)	[0.35]		
index	-0.01/2	-0.1397	$(0.094)^{*}$	(0.2029)	(0.3671)	(0.9884°)	/U [0.01]		
muex	(0.0393)	0 3752	(0.1301) 0.7360 ^a	(0.2029) 0.4974 ^b	(0.3071) 0.7745 ^b	(0.3203) 1 1125 ^b	38		
	(0.050)	(0.2437)	(0.1513)	(0.2130)	(0.3130)	(0.5322)	[0 49]		
	-0.0118	-0.0762	0.6902^{a}	0.4913^{a}	0.6250^{b}	0.9608^{a}	58		
	(0.0361)	(0.1522)	(0.1297)	(0.2039)	(0.2862)	(0.3174)	[0.34]		
	-0.0374	0.2471	0.7995ª	0.5109 ^b	0.7725 ^b	0.9438 ^a	42		
	(0.0573)	(0.3154)	(0.1523)	(0.2157)	(0.3340)	(0.5059)	[0.07]		
		Pane	el C: Social secu	rity laws, tran	sfers and union	power			
Social	0 3260ª	0 3277	0 2782 ^b	-0.0168	0 4040 ^a	-1 2932ª	63		
security	(0.0562)	(1.1040)	(0.1206)	(0.1528)	(0.1323)	(0.3811)	[0.69]		
laws index	0 3067ª	-0.1523	0 2223°	0.0289	0.5134ª	-0 9961ª	57		
iutto iniuen	(0.0390)	(0.3226)	(0.1321)	(0.1451)	(0.2116)	(0.3375)	[0.63]		
	0.2591ª	0.0509	0.3471 ^b	0.1000	0.5641ª	0.6905	38		
	(0.0551)	(0.2008)	(0.1388)	(0.1636)	(0.1482)	(0.4611)	[0.66]		
	-0.3096 ^a	-0.3148°	0.2455°	0.0175	0.5266ª	-0.8517 ^a	38		
	(0.0345)	(0.1615)	(0.1281)	(0.1357)	(0.1406)	(0.2943)	[0.66]		
	0.2619 ^a	0.0347	0.3556 ^b	0.1018	0.5635ª	-0.7133	38		
	(0.0529)	(0.2899)	(0.1432)	(0.1642)	(0.1614)	(0.4433)	[0.66]		

a=significant at 1 percent level; b=significant at 5 percent level; c=significant at 10 percent level.

* The rows in the Union power column consist of the values of: first row= transfers and subsidies /GNP (1972-00); second row=union density; third row=% of labor covered by collective agreements; fourth row=collective bargaining at central or sectoral level; fifth row= predominant collective bargaining at central or sectoral level

Table XII Regulation of labor, political attributes and legal origin

Ordinary least squares regressions of the cross section of countries, excluding all socialist countries. The dependent variables are the employment laws index, the industrial (collective) relations laws index, the social security index and their respective components. Robust standard errors are in parentheses. All the variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

	Log GNP per capita	Political attributes*	French legal origin	German legal origin	Scandinavian legal origin	Constant	N [R ²]			
	Panel A: Employment laws, political attributes and legal origin									
Employment laws index	-0.0454	-0.0129	0.5345ª	0.2377	0.1351	1.6240ª	65			
1 0	(0.0333)	(0.0294)	(0.0849)	(0.1593)	(0.1936)	(01928)	[0.47]			
	-0.0491	-0.0076	0.5411ª	0.2433	0.1348	1.6262 ^a	65			
	(0.0322)	(0.0275)	(0.0846)	(0.1578)	(0.1935)	(0.1936)	[0.46]			
	-0.0451	-0.0261	0.5420ª	0.2388	0.1358	1.6083 ^a	64			
	(0.0385)	(0.0712)	(0.0876)	(0.1629)	(0.1940)	(0.2125)	[0.47]			
	-0.0711 ^b	0.0774	0.5809ª	0.2865°	0.1493	1.6304 ^a	64			
	(0.0308)	(0.1096)	(0.0901)	(0.1649)	(0.1950)	(0.1892)	[0.47]			
	-0.0417	0.0132	0.5353ª	0.2311	(0.1325)	1.4979ª	65			
	(0.0316)	(0.0224)	(0.0812)	(0.1556)	(0.1941)	(0.2931)	(0.47)			
	-0.0885ª	0 2286	0 5606ª	0 2774°	0 1337	1 7572ª	65			
	(0.0335)	(0.1979)	(0.0769)	(0.1555)	(0.1953)	(0.2052)	(0.47)			
	-0.0747 ^b	0.0119	0 5688ª	0.2088	0 1313	1 7205ª	64			
	(0.0321)	(0.011)	(0.0824)	(0.1649)	(0.1913)	(0.2141)	[0 48]			
	(0.0021)	Panal R:	Industrial (collar	(0.10.15)	litical attributor	(0.2111)	[0.10]			
Industrial (collective)	-0.0111	0.0096	0.6742^{a}	0.5051^{a}	0.6003^{b}	0 8347 ^a	<i>n</i> 65			
laws index	(0.0448)	(0.0414)	(0.1085)	(0.2105)	(0.2754)	(0.2561)	[0.35]			
	0.0166	0.0159	0 (914)	0.5121b	0.0010	0.94728	(5			
	-0.0100	(0.0158)	(0.0814°)	(0.2001)	(0.2756)	$(0.84/3^{-1})$	03 [0 35]			
	(0.0417)	(0.0353)	(0.1085)	(0.2091)	(0.2730)	(0.2304)	[0.55]			
	0.0118	-0.0420	0.6595°	0.4749°	0.6040°	0.7871^{a}	64 [0.26]			
	(0.0516)	(0.1012)	(0.1134)	(0.2104)	(0.2746)	(0.2855)	[0.36]			
	-0.0168	0.0576	0.6992^{a}	0.5230 ^a	0.6146°	0.8313 ^a	64			
	(0.0386)	(0.1257)	(0.1205)	(0.2152)	(0.2756)	(0.2527)	[0.36]			
	-0.0108	-0.0069	0.6702ª	0.5053 ^b	0.6017 ^b	0.8977 ^b	65			
	(0.0455)	(0.0289)	(0.1154)	(0.2157)	(0.2757)	(0.4083)	[0.35]			
	-0.0413	0.2604	0.6744ª	0.5227ª	0.5986 ^b	0.9622ª	65			
	(0.0456)	(0.2783)	(0.1158)	(0.2125)	(0.2751)	(0.2540)	[0.35]			
	-0.0353	0.0171	0.6900ª	0.5564 ^b	0.6051 ^b	0.9756 ^a	64			
	(0.0385)	(0.0172)	(0.1120)	(0.2373)	(0.2767)	(0.2641)	[0.35]			
		Panel (C: Social securiti	ies laws, politi	cal attributes and	l legal origin				
Social security laws	0.3168 ^a	0.0204	0.3356 ^a	0.0942	0.4688^{a}	-1.3262 ^a	65			
index	(0.0489)	(0.0456)	(0.1303)	(0.1564)	(0.1295)	(0.2717)	[0.71]			
	0.3211	0.0140	0.3274^{a}	0.0878	0.4696 ^a	-1.3269ª	65			
	(0.0490)	(0.0459)	(0.1272)	(0.1531)	(0.1305)	(0.2/47)	[0.71]			
	0.3172 ^a	0.0376	0.3285 ^a	0.0919	0.4696 ^a	-1.3007 ^a	94			
	(0.0555)	(0.1055)	(0.1337)	(0.1607)	(0.1295)	(0.3025)	[0.71]			
	0.3462ª	-0.0683	0.2873 ^b	0.0417	0.4573ª	-1.3380ª	64			
	(0.0398)	(0.1338)	(0.1236)	(0.1432)	(0.1319)	(0.2700)	[0.71]			
	0.3253ª	-0.0071	0.3186ª	0.0824	0.4702ª	-1.2721ª	65			
	(0.0487)	(0.0360)	(0.1207)	(0.1526)	(0.1315)	(0.4679)	[0.71]			
	0.2948ª	0.2614	0.3226ª	0.0996	0.4671ª	-1.2091ª	65			
	(0.0649)	(0.3882)	(0.1176)	(0.1557)	(0.1248)	(0.3352)	[0.71]			
	0.3143ª	0.0114	0.3285ª	0.0223	0.4645ª	-1.2680ª	64			
	(0.0638)	(0.0313)	(0.1233)	(0.1479)	(0.1295)	(0.3739)	[0.71]			

a=significant at 1 percent level; b=significant at 5 percent level; c=significant at 10 percent level. * The rows in the Political attributes column consist of the values of: first row= executive de facto independence; second row= constraints on executive power; third row= effectiveness of legislature; fourth row= competition in the legislature nominating process; fifth row= autocracy; sixth row= political rights average 1972-99, and seventh row= democracy.

Table XIIIRegulation of labor, religion and legal origin

Ordinary least squares regressions of the cross section of countries, excluding all socialist countries. The dependent variables are the employment laws index, the industrial (collective) relations laws index and the social security index. Robust standard errors are in parentheses. All variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

Dependent variables:	Log GNP per capita	% of Catholic in 1900	% of Muslim in 1900	% other religions in 1900	French legal origin	German legal origin	Scandinavian legal origin	Constant	N [R ²]
	Panel A: Employment laws, religion and legal origin								
Employment love in dov	-0.0790 ^a	-0.0001	-0.0033	-0.0010	0.5459ª	0.2028	0.0934	1.9243ª	65
Employment laws index	(0.0262)	(0.0022)	(0.0023)	(0.0021)	(0.0975)	(0.1628)	(0.2332)	(0.3291)	[0.53]
	Panel B: Industrial (Collective) relations laws, religion and legal origin								
Industrial (collective)	-0.0002	0.0067^{b}	0.0020	0.0057 ^c	0.5743ª	0.5090 ^b	1.0355ª	0.3474	65
relations laws	(0.0353)	(0.0034)	(0.0032)	(0.0032)	(0.1115)	(0.2451)	(0.3754)	(0.4796)	[0.42]
	Panel C: Social security laws, religion and legal origin								
Social security laws	0.3214 ^a	0.0040	0.0041	0.0007	0.1133	-0.0056	0.6187ª	-1.3813 ^a	65
index	(0.0437)	(0.0030)	(0.0037)	(0.0031)	(0.1487)	(0.1505)	(0.2250)	(0.5214)	[0.73]

Table XIVCorrelations between regulation of labor indices and formalism

The table shows the pairwise correlations between various indices of regulation for the cross section of 85 countries.

	Employment law index	Industrial (collective) relations law index	Social security law index	Court formalism index for the eviction of the non-paying tenant	Court formalism index for the collection of bounced check	Ln num.of steps to start a business	Ln num. of days to start a business	Ln cost to start a business /GDP per capita
Employment laws index	1							
Industrial (collective) relations laws index	0.5014ª	1						
Social security laws index	0.0526	0.2256	1					
Court formalism index for the eviction of the non-paying tenant	0.4669ª	0.4736 ^a	0.0937	1				
Court formalism index for the collection of bounced check	0.5755ª	0.4257ª	0.0180	0.8505ª	1			
Ln number of steps to start a business	0.6074 ^a	0.4795 ^a	-0.2409	0.5036 ^a	0.5675 ^a	1		
Ln number of days to start a business	0.5324ª	0.4509ª	-0.3104	0.5274 ^a	0.5525 ^a	0.8263ª	1	
Ln cost to start a business/GDP per capita	0.3349°	0.1712	-0.4736 ^a	0.3667 ^b	0.4309 ^a	0.6354ª	0.6147ª	1
Table XV.A Regulation of labor, interactions between left political power and legal origin

Ordinary least squares regressions of the cross section of common law and french civil law origin countries only. The dependent variables are the employment laws index, the industrial (collective) relations laws index and the social security laws index. Robust standard errors are in parentheses. All variables are described in Table I and the data can be found in http://icg.som.yale.edu/.

	Log GNP per capita 1997	Left power French*	Left power Common*	French legal origin	Constant	N [R ²]
Employment	-0.0506 ^b	0.2577	0.0294	0.4861ª	1.5745 ^a	56
laws index	(0.0239)	(0.1582)	(0.1830)	(0.1250)	(0.2525)	[0.29]
	-0.0490 ^c	0.1931	0.0450	0.4739 ^a	1.5533ª	56
	(0.0285)	(0.1574)	(0.2025)	(0.1556)	(0.3171)	[0.53]
	-0.0519 ^b	0.3690ª	-0.0042	0.4142 ^a	1.5992 ^a	56
	(0.0216)	(0.1474)	(0.1543)	(0.1174)	(0.2221)	[0.57]
	-0.0476 ^b	0.2804 ^b	0.0591	0.4231ª	1.5325 ^a	56
	(0.0263)	(0.1488)	(0.1648)	(0.1352)	(0.2817)	[0.55]
	-0.0477 ^b	0.2746 ^c	0.0329	0.4916 ^a	1.5513 ^a	56
	(0.0243)	(0.1628)	(0.1779)	(0.1175)	(0.2549)	[0.54]
	-0.0469	0.2223	0.0478	0.4685ª	1.5353 ^a	56
	(0.0294)	(0.1557)	(0.1965)	(0.1443)	(0.3201)	[0.53]
Industrial	0.0141	0 2514	0 1545	0 6298ª	0.6307 ^b	56
(collective)	(0.0346)	(0.2266)	(0.2265)	(0.1812)	(0.3415)	[0.40]
relations laws index	0.0250	0.250.46	0.25(0	0. (0.50)	0.2504	с з гс
	0.0356	0.3504°	0.3560	0.6259"	0.3504	56 [0 4 4]
	(0.0340)	(0.1881)	(0.2445)	(0.2094)	(0.35/3)	[0.44]
	0.0034	(0.09/9)	0.008/	0.6162°	0.7758°	50 [0 29]
	(0.0343)	(0.2188)	(0.2209)	(0.1898)	(0.3337)	[0.38]
	0.0229	0.369/	0.2088	0.5354°	0.5180	50 [0 42]
	(0.0367)	(0.2106)	(0.2515)	(0.2193)	(0.3/46)	[0.43]
	0.0130	0.1495	0.1436	0.6638	0.6458°	56
	(0.0367)	(0.2227)	(0.2202)	(0.1/32)	(0.3555)	[0.39]
	0.0387	0.3611°	0.3488	0.6280°	0.3351	56
	(0.0352)	(0.1818)	(0.2348)	(0.1943)	(0.3590)	[0.44]
Social security	0.3603ª	0.2233	0.2795	0.3336	-1.6649ª	56
laws index	(0.0326)	(0.2079)	(0.2971)	(0.2015)	(0.3427)	[0.67]
	0.3720^{a}	0.3351	0.2804	0.2382	-1.7769 ^a	56
	(0.0331)	(0.2108)	(0.2755)	(0.2261)	(0.3691)	[0.68]
	0.3524 ^a	0.1947	0.1688	0.2897	-1.5588 ^a	56
	(0.0327)	(0.2161)	(0.2627)	(0.2027)	(0.3219)	[0.67]
	0.3633ª	0.3789	0.1810	0.1563	-1.6640 ^a	56
	(0.0341)	(0.2331)	(0.2657)	(0.2424)	(0.3687)	[0.68]
	0.3616 ^a	0.2078	0.2482	0.3295°	-1.6573 ^a	56
	(0.0339)	(0.2021)	(0.2878)	(0.1878)	(0.3482)	[0.67]
	0.3736 ^a	0.3543°	0.2542	0.2272	-1.7225 ^a	56
	(0.0340)	(0.1963)	(0.2654)	(0.2073)	(0.3699)	[0.69]

a=significant at 1 percent level; b=significant at 5 percent level; c=significant at 10 percent level.

Table XV.B

Regulation of labor, interactions between political attributes and legal origin

Ordinary least squares regressions of the cross section of common law and french civil law origin countries only. The dependent variables are the employment laws index, the industrial (collective) relations laws index and the social security laws index. Robust standard errors are in parentheses. All variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

	Log GNP per capita 1997	Political attributes French*	Political attributes Common*	French legal origin	Constant	N [R ²]
Employment	-0.0478	0.0376	-0.0402	0.2018	1.7781ª	55
laws index	(0.0346)	(0.0404)	(0.0345)	(0.2126)	(0.2117)	[0.52]
	-0.0528	0.0480	-0.0358	0.1879	1.7926 ^a	55
	(0.0323)	(0.0372)	(0.0315)	(0.2030)	(0.2056)	[0.53]
	-0.0512	0.0763	-0.0767	0.2863	1.7538ª	54
	(0.0403)	(0.0939)	(0.0813)	(0.1785)	(0.2283)	[0.52]
	-0.0694 ^b	0.2317 ^b	-0.0970	0.0846	1.9049ª	54
	(0.0313)	(0.1032)	(0.1548)	(0.2632)	(0.2369)	[0.54]
	-0.0366	-0.0098	0.0370	0 6728ª	1 3996ª	55
	(0.0329)	(0.0271)	(0.0264)	(0.1093)	(0.3035)	[0.51]
	-0 0934ª	0.5558 ^b	0.0515	0 2704	1 8993ª	55
	(0.0318)	(0.2450)	(0.2020)	(0.1761)	(0.2046)	[0.54]
	-0.0680 ^b	0.0318°	-0.0121	0.3531 ^b	1.7996ª	55
	(0.0333)	(0.0188)	(0.0167)	(0.1332)	(0.2139)	[0.53]
Industrial (collective)	-0.0175	0.07555	-0.0198	0.2721	1.0302ª	55
relations laws index	(0.0462)	(0.0593)	(0.0524)	(0.2748)	(0.2767)	[0.41]
	-0.0237	0.0895°	-0.0181	0.2304	1.0685ª	55
	(0.0409)	(0.0482)	(0.0444)	(0.2392)	(0.2610)	[0.42]
	0.0033	0.0707	-0.0957	0.3822°	0.9570 ^a	54
	(0.0551)	(0.1335)	(0.1298)	(0.2211)	(0.3005)	[0.42]
	-0.0160	0.2164	-0.1240	0.1853	1.1247 ^a	54
	(0.0383)	(0.1373)	(0.1909)	(0.3288)	(0.3177)	[0.43]
	0.0010	-0.0429	0.0385	0.9050 ^a	0.6926	55
	(0.0479)	(0.0368)	(0.0382)	(0.1757)	(0.4510)	[0.42]
	-0.0317	0.8114 ^b	-0.3078	0.0233	1.2223ª	55
	(0.0461)	(0.3520)	(0.3041)	(0.2201)	(0.2658)	[0.49]
	-0.0368	0.0586 ^b	-0.0144	0.3447 ^b	1.1587ª	55
	(0.0359)	(0.0232)	(0.0191)	(0.1441)	(0.2545)	[0.46]
Social security	0.3056 ^a	0.0112	0.0641	0.5909°	-1.4568 ^a	55
laws index	(0.0480)	(0.0653)	(0.0523)	(0.3136)	(0.2836)	[0.66]
	0.3120 ^a	0.0250	0.0360	0.3941	-1.3641ª	55
	(0.0486)	(0.0693)	(0.0534)	(0.3232)	(0.2950)	[0.66]
	0.3010 ^a	0.0601	0.1155	0.4484	-1.3275 ^a	54
	(0.0541)	(0.1420)	(0.1239)	(0.2819)	(0.3186)	[0.65]
	0.3425 ^a	-0.0243	-0.0381	0.2783	-1.3597 ^a	54
	(0.0401)	(0.1759)	(0.1884)	(0.3713)	(0.3437)	[0.65]
	0.3125ª	-0.0070	-0.0375	0.2445	-1.0969 ^b	55
	(0.0491)	(0.0471)	(0.0460)	(0.1889)	(0.4953)	[0.65]
	0.2799ª	0.2864	0.4998	0.4515	-1.2347ª	55
	(0.0642)	(0.4795)	(0.4239)	(0.2922)	(0.3496)	[0.66]
	0.3063ª	0.0126	0.0216	0.3805°	-1.2614ª	55
	(0.0637)	(0.0369)	(0.0366)	(0.2198)	(0.3763)	[0.65]

a=significant at 1 percent level; b=significant at 5 percent level; c=significant at 10 percent level.

Table XVI Protection of workers and unofficial economy

Ordinary least squares regressions variables of the cross-section of countries. The dependent variables are the size of the unofficial economy as a percentage of GNP and the size of employment in the unofficial economy as a percentage of total employment in each country. Robust standard error are in parentheses. All variables are described in Table I and the data can be found in http://iicg.som.yale.edu/.

Dependent variable:	Log GNP per capita	Employment laws index	Industrial (collective) relations laws index	Social security laws index	Constant	N $[R^2]$			
Panel A: Unofficial economy									
Unofficial economy	-5.2770 ^a (0.7410)	7.2500 ^b (3.0215)			62.6044 ^a (9.5208)	85 [0.45]			
	-5.8783ª (0.6746)		4.5754 ^b 2.1253		72.9881 ^a (0.6536)	85 [0.44]			
	-5.7180 ^b (1.0739)			0.3419 (2.4455)	77.9615ª (6.6962)	85 [0.42]			
Panel B: Employment in unofficial economy									
Employment in unofficial economy	-5.7160 ^a (1.2764) -7.4709 ^a (1.0255)	13.3503 ^a (5.2063)	11.5790 ^a (4.2346)		62.4163 ^a (16.2025) 81.5497 ^a (9.4133)	46 [0.41] 46 [0.41]			
	-6.3955 ^a (2.1431)			-0.2363 (4.4897)	89.1139 ^a (11.6112)	46 [0.33]			

a=significant at 1 percent level; b=significant at 5 percent level; c=significant at 10 percent level.