

An abstract graphic consisting of several thin, black, overlapping lines that form various geometric shapes and polygons, primarily in the upper left and center of the page.

THE REGULATION OF COLLECTIVE DISMISSALS: ECONOMIC RATIONALE AND LEGAL PRACTICE

Mariya Aleksynska, Angelika Muller



I. ECONOMIC AND SOCIAL RATIONALE OF COLLECTIVE DISMISSAL PROCEDURES

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GENESIS OF THIS RESEARCH

Regular requests, from academia and governments, to assess the role of EPL as a labour market institution.

Does it protect workers, or does it over-protect them at the expense of the employer? Are regulations too strict and should they be reformed with a view to decrease the strictness?

Idea: combine economic and legal analysis to understand why these regulations exist, what purpose they serve; and whether they reach their objectives

ECONOMIC THINKING....

- ❑ Generally, markets are perfect ... Regulation is not needed
- ❑ Labour markets are an exception: they are more akin to a “social institution”, are imperfect, and feature market failures (a situation in which the individual incentives for rational behaviour do not lead to rational outcomes for the society).

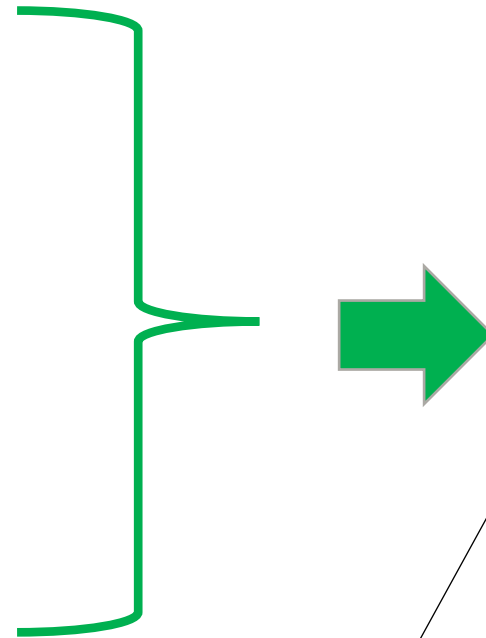
WHAT DO WE MEAN BY IMPERFECT LABOUR MARKETS ?

Negative externalities

Information asymmetries

Transaction costs

Uncertainty



Need regulation

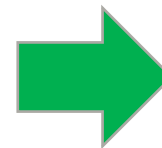
Caveat: how to regulate so that market failure is corrected (== social consideration is incorporated into individual decision-making), but the regulation is not too “heavy”, that it does not preclude enterprises from hiring, innovation, and investment into new activities?

EMPLOYMENT PROTECTION LEGISLATION IS ONE OF SUCH REGULATIONS

- ❑ In case of individual dismissals. Role: redress the unequal bargaining power (correct asymmetry)
- ❑ In case of collective dismissals. Role: in addition, correct broader market failures.

Collective dismissals are not a sum of many individual dismissals:

- negative externalities may concern not only one individual family or a worker, but the whole region, sector, industry of activity
- information asymmetry is particularly high
- transaction costs may be very high
- uncertainty over contestation may also be very high
- in addition, there is a need to internalize costs, improve risk-sharing and redistribute the losses



Specific regulations are needed, which go beyond the sum of regulations for individual dismissals. Regulations that are benefitting not only workers, but also employers and the society, o restore the socially-desirable optimum and improve labour market efficiency

THE ALTERNATIVE...

The alternative is not “easy procedures = low costs/not-strict”, but rather many individual dismissals that may results in contestation; in social unrest; in the loss of reputation for the company.

Regulations should not be assessed on strictness, but on their ability to fulfil the role that they are destined to fulfil (correct market failures).

THANK YOU!