World Bank marks deregulation high

The World Bank's *Doing Business* compares business conditions across 145 countries. **Peter Bakvis** examines some if its findings which praise those supportive of deregulated labour markets.

The best level of regulation is no regulation at all, a view espoused by the World Bank's *Doing Business*. The International Confederation of Free Trade Unions (ICFTU) has criticised this approach arguing that the World Bank should present a more balanced view towards labour standards in future.

PROBLEMS WITH THE MODEL

In constructing its hiring and firing indicators, *Doing Business* makes several assumptions about workers in order to compare data across countries. It assumes that the worker is a full-time male employee who has worked in the same company for 20 years and is not a member of a trade union. Only a small percentage of workers in developing countries have worked 20 years in the same company and the number is declining in highly industrialised countries. In this way the report leads to high penalty scores for countries on the basis of regulations that apply only to a tiny proportion of the labour force.

It also ignores protections that apply to many workers in industrialised countries through collective bargaining agreements. Such agreements apply to fewer workers in developing countries. So in Sweden and Denmark, where over 80% of wage earners are unionised, collective agreements afford a wide range of worker protection, including for retrenched workers. These countries also give many more protections than in developing country through social protection laws. *Doing Business* however presents Sweden and Denmark as having low levels of labour regulation and protection compared to many developing countries.

FIRING AND HIRING – POLICY IMPLICATIONS

In order to compare investment conditions across countries, *Doing Business* uses five indices. These are difficulty of hiring index, rigidity of hours index, difficulty of firing index, rigidity of employment index, and firing costs indicator. The Report uses all of the criteria except firing costs to calculate an overall average called the rigidity of employment index.

- In the case of the difficulty of hiring index countries get penalty points if they put restrictions on the use of part-time and fixed term contracts. In the case of part-time workers, *Doing Business* awards penalty points if labour laws require that a part-time worker gets social security.
- With the rigidity of hours index, countries get penalty points if the legal maximum workday is less than 12 hours and the workweek is less than five days. To win points countries should allow for a 66-hour or more workweek while ILO conventions call for an 8-hour day and a 48-hour week. The Bank gives further penalty points to countries that have any kind of restrictions on night work.
- *Doing Business* imposes penalties under its difficulty of firing index if a country's laws require employers to give labour ministries or trade unions notification of retrenchments. It also awards penalty points to countries that take measures to correct situations of discrimination against women or ethnic groups.

CONCLUSION

The World Bank emphasises that it will adapt its policies to local circumstances. Yet the hiring and firing indicators of *Doing Business* are a return to the 'one-size-fits-all' approach. Country World Bank teams encourage governments to deregulate labour rules to lower levels found in other countries. They take no account of what role regulations play in combating exploitation or discrimination in that country. Nor do they investigate how labour rules may contribute to the country's economic and social stability, or how they connect to industrial relations and social protection practices.

Doing Business ignores the need to combine changes in labour regulations with improved social protection. Workers who lose their jobs through easier firing rules are unlikely to understand the Bank's argument that creating a more business-friendly climate is more important than protection against dismissal.

In several countries, the Bank's support for deregulation has led to social upheaval. The World Bank cannot boast that its approach to labour reform has been successful when it has increased social tensions and impacted on economic stability. It is difficult to see how this will contribute to improvements in the investment climate.

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