

Emergence and Evolution of Employment Protection Institutions in Post-Communist Central Europe

Labour market institutions, such as taxes on labour, laws and regulations concerning employee rights, employee representation, wage bargaining, unemployment benefits and active labour market policies¹, aim at correcting the market imperfections of labour supply and demand.² Employment protection legislation that is, mandatory minimum legal rules governing hiring and aims at providing employment security for the workers and encourages investment into skills, but it also induces costs to the employer, such as severance, administrative and firing costs, that is, cost of economic adjustment.³

During the communism, EPL was high, as virtually all citizens were provided employment, and unemployment was generally an unknown phenomenon. After the collapse of communism, the CEE countries opted for diverging levels of EPL. The situation in 2003 is illustrated by the table below.

	Regular Employment (1)	Temporary Employment (2)	Collective Dismissal (3)	EPL⁴	Source
Czech Republic	3.3	0.5	2.1	1.9	OECD ²
Estonia	2.7	1.3	4	2.3	Tonin ⁵
Hungary	1.9	1.1	2.9	1.7	OECD
Lithuania	2.9	2.4	3.6	2.8	Tonin
Poland	2.2	1.3	1.7	2.1	OECD
Slovakia	3.5	0.4	2.5	2	OECD
Slovenia	2.7	2.3	3.3	2.6	Tonin
Germany	2.7	1.8	3.8	2.5	OECD
Finland	2.2	1.9	2.6	2.1	OECD
Ireland	1.6	0.6	2.4	1.3	OECD

¹ Stephen Nickell and Richard Layard, „Labour Market Institutions and Economic Performance,” in *Handbook of Labor Economics Volume 3*, ed. Orley Ashenfelter, Richard Layard, and David Card (Amsterdam: Elsevier, 1999): 3029-3082

² OECD Employment Outlook 2004 at <http://www.oecd.org/dataoecd/8/4/34846856.pdf>

³ Pierre Cahuc and André Zylberberg, *Labor Economics*, (Cambridge: MIT Press, 2004): 713-791

⁴ EPL=OECD aggregate index assessing the level of employment protection in a country (coded legal provisions), consists of 22 items under three headings: 1) protection of regular employment: procedural inconvenience, notice and severance, difficulty of dismissal; 2) protection of temporary employment:

Interestingly, the employment protection levels in the Baltic States –and Slovenia, are at a higher level than those of the Visegrad countries, both in terms of the aggregate EPL index, as well as in terms of disaggregate EPL indices. Thus, this begs for the question: *How did the current differences in the employment protection levels in the CEE-8 come about? More specifically, what were the main influences on the initial choices of EPL levels in CEE-8? How did the EPL evolve during transition?*

Whilst the existing research on EPL typically focuses on the relationship between EPL and other labour market institutions, treating EPL as ‘institutions-as-equilibria’⁶, less research has been done on the origins of the employment protection institutions. Thus, I suggest employing historical institutionalist research on the origins of the employment protection institutions, focusing on the critical junctures around the labour law reforms and thus identifying the possible developmental pathways and path dependencies⁷, whilst accounting for the societal and governmental actors’ interests, as well as the general institutional framework for social protection.

I will initially make a broad overview of the CEE-8 countries, and then conduct qualitative case studies to illustrate the paths to currently differing employment protection policies, as well as their implementation. The comparative case studies will be conducted on Hungary and Estonia, which can be seen as extreme cases in terms of their EPL regimes.

fixed term contracts and temporary work agencies; 3) collective dismissal: special provisions (union involvement, redundancy) on collective dismissal

⁵ Tonin, Mirco. “Updated Employment Protection Legislation Indicators for Central and Eastern European Countries.” 2005 Working paper at

http://www.iies.su.se/~tonin/mirco_files/MircoToninEPLIndicatorsPaper.pdf

⁶ Kenneth Shepsle, “Rational Choice Institutionalism,” in *The Oxford Handbook of Political Institutions*, ed. R.A.W. Rhodes, Sarah A. Binder and Bert A. Rockman (Oxford: Oxford University Press, 2006): 23-38

⁷ Kathleen Thelen, “Historical Institutionalism in Comparative Politics,” *Annual Review of Political Science*, 1999 (2): 369-404