What is the impact of labour market regulation on employment in LICs?
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Controversy over the design of labour market policy often centers on achieving the delicate balance
between improving workers’ conditions by guaranteeing basic rights, and avoiding loss of productivity or
employment through excessive regulation. Whereas in developing countries the concern is that labour
regulation might reduce total employment, in low-income countries (LICs) there is the additional
concern that labour regulation might shift workers from the formal sector to the informal sector.
We systematically reviewed available research on the impact of labour market regulations on
employment in LICs. We conducted an extensive search of electronic databases, used “snowballing”
techniques, and contacted experts for additional studies that our search might have missed. We found
only four studies from LICs that were appropriate for inclusion. Due to the thin evidence base, we
included studies in countries considered LICs until recently.
 We found four studies from current LICs, 11 studies from recent LICs, and two cross-country
studies that met the inclusion criteria; they covered a variety of labour regulations including minimum
wages, employment protection, and firing rigidities, among others. All four studies from countries that
are currently LICs find that labour regulations are associated with lower employment in the formal
sector. One study also considers the impact on employment in the informal sector and finds a positive
effect. Seven minimum wage studies from countries that were, until recently, LICs were reviewed, and
all of them document that labour regulations have a negative impact on formal employment. Five of
them also find that higher minimum wages are associated with higher informal employment. The other
four studies from recent LICs examine the impacts of India’s labour regulations on employment; three
document a negative relationship between the stringency of regulations and formal sector employment.
Four studies from recent LICs also consider the effects of a variety of labour regulations on overall
employment or unemployment rates, with mixed results.
For minimum-wage regulation, we used the few comparable studies to conduct a meta-regression analysis (MRA) of the effect of minimum wages on formal and informal employment. This
analysis lends some quantitative support to these results, though it is limited by the small number of
studies with comparable estimates. In the formal sector, we confirm a negative relationship between
minimum wages and employment after controlling for potential publication bias, although the statistical