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by

XIOMARA ARCHIBALD
DENNY LEWIS-BYNOE

and

WINSTON MOORE
Research Department
Central Bank of Barbados
P.O. Box 1016
BRIDGETOWN

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XIOMARA ARCHIBALD, DENNY LEWIS-BYNOE AND WINSTON MOORE¹

Research Department, Central Bank of Barbados,
PO Box 1016, Bridgetown, Barbados

ABSTRACT

From a developing country perspective, an examination of the extent of labour market regulation is pertinent given the highly labour-intensive nature of most production. Labour market inflexibility can constrain these countries' ability to boost long-run economic growth and development. In the case of Barbados, a small island developing economy grappling with the challenges of development in a highly competitive global economic environment, labour market flexibility is critical to ensuring the success of its development strategy. This paper therefore seeks to assess the extent of labour market flexibility in Barbados. A survey approach is employed and cross-country comparisons are made to establish Barbados' position relative to the rest of the world. The results of the study can be used to guide labour market reform in Barbados and offer some valuable insights that may be of interest to other small developing economies, such as those in the Caribbean. Indeed, with the creation of the CARICOM Single Market and Economy and the prospect of free movement of labour, this type of study takes on even greater significance.

¹ Corresponding author Tel.: (246) 436-6870; fax: (246) 427-1431.
E-mail address: dmlewis@centralbank.org.bb (D. Lewis-Bynoe).

I. INTRODUCTION

Increased labour market flexibility has been advocated by some economists (see MacCulloch and Di Tella, 2005) as a means of lowering long-term unemployment. The concept of labour market flexibility is generally derived from general equilibrium theory. In this framework, in a (perfectly) flexible market resources are allocated in a manner where no one individual can be made better off without making some individual worse off (pareto efficiency). To operationalise this concept, Earnets and Masso (2004) recommend that flexibility should be thought of as a process rather than a state: a flexible labour market is one that moves towards the pareto efficient outcome faster than a comparable market. A flexible labour market quickly adjusts to shocks and new demand conditions without producing large amounts of long-term unemployment.

This definition, which is very broad and has been utilised in many studies in the area, (see Lazear, 1990; Layard, Nickell and Jackman, 1991; OECD *Jobs Study*, 1994; Forteza and Rama, 2001) is a theoretical construct. At the operational level, labour market flexibility is commonly associated with the number/intensity of labour market regulations or institutions in place (see Baker, Howell and Schmitt, 2002 for a review of this literature). There is considerable variation in regulation across countries, covering unfair dismissals, restrictions on lay-offs for economic reasons, compulsory severance payments, minimum notice periods and working hours.

Equally, there is considerable, although highly controversial empirical work attesting to the view that fewer regulations, (which is taken as an indicator of greater job market flexibility) lead to better labour market outcomes: lower unemployment and reduced time between being in and out of the employed labour force. Lazear (1990) provides one of the earliest studies in the area. Using legislation on severance pay for 22 countries, the author finds that more restrictive severance pay legislation leads to higher unemployment and greater preference by employers for part-time rather than full-time employees. More recently, MacCulloch and Di Tella (2005), using data from the *World Competitiveness Report*, find large employment effects of labour market flexibility. The authors estimate that if France were to increase the flexibility of its labour market to US levels, the employment rate would increase by 1.6 percentage points.

Unfortunately, due to data (un)availability, very few studies consider developing countries in their analysis. Yet, from developing countries' perspective, an examination of the extent of labour market regulation is especially pertinent given the highly labour-intensive nature of most production and the likely constraint labour market inflexibility can pose to their ability to accelerate their economic growth process. Those studies that do consider developing countries obtain conflicting results. Botero, *et al* (2004), found an insignificant relationship between regulations and labour market outcomes in developing countries, which they attributed to the lack of labour regulation enforcement. In contrast, Anaya (2002), using data on 13 Latin American countries, found a strong relationship between labour market outcomes and regulations. As a result of high levels of labour market rigidity in these countries, most adjustment is achieved through changes in real wages rather than levels of employment.

Some work has also been done in the area for Barbados, a small island economy in the Caribbean; the focus has been largely on identifying the extent of labour market flexibility. These previous studies (Downes and ILO, 1999) did not attempt to compare and contrast the intensity of labour market regulations or collective bargaining practices relative to other countries. Such a comparison would allow policymakers to identify problem areas and guide labour legislation changes.

An International Labour Office's (ILO) country employment policy review on Barbados (1999), noted that historically, Barbados had relied more on the collective bargaining process. However, faced with the uncertainties of collective bargaining outcomes and the power of the unions, employers were pressing for a clear regulatory environment. Barbados is one of the few remaining countries in the Commonwealth Caribbean that have not enacted a comprehensive body of legislation aimed at providing intervention instruments, opting instead for a voluntary system governing employers and trade union relations. In Barbados, the state, while not involved in dispute settlement, sets minimum labour standards and ensures their observance. Arising from the structural adjustment programme of the early 1990s, a tripartite agreement, with employers, government and trade unions, was reached called the Prices and Incomes Protocol that initially included a two-year wage freeze. Subsequent Protocols have been negotiated,

although without explicit wage guidelines. The objective is to guide prices and incomes in a direction oriented towards the achievement of the country's overall economic policy objectives.

Arguably, collective agreements and social pacts such as those employed in Barbados in recent years make it more difficult and expensive for employers to dismiss workers (ILO, 1999). Downes (1999), through a survey of local establishments, found results that supported this conclusion. Most respondents to the survey cited the high cost of severance pay and the provisions in the local labour legislation on shop assistants as the greatest barriers to increasing employment. Although insightful, the results presented by Downes do not allow one to compare and contrast the intensity of labour market regulations or collective bargaining practices relative to "best practice" countries.

Apart from the employment effect of labour market inflexibility, there are wider implications for developing countries. For these resource-constrained economies, attracting foreign investment is an important part of the overall development strategy and an inflexible labour market can serve as a disincentive to potential investors. This raises the wider issue of how Barbados compares with the rest of the world and is one of the main motivations for this study.

The paper is structured with a brief survey of previous techniques used to measure labour market flexibility and the rationale for our choice of approach, following the introduction. Section III presents the methodology used in the study, while Section IV provides the indices of labour market flexibility for Barbados and compares these with those for countries at similar and higher levels of development. Section V concludes with suggestions for improving labour market flexibility in Barbados based on the deficiencies identified in Section IV.

II. PREVIOUS LITERATURE ON MEASURING LABOUR MARKET (IN)FLEXIBILITY

There is no single procedure employed to measure labour market flexibility. Economic researchers have approached the problem of quantifying barriers using three broad approaches: comparative studies of labour market outcomes, econometric models, and indices of the variation in the intensity of constraints.

Some comparative studies examine the differences in worker flows into and out of unemployment, and implicitly exploit the notion of the Beveridge (1945) curve. The Beveridge curve is the (negatively sloped) relation between the vacancy rate (the number of jobs unfilled as a proportion of the labour force) and the unemployment rate. A perfectly flexible labour market would immediately match unfilled jobs with an unemployed worker: vacancies and unemployment would never coexist. Labour market rigidities are then assumed to be those factors that allow vacancies and unemployment to coexist. Studies in this area usually use the United States of America as an approximation of a perfectly flexible market. Using this approach, authors such as Bertola and Rogerson (1997), Blanchard and Wolfers (2000) Ljungqvist and Sargent (2003) propose that the generous unemployment benefits and high firing costs are behind the relatively higher rate of unemployment in Europe. The advantage of the comparative approach is its simplicity; most of the data required to carryout the analysis can be obtained from national labour market surveys. The main drawback of the approach, however, is that for the analysis to be relevant the two countries must be at relatively similar stages of development, which is a relatively subjective classification.

The econometric approaches generally use the coefficients obtained from a behavioural model of the labour market to derive an index of labour market flexibility. One of the earliest approaches in the literature is that by Layard, Nickell and Jackman (1991) who generated a wage rigidity index as the reciprocal of the response of real wages to unemployment, estimated from a standard wage equation. The framework assumes that in a flexible labour market, wages adjust fully to a shock so that unemployment remains at its natural rate. Therefore, the larger the index,

the higher is unemployment. A similar approach is employed by Balmaseda, Dolado and López-Salido (2000) and Anaya (2002), but using different econometric techniques.

The index generated using the Layard, Nickell and Jackman approach, however, depends on union power and other structural parameters of an economy. As a result, cross-country comparisons could be misleading, as two economies with the same labour market rigidity indicator might behave quite differently. As an alternative, Albagli, García, and Restrepo (2003) construct the labour market rigidity index as the number of periods that unemployment takes to decrease to one half of its maximum value. This approach exploits the fact that after a shock, a rigid labour market only slowly returns to its long-run level.

The final broad approach to measuring labour market flexibility requires the researcher to compile information on labour market characteristics and combine the information into indices that can be employed to undertake cross-country comparisons. One of the earliest studies to collect information on cross-country labour market regulations was Lazear (1990). This study focused on two main indicators of labour market flexibility: the number of months of salary given to workers as severance pay upon dismissal after ten years of service and the number of month's notice required before termination to workers with ten years of service.

Subsequent studies have built upon this approach and have added numerous other indicators to obtain a more accurate indicator of labour market flexibility. MacCulloch and Di Tella (2005) use data from the *World Competitiveness Report* on the opinion of top and middle managers regarding the flexibility of enterprises to adjust compensation and employment as economic realities change. A similar approach is employed by Downes (1999) for Barbados. Frenkel and Ros (2003), propose the use of the number of ratified ILO conventions as an indicator of the nominal "thickness" of labour market regulations or the willingness and scope of government intervention in the labour market. Forteza, A. and M. Rama (2001) construct a composite labour market rigidity index based on the ratio of minimum to average wages, mandated benefits, trade union membership and the share of government employment. An international study directed by Alphametrics Ltd. (2001) attempted to construct labour market adaptability indices for all EU member states. The index consisted of indicators of labour supply availability, access to

education and training programmes, mobility of labour and the flexibility of working-time arrangements.

The most comprehensive study on labour market regulations is that by Botero, *et al* (2004). The authors combine information on employment, collective relations and social security laws into indices for 85 countries. The approach has been subsequently incorporated into the World Bank's *Doing Business* (2004) report that provides cross-country indices on the difficulty of hiring, rigidity of hours, difficulty of firing, rigidity of employment and firing costs. This is the methodology employed in this study.

III. RESEARCH METHODOLOGY

Utilising the World Bank doing business approach to investigate the rigidity of employment, we undertook a detailed study of employment laws and regulations, relevant constitutional provisions, as well as industry practice. The latter was necessary because formal legal rules are not fully indicative of what happens in practice, especially where a voluntary system governing employers and trade union relations exists. More specifically, in Barbados, there is a reliance more on the collective bargaining process, with industry practice playing an important role. In the original World Bank approach, several assumptions were made about business² and workers³, to ensure comparability across countries. In Barbados, labour market regulation is more generic and so these assumptions are less relevant. Industry practice information is obtained from the Barbados Workers Union and confirmed by the Ministry of labour and other relevant sources.

² The business is a limited liability company; operates in the country's most populous city; is 100 percent domestically owned; operates in the manufacturing sector; has 201 employees, and; abides by every law and regulation, but does not grant workers more benefits than legally mandated.

³ The worker is a non-executive, full-time male employee who has worked in the same company for 20 years; earns a salary plus benefits equal to the country's average wage during the entire period of his employment; has a nonworking wife and two children and the family resides in the country's most populous city; is a lawful citizen who belongs to the same race and religion as the majority of the country's population, and; is not a member of the labour union, unless membership is mandatory.

In the World Bank study, with which country comparisons are made, the data on hiring and firing workers was based on a detailed study of employment laws and regulations, as well as relevant constitutional provisions. Most of the information is taken from the online publication of the International Labour Organization, the NATLEX database and confirmed through secondary sources including the International Encyclopaedia for Labour Law and Industrial Relations and Social Security Programs throughout the world. Finally, all data are verified and completed by law firms within surveyed countries through a detailed survey on employment regulations.

For Barbados, the data obtained is used to construct an index of employment rigidity and a cost of firing indicator based on the calculation of several sub-indices that represent the different aspects of employment determination. The Rigidity of Employment index is the average of three sub-indices: a Difficulty of Hiring index, a Rigidity of Hours index, and a Difficulty of Firing index. All sub-indices have several components and take values between 0 and 100, with higher values indicating more rigid regulation. These sub-indices are aggregated to give the overall index, with higher values corresponding to greater rigidity of employment across the economy.

The indices are calculated as follows:

Rigidity of Employment

- The *Difficulty of Hiring* index measures (i) whether term contracts can only be used for temporary tasks; (ii) the maximum duration of term contracts; and (iii) the ratio of the mandated minimum wage (or apprentice wage, if available) to the average value-added per working population. A country is assigned a score of 1 if term contracts can only be used for temporary tasks, and a score of 0 if term contracts can be used for any task. A score of 1 is assigned if the duration of term contracts is 3 years or less; 0.5 if the duration is between 3 and 5 years; and 0 if term contracts can last more than 5 years. Finally, a score of 1 is assigned if the ratio of minimum wage to average value added per worker ratio is higher than 0.75; 0.67 for ratios between 0.50 and 0.75; 0.33 for ratios between 0.25 and 0.50; and a score of 0 if the ratio is below 0.25 (World Bank, 2004).
- The *Rigidity of Hours* index has five components: (i) whether night work is restricted; (ii) whether weekend work is allowed; (iii) whether the workweek consists of five-and-a-half

days or more; (iv) whether the workday can extend to 12 hours or more (including overtime); and (v) whether the annual paid vacation days are 21 days or less. If the answer is no on any of these questions, the country is assigned a score of 1, otherwise a score of 0 is assigned (World Bank, 2004).

- The *Difficulty of Firing* index has eight components: (i) whether redundancy is not grounds for dismissal; (ii) whether the employer needs to notify the labour union or the labour ministry for firing one redundant worker; (iii) whether the employer needs to notify the labour union or the labour ministry for group dismissals; (iv) whether the employer needs approval from the labour union or the labour ministry for firing one redundant worker; (v) whether the employer needs approval from the labour union or the labour ministry for group dismissals; (vi) whether the law mandates training or replacement prior to dismissal; (vii) whether priority rules apply for dismissals; and (viii) whether priority rules apply for re-employment. If the answer to any question is yes, a score of 1 is assigned; otherwise a score of 0 is given. Questions (i) and (iv) have double-weight in the construction of the final index (World Bank, 2004).

The Cost of Firing Indicator

- The Cost of Firing indicator measures the cost of advance notice requirements, and severance payments and penalties due when firing a worker, expressed in terms of weekly wages. This methodology was developed by Juan Botero, Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer (2004).

IV. THE FLEXIBILITY OF THE BARBADOS LABOUR MARKET

Basic Results

The results of the survey for Barbados are shown in Table 1 below.

It should be noted that, in general, industry practice was far more rigid than what was specifically prescribed by law, reflecting the unique social partnership arrangements in Barbados. For example, the overall Rigidity of Employment Index for Barbados was 40 when calculated based on industry practice, compared with just 10 when based on legal provisions. Breaking out this score into its three components – difficulty of hiring, rigidity of hours and difficulty of firing – it is evident that the most restrictive aspect of labour in Barbados is the rigidity of working hours, followed by the difficulty of firing, then the difficulty of hiring.

The relative rigidity of working hours was largely influenced by legislative restrictions on night work (the Shops Act limits night work to 10pm unless permission is obtained from the Chief Labour Officer), as well as practical considerations such as the lack of reliable after-hours transportation for workers. A comparatively long workweek, extendable workdays and high overtime premiums, all of which form part of standard industry practice, were also important factors in this outcome. Most of the difficulty of firing workers in Barbados was found to lie in the need for employers to notify and seek approval from the union or ministry for group dismissals under the Social Partnership Agreement, as well as the existence of priority rules for dismissals and re-employment formulated by collective agreement. On the other hand, hiring workers was found to be relatively simple in Barbados, since the only constraint was the comparatively high wage rate.

Table 1: Indicators of Labour Market Flexibility

	Industry Practice	Law
Rigidity of Employment Index	40	10
<i>Difficulty of Hiring Index</i>	11	11
Term contracts are only temporary tasks	0	0
Maximum duration of terms contracts	0	0
Ratio of the mandated minimum wage to GNI Per Capita	33	33
<i>Rigidity of Hours Index</i>	60	20
Night work is restricted	100	100
Weekend work is allowed	0	0
Workweek consists of five-and-a-half days or more	100	0
Workday can be extended to 12 hours or more	100	0
Whether the annual paid vacation days are 21 days or less	0	0
<i>Difficulty of Firing Index</i>	50	0
Redundancy is not grounds for dismissal	0	0
Employer needs to notify the union or ministry to fire one redundant worker	0	0
Employer needs to notify the union or ministry for group dismissals	100	0
Employer needs approval from the union or ministry to fire one redundant worker	0	0
Employer needs approval from the union or ministry for group dismissals	100	0
The law mandates training or replacement prior to dismissal	0	0
Priority rules apply for dismissals	100	0
Priority rules apply for re-employment	100	0
Cost of Firing Indicators		
<i>Firing Costs (Weeks)</i>	7.5 weeks	7.5 weeks
Notice for redundant worker	4 weeks	4 weeks
Severance payment required for redundant worker	3.5 weeks	3.5 weeks
<i>Firing Costs (US\$)</i>	US\$1,549	US\$1,549
Average salary	US\$206.5	US\$206.5

Sources: Survey (2005)

The other indicator used was the cost of firing expressed in terms of the number of weeks of notice and severance pay required for workers to be made redundant. In the original Botero et al (2004) study, the number of weeks thus calculated was multiplied by the average weekly wage in order to give a cost of firing in US dollars. For Barbados, this cost amounted to US\$1,549.00. However, for comparative purposes, the cost in weeks (7.5 weeks) was also used, as this was how the indicator was expressed in the cross-country comparison in the World Bank study.

Overall, these results were broadly consistent with the findings of Downes (1999), which were as follows:

- With regard to terminations, most establishments did not have an established policy for deciding which workers would be terminated first. Over one-third of establishments surveyed wanted to terminate workers but did not, primarily because of the level of severance involved. This would indicate that the severance payment system was a hindrance to operations.
- Current union contracts impact on operating costs and, to a lesser extent, the ability to hire or terminate workers.
- Existing labour laws have little or no effect on employment in establishments. There was a 75 percent incidence of responses indicating no effect, while 31 percent indicated a positive effect. However, the high cost of severance pay and the provisions in the Shops Act were most cited for discouraging establishments from increasing employment.

Cross-Country Comparisons

Generally, labour market flexibility in Barbados was shown to be about average relative to the countries analysed in the World Bank Study, as illustrated in the tables below.

Table 2, a comparison of Barbados' scores with world and regional averages, reveals that while the rigidity of employment index is lower than the world average, as well as the averages for Latin America and the Caribbean, Europe and Central and South Asia, it is higher than the averages for the OECD, East Asia and the Pacific and the Middle East and North Africa. Comparing the sub-indices, whereas it appears that in Barbados the hours worked are more rigid and it is harder to fire workers, hiring new workers appears to be relatively easier than in most other countries and firing costs compare favourably with double-digit regional averages.

Table 2: Regional Comparison of Labour Flexibility Indicators

Region or Economy	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Firing Costs (weeks)
East Asia & Pacific	20	30	22	24	52
Europe & Central Asia	31	51	42	41	38
Latin America & Caribbean	44	53	34	44	70
Middle East & North Africa	22	52	40	38	74
OECD: High income	26	50	26	34	40
South Asia	37	36	53	42	84
Sub-Saharan Africa	53	64	50	56	59
World	35	51	38	42	56
Barbados	11	60	50	40	7.5

Sources: Survey(2005), World Bank (2004)

Looking at Barbados' scores against the ten best and ten worst performers in terms of labour market flexibility (Table 3) serves to highlight the relative rigidity of Barbadian employment. Indeed, the rigidity of employment index for Barbados is closer to the scores of the worst performers – who are, without exception, all Sub-Saharan African countries – than those of the best performers. However, the firing costs indicator continues to compare favourably. It is noteworthy that many of the “best performers” have relatively low rates of unemployment.

Table 3: Best and Worse Performers – Labour Market Flexibility

Region or Economy	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Firing Costs (weeks)	Average GDP growth(1997-2003)	Average Rate of unemployment(1997-2003)
Palau	0	0	0	0	0	-	-
Singapore	0	0	0	0	4	2.2	4.8
Hong Kong, China	0	0	0	0	13	-1.5	5.5
United States	0	0	10	3	8	4.8	4.9
Malaysia	0	0	10	3	74	5.8	3.3
Canada	11	0	0	4	28	5.5	7.8
Marshall Islands	22	0	0	7	0	-	-
Micronesia, Fed. Sts	22	0	0	7	0	-	-
New Zealand	11	0	10	7	0	5.3	6
Tonga	0	20	0	7	0	-	-
Uganda	0	20	0	7	12	-	10
Barbados	11	60	50	40	7.5		
Angola	44	80	100	75	116	-	-
Burkina Faso	100	100	70	90	80	7.7	-
Central African Republic	89	80	60	76	37	5.6	-
Chad	100	80	60	80	47	9.6	-
Congo, Dem. Rep.	72	100	60	77	62	-	-
Congo, Rep.	89	80	90	86	42	9.9	-
Niger	100	100	70	90	76	4.8	-
Rwanda	89	80	60	76	54	9.2	-
Sierra Leone	78	80	70	76	188	-	-

Sources: Survey (2005), World Bank (2004)

Another notable feature of Table 3 is the high proportion of Small Island Developing States (SIDS) among the front-runners. The following table therefore shows a comparison of Barbados's scores against all of the SIDS that were captured in the World Bank Study.

Table 4: Labour Market Flexibility in SIDS

Region or Economy	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Firing Costs (weeks)
Palau	0	0	0	0	0
Marshall Islands	22	0	0	7	0
Micronesia, Fed. Sts	22	0	0	7	0
Tonga	0	20	0	7	0
Jamaica	11	20	0	10	12
Samoa	11	20	0	10	42
Kiribati	0	0	50	17	46
Papua New Guinea	11	20	20	17	38
Fiji	22	40	0	21	28
Puerto Rico	22	20	20	21	0
Solomon Islands	22	20	20	21	52
Vanuatu	22	40	0	21	55
Haiti	11	40	20	24	26
Dominican Republic	11	80	30	40	70
Barbados	11	60	50	40	7.5

Sources: Survey (2005), World Bank (2004)

Again, Barbados' relative inflexibility in every area except firing costs is underlined. Indeed, with the exception of the Dominican Republic, all of the SIDS – particularly those located in East Asia and the Pacific – outperformed Barbados by a significant margin.

Of particular interest is the comparison between the Barbadian, Jamaican and Haitian scores, given that the three countries are members of CARICOM and are soon to become part of the CARICOM Single Market and Economy, of which free movement of labour (and perhaps eventually full labour market integration) will be a feature. Furthermore, potential investors into the region will be comparing the relative flexibility of the various labour markets in order to make decisions as to location. Here, the extreme rigidity of working hours in Barbados (60 to Haiti's 40 and Jamaica's 20) and the relative difficulty of firing (50 to Haiti's 20 and Jamaica's 0) place Barbados at a distinct disadvantage. Overall, Haiti and Jamaica recorded rigidity of employment scores of 26 and 12, respectively, well beneath Barbados' 40. On a positive note for Barbados, however, both Haiti and Jamaica have much higher firing costs, at 26 and 12 weeks, respectively.

Also of interest is the comparison of Barbados with the Dominican Republic and Puerto Rico – both Caribbean neighbours – which may be seen as competing for the same investment flows in some respects, for example in the tourism sector. While Barbados and the Dominican Republic have equivalent scores in terms of difficulty of hiring, the Dominican Republic has a much lower difficulty of firing score, whereas Barbados has less rigid working hours. Puerto Rico outperforms Barbados in all areas except the difficulty of hiring index, where Barbados’ score was 11, as compared to 22 for Puerto Rico.

In a more recent World Bank (2005) study, selected labour market flexibility indicators were calculated for a wider selection of CARICOM countries, excluding Barbados. Comparing the results on Barbados with these countries (see table 5 below), we find that Barbados’ employment rigidity score is higher than all of its CARICOM counterparts covered in the survey.

Table 5: Labour Market Flexibility in Selected CARICOM countries

Region or Economy	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index
Dominica	0	60	37
Grenada	0	60	20
Haiti	40	20	24
Jamaica	20	0	10
St. Kitts and Nevis	0	20	7
St. Lucia	20	30	39
St. Vincent & the Grenadines	0	30	10
Barbados	60	50	40

Sources: World Bank (2005)

Similarly, Barbados is found to have greater rigidity in working hours, with a score of 60 compared to an average score of 26 for the group of countries. Dominica and Grenada are the only countries to score above Barbados in any of the three categories, notably the difficulty of firing index.

Overall, our results are broadly consistent with the findings of previous research on labour market flexibility in Barbados and the Caribbean. Barbados was covered in a study by Marquez and Pages (1998), in which they calculated an employment protection index for Latin America

and the Caribbean. While, the methodology⁴ employed was different and the approach was ordinal, the results showed that Barbados had a relatively low level of job protection when compared to most of the Latin American countries. Furthermore, Barbados ranked above Jamaica as it related to the level of job protection, which is similar to our findings (see Marquez and Pages, 1998).

V. CONCLUSIONS

In summary, it is evident from our earlier review of the literature that there are drawbacks to excessive labour market regulation. The literature points to limited benefits and added costs, with more protective employment laws leading to higher unemployment. With regulation cited among the top concerns of investors, developing countries like Barbados can ill-afford to be disadvantaged by an overly regulated labour market in the race to global competitiveness. This study shows that for Barbados there are areas where some inflexibility exists vis-à-vis the rest of the world. Barbados’ relative inflexibility in every area except firing costs is underlined.

Indeed, among its CARICOM counterparts covered in the study, Jamaica and Haiti, Barbados is found to have more extreme rigidity of working hours and relative difficulty of firing, which place Barbados at a distinct disadvantage. This is not to suggest that an unregulated labour market is desirable, as there are social repercussions of such a position. However, a balancing of incentives is needed with a view to creating an enabling environment for business activity while protecting and safeguarding employee rights. In this regard, Barbados needs to consider the benefits of greater transparency in the regulatory environment that could arise from a comprehensive approach to labour market regulation. Barbados is one of the few remaining countries in the Commonwealth Caribbean that have not enacted a comprehensive body of legislation. Harmonisation in the context of Caribbean integration and the push by employers in

⁴ Marquez and Pages (1998) ranked the following components of dependent work regulation: (1) length of probation periods; (2) advance notice periods; (3) the actual cost of dismissing a worker; (4) whether dismissals related to firms’ difficulties are likely to be deemed as just or unjust cause for dismissal; and (5) whether reinstating the worker in its job is mandatory once a dismissal is deemed unjust. Simple average are taken across the first four elements.

Barbados for a clear regulatory environment, in preference to the uncertainties of collective bargaining outcomes, would indicate an urgent need for such legislation.

Based on the comparative analysis conducted in this study, the rigidity in hours worked and working conditions in Barbados need to be addressed. This position is substantiated in Downes' study (1999). Reducing severance payment, changing working conditions as outlined in the Shops Act, reducing NIS payments and the number of sick leave days and making the workweek more flexible were the recommendations made by the businesses surveyed in this study. Policymakers should consider these recommendations in the context of creating an environment to facilitate economic activity. Indeed, the recently drafted comprehensive employment rights bill suggests that they are cognisant of the need for reforms and less reliance on industry practice.

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