THE EFFECT OF EMPLOYMENT PROTECTION LEGISLATION ON UNEMPLOYMENT AND LABOR PRODUCTIVITY

Ali Kemal NURDOĞAN[1]
Murşit IŞIK[2]

Abstract

The labor protection policies that policy makers implement to regulate the labor market are critical to labor productivity and unemployment rates. The theory generally holds that employment protection raises the costs of layoffs for firms. Policy makers consider at the theory framework that it is possible to protect employment and reduce unemployment with Employment Protection Legislation (EPL). There is a large literature describing the effects of strict EPL on employment and unemployment rates across countries. However, it is difficult to be precise about the estimates of the effects of employment protection on youth unemployment and labour productivity. The aim of this article is to investigate whether EPL is an important determinant of labor productivity and unemployment rates (unemployment and youth unemployment) in OECD countries during the period 2004-2019 using panel data analysis.

The results show that EPL can reduce labor productivity by affecting employment decisions in the labor market.

Key words: Employment Protection Legislation, unemployment, youth unemployment, labour productivity

Introduction

The proper functioning of the labor market is of critical importance for economic growth and development. Unemployment rates and labor productivity indicators are among the basic indicators that determine the proper functioning of the labor market. These indicators are shaped not only by macroeconomic control but also by the impact of employment protection legislation. Employment protection legislation (EPL) is a set of legal and regulatory measures implemented to ensure job security for workers, ensure continuity of employment and reduce the negative effects of unemployment. It generally includes regulations protecting workers' rights, elements that provide economic security such as unemployment insurance and severance pay. These policies aim to improve workers' working conditions, increase job security and combat unemployment. The effects of labor protection policies on labor productivity and unemployment rates are frequently discussed through economic theory and empirical research. In the literature, it is explained that although labor protection measures provide job security for workers, they cause employers to be more cautious in hiring new employees and have difficulty in providing flexibility in employment. When discussing the relationship between flexibility and unemployment in the labor market, economic theory suggests that labor protection policies can reduce flexibility. This situation leads to a decrease in labor demand, especially in inflexible labor

[1] Assoc Prof.Dr. , Süleyman Demirel University, Department of Labor Economics and Industrial Relations, E-mail:alinurdogan@sdu.edu.tr, Orcıd ID: 0000-0001-9411-4313, Gsm: 0 542 261 60 56
[2] Assoc.Prof.Dr., Süleyman Demirel University, Department of Labor Economics and Industrial Relations, E-Mail:mursitisik@sdu.edu.tr, Orcıd ID: 0000-0001-9855-6290, Gsm: 0 533 221 57 01

markets, and in economies where temporary and part-time jobs are common, it means that it can limit the potential for employment creation (Baek and Park, 2017). On the other hand, some economic models argue that strong labor protection policies can reduce economic imbalances, and job security and stable employment will increase labor productivity. Within this framework, labor protection policies will affect employees to feel more secure and therefore work more efficiently. Therefore, it can improve their performance at work by increasing the psychological and physical well-being of workers. In addition, strong job security measures and job security allow workers to make long-term career plans, which can result in higher motivation and better job performance. However, high labor protection costs for employers can prevent employment growth, especially in low-productivity sectors and small-scale enterprises. It is seen that the labor protection policies implemented by policy makers to regulate the labor market are of critical importance in terms of labor productivity and unemployment rates. The theory generally agrees that employment protection increases the costs of dismissal by firms. Policy makers consider that, based on the theory framework, employment protection and unemployment reduction would be possible with the Strict EPL. Although there is a large literature explaining the effect of strict EPL on employment and unemployment rates in the labor market across countries, it is seen that the effect of EPL on labor mobility has not been given sufficient attention. Therefore, estimates of how employment protection affects youth unemployment and labor productivity are uncertain. However, understanding how strict EPL affects youth unemployment and labor productivity due to labor mobility and evaluating its consequences on economic performance is a fundamental problem area for policy makers.

This article aims to comprehensively address the effects of labor protection policies on labor productivity and unemployment rates.

The aim of this article is to investigate whether EPL is an important determinant of labor productivity and unemployment rates (unemployment and youth unemployment) in OECD countries during the period 2004-2019 using panel data analysis. For this purpose, variables affecting unemployment and labor productivity are included in the model created.

In this context, in the first section of the article, we present a brief literature review on the impact of EPL on unemployment rates and labor productivity. In the second section, we present the Econometric Methodology of our empirical research. In the third section, we present the data and model specification of the variables used in our estimations. In the fourth section, we present the results of the estimations of the impact of EPL on unemployment rates and labor productivity. The last section summarizes and concludes.

As a result, we show that employment protection laws can reduce labor productivity by affecting employment decisions in the labor market. According to our results, EPL reduces unemployment rates while increasing youth unemployment and reducing labor productivity. Understanding these effects will help policy makers develop more effective employment strategies.

1. Literature Review and Theoretical Framework

In the vast empirical literature explaining the causes of unemployment growth, the effect of EPL on unemployment growth is an important research question.

Employment protection legislation includes legal provisions related to employment security, such as severance pay or notice pay, which restrict employers' ability to dismiss workers. It has been aimed to provide workers with a certain level of protection and security in their jobs by setting out the rules that employers must follow when hiring and firing workers. For employees, it reduces the risk of dismissal without sufficient notice and provides severance pay in the event of dismissal. This imposes significant dismissal costs on employers. Its main function is to stabilize workers and employment relationships and to secure jobs (Long & Siebert, 1983; Pissarides, 1999; OECD, 2004). It is considered an important labor market institution, especially in achieving the goals of increasing employment of vulnerable groups and reducing unemployment. However, the impact of EPL on the labor market (productivity, economic growth and employment) is a controversial issue (Betcherman, 2012).

For New Keynesian economists, the rigidities created by labor market institutions in terms of hiring and firing are the main determinant of high and persistent unemployment (Teague, 1994). This is explained by the fact that layoffs will become costly due to employment protection legislation and layoffs will decrease, making firms more cautious about hiring and thus reducing the transition of the unemployed into employment (Hamermesh 1986; Emerson, 1988). In order to reduce the duration of unemployment as well as to encourage youth and women to enter the labour market, reducing employment protection has been put forward as a solution. However, Stirati (2008) argues that reducing employment protection will not be effective in solving the problem of high unemployment, especially among youth and women. Piasna & Myant (2017) argue that reducing employment protection will make it easier and cheaper to dismiss permanent workers and facilitate the use of fixed-term contracts and temporary workers.

Although there is a general view in the literature that strict EPL is a cause of unemployment (Emerson, 1988; Lazear, 1990; Hopenhayn & Rogerson, 1993; Nickell, 1997; Elmeskov et al., 1998; Nickell & Layard, 1998; Blanchard & Wolfers, 2000; Botero et al., 2004; Feldmann, 2009; Holt & Hendrickson, 2017), recent research has found that strong employment protection does not adversely affect employment levels or unemployment rates. (Barro, 1988; Flaschel et al., 2012; Avdagic & Salardi, 2013; Heyes & Lewis, 2015; Myant & Brandhuber, 2016; Bertola, 2017; Heimberger, 2021; Adams et al., 2019; Ferreiro & Gomez, 2020). In addition to these two opposing views, another view is that strict EPL, on the one hand, reduces hiring and limits labor turnover, and on the other hand, prolongs existing employment relationships by reducing dismissal rates (Bertola, 2004; OECD, 2004; Baccaro & Rei, 2007; Kugler & Pica, 2008; Marinescu, 2009; Stockhammer & Klär, 2011; Avdagic, 2015; Ferreiro & Gomez, 2022). For this reason, it is difficult to say that there is a general theoretical and empirical relationship between EPL and total unemployment (Bertola, 1990; Addison & Texeira, 2003; Baccaro & Rei, 2007; Kahn, 2012; Boeri et al., 2015; Heyes & Lewis, 2015; Gal & Theising, 2015; Boeri & Jimeno, 2016; Bertola, 2017; Heimberger, 2021; OECD, 2017; Duval & Furceri, 2018; Arestis et al., 2020).

In addition to the studies discussing the effects of EPL on total employment or unemployment, the determining factor that emerges in the literature is the comparison between youth and adults regarding unemployment. Scarpetta (1996) explains that

employers' reluctance to hire new employees due to the strict EPL, which increases the dismissal costs, has a negative effect on the transition process of young people from education to employment. In this context, it can be said that there is a consensus that the strict EPL increases youth unemployment in absolute terms and compared to adults (Addison and Teixeira, 2003; Breen, 2005; Kahn, 2012). According to Russell and O'Connell (2001), job opportunities for young unemployed people are generally worse in countries with strict EPL.

Employment protection policies, which aim to protect employment in the labor market and ensure the economic security of workers, have a significant impact on employment and unemployment rates as well as labor productivity. However, the effects of these policies on labor productivity are complex and multifaceted.

While a body of literature agrees that EPL increases worker loafing and reduces productivity (Engellandt & Riphahn 2005; Olsson, 2009; Scoppa, 2010), general equilibrium models of the labor market conclude that protectionist legislation negatively affects job flows (Garibaldi 1998; Mortensen & Pissarides, 1999). Excessive protection prevents the creation of new jobs, the substitution of workers, and the reallocation of workers among firms (Blanchard and Portugal 2001; Autor et al., 2007; Tilli & Rollin, 2017), that is, low worker turnover rates negatively affect the efficient matching of the right workers to the right jobs in the labor market (Rogerson, 1987; OECD, 2004; Cazes, 2013; Noelke, 2016). This situation will reduce productivity growth by disrupting the efficient allocation of resources (Hopenhayn & Rogerson 1993). Saint-Paul (2002) shows that a high level of EPL that reduces the room for maneuver for firms can reduce their inclination to innovate. Akay (2024) evaluates the issue in terms of the difficulties experienced by young people in transitioning from education to employment and gender discrimination, and states that labor productivity is negatively affected.

While increased layoff costs under strict EPL may have a negative impact on productivity because they affect hiring decisions and firms cannot freely adjust their workforce to demand (Hopenhayn & Rogerson, 1993; Lazear, 1990; Mortensen & Pissarides, 1994), higher layoff costs may also create incentives for firms to increase their investments in R&D and human capital (Koeniger, 2005; Nickell & Layard, 1998). As a result, against the view that strict employment protection has a significant negative effect on labor market flows and hinders productivity growth, it is explained that it is possible to increase productivity by keeping the workforce stable (Levine & Tyson, 1990; Nickell & Layard, 1998) and encouraging investment in firm-specific human capital (Soskice 1997; Pierre & Scarpetta, 2004) with employment protection. Giotis (2024) also argues that labor protection policies can increase employees' motivation and thus their productivity by increasing their job security. Forges Davanzati and Realfonzo (2004) evaluate the problem from a different perspective and show that the reduction of employment protection has a dual effect of reducing the consumption tendency of workers and increasing their productivity due to the disciplinary effect, which means working harder to avoid being fired. The contraction in production together with the decrease in consumption causes firms to employ fewer workers. On the other hand, the increased productivity of the workforce due to the disciplinary effect will further reduce the labor demands of firms. Pacella (2009) also explains with a similar idea that as a result of the reduction of employment protection,

workers will increase their productivity in order to reduce the risk of losing their jobs. In short, the reduction of employment protection encourages workers to increase their productivity.

2. Econometrical Methodology

Panel data analysis was used in the study because it allows examining the dynamic structure of short time series data. If it is assumed that ε_i and explanatory variables are related, the fixed effects model is appropriate; otherwise, the random effects model is appropriate (Gujarati, 1999). We used the Hausman test to determine which model would be appropriate (Greene, 1993; Hill et al. 2012).

For the Hausman test comparing the coefficient estimates obtained from the random effects model with those obtained from the fixed effects model, the H_0 hypothesis was formulated as: There is no correlation between the country-specific unit effects and the explanatory variables.

It was accepted that REM would be appropriate in the assumption that □i and explanatory variables are not correlated, and FEM would be appropriate in the assumption that they are correlated (Gujarati, 2011).

The fact that the results obtained with the fixed effects model can be unbiased and effective is based on the assumption that there will be no cross-sectional dependency, autocorrelation and heteroscedasticity problems. Making predictions by ignoring these problems hinders efficiency as it will cause standard errors to be deviated. Thus, t statistics and confidence intervals also lose their validity. When these assumptions are valid, the results are unbiased and effective.

According to the results we obtained, we created the model with the FGLS estimator, which eliminates the existing problems of Heteroskedasticity, cross-sectional and serial correlations.

3. Data and Models Specification

3.1. Data

The data set is a balanced panel of selected 22 OECD countries over the annual period 2004–2019. The selected countries included in the sample are Austria, Belgium, Canada, Czechia, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Mexico, Netherlands, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden and United States.

We constructed three models to measure the impact of employment protection legislation on youth unemployment (15 to 24 years old), unemployment (15 to 64 years old) and labour productivity. In the first model, youth unemployment (YUR), in the second model, unemployment (UR) and in the third model, labour productivity (LP) were included as dependent variables. In all models, the Stringency of Employment Protection (SOEP) was added as an explanatory variable. Research and Development Expenditure (R&D), Average Annual Wages (AAW), Consumer Price Index (CPI) and Labour Market Policies (LMP) were included as control variables in all three models. Information about the variables used in the research model is presented in Table 1.

Table 1. The Data Set

Variable	Source
the dependent variable	

			Expected Effect		
			YUR	UR	LP
YUR	Youth Unemployment Rate	https://data-explorer.oecd			
UR	Unemployment Rate	https://data-explorer.oecd			
LP	GDP Per Hour Worked	https://data-explorer.oecd			
	independent variables				
S0EP	Strictness of Employment Protection- Individual and collective dismissals	https://databank.worldbank.org	-	+	-
	control variables				
R&D	Research And Development Expenditure (% of GDP)	https://databank.worldbank.org	+	+	+
AAW	Average Annual Wages	https://data-explorer.oecd	-	-	+
CPİ	Consumer Price Index	https://data-explorer.oecd	-	-	-
LMP	Labour Market Policies	https://data-explorer.oecd.org	+	+	+

Table.2. Descriptive Statistics

Variables	Observation	Mean	Std.Dev.	Minimum	Maximum
YUR	352	18.77571	10.38327	3.658333	59.36666
UR	352	8.166946	4.504813	2.016667	27.825
LP	352	96.51126	7.365741	66.25029	119.7036
S0EP	352	2.195256	.8720082	.09	4.42
R&D	352	1.877719	.9065188	.28394	3.73402
AAW	352	50921.92	16261.22	18980.47	76177.35
CPİ	352	1.827081	1.534292	-4.45	7.958745
LMP	352	1.562926	.998067	.002	4.2

3.2. Model Specification

The basic model used in multivariate econometric analyzes was created as follows.

$$LP_{i.\ t} = \alpha_{it} + \beta_{it}\, SOEP_{it} + \beta_{it}\, R\&D_{it} + \beta_{it} AAW_{it} + \beta_{it}\, CPI_{it} + \beta_{it}\, LMP_{it} + \varepsilon_{it} \quad (1)$$

$$YUR_{it} = \alpha_{it} + \beta_{it}\, SOEP_{it} + \beta_{it}\, R\&D_{it} + \beta_{it} AAW_{it} + \beta_{it}\, CPI_{it} + \beta_{it}\, LMP_{it} + \varepsilon_{it} \quad (2)$$

$$UR_{i.\ t} = \alpha_{it} + \beta_{it}\, SOEP_{it} + \beta_{it}\, R\&D_{it} + \beta_{it} AAW_{it} + \beta_{it}\, CPI_{it} + \beta_{it}\, LMP_{it} + \varepsilon_{it} \quad (3)$$

In the models, α is the constant parameter, β is the slope parameters and εit indicates the time.

4. Empirical study:

4.1. Model.1 (Effects of Strictness of Employment Protection on Youth Unemployment Rate)

First of all, according to the F test results performed to test the validity of the classical model, the H_0 hypothesis that unit effects are equal to zero is rejected and it is understood that there are unit effects. Therefore, we concluded that the classical model is not suitable. The results are given in Table-3 below:

Table-3. Preliminary Test Results for Panel Model Determination

		F test	one-way unit effects likelihood ratio	one-way time effects likelihood ratio	two-way effects likelihood ratio
Model 1	F_f	27.895			
	chi2_c		202.2602	66.47203	212.0842
	p_c		0,000	0,000	0,000

Model 2	F_f	32.626			
	chi2_c		288.276	6.468546	336.1853
	p_c		0,000	0,000	0,000
Model 3	F_f	22.788			
	chi2_c		216.8852	3.9884	237.7923
	p_c		0,000	0,023	0,000

In order to test the validity of the two-way model including unit and time effects, the LR test conducted on the maximum probability was examined. According to the test result, *f* hypothesis is rejected, there are unit and time effects. Although the test result showed that the two-way model is valid, unit and time effects were tested separately. According to the LR test result established as the standard error of unit effects equals zero, $p<0.05$ H_o is rejected, there is a unit effect. According to the LR test result established as the standard error of time effect equals zero, $p<0.05$ H_o is rejected, there is a time effect. Therefore, the two-way model with unit and time effects is valid for all three models.

After understanding the existence of unit and time effects, Hausman test was performed to decide whether it is fixed or random. Hausman test results are given in Table-4 below:

Table-4. Hausman (1978) Specification Test

	Model 1	**Model 2**	**Model 3**
	Coef.	Coef.	Coef.
Chi-square test value	222.17	14.44	10.16
P-value	.0000	.0060	.0379

According to the results obtained, the H_0 hypothesis established as "The difference between the parameters is not systematic" is rejected for all three models. Thus, it was decided that the random effects estimator was inconsistent, and the fixed effects estimator was valid ($p<.05$).

After deciding on the model to be used, regression diagnostic tests were performed to evaluate the validity for all three models. First, to test the heteroskedasticity with respect to units, we applied the Wald test, which is based on the idea that the variance of the error term can be estimated by the variance of the residuals within each group. The modified Wald test results are given in Table 5 below:

Table-5. Modified Wald Test for Groupwise Heteroskedasticity In Fixed Effect Regression Model

Model-1	**Model-2**	**Model-3**
H0: sigma(i)^2 = sigma^2 for all	H0: sigma(i)^2 = sigma^2 for all	H0: sigma(i)^2 = sigma^2 for all
chi2 (9) = 1993.58	chi2 (9) = 18792.75	chi2 (22) = 45317.61
Prob>chi2 = 0.0000	Prob>chi2 = 0.0000	Prob>chi2 = 0.0000

According to the results, the H_0 hypothesis "Variances with respect to units are homoskedastic" was rejected ($p<.05$). It was understood that the variance varied with respect to units, and it was concluded that there was a variance that varied with respect to units for all three models.

After determining the existence of heteroscedasticity between units, the next step is whether there is autocorrelation between units, and this was tested with Durbin-Watson and Baltagi-Wu tests. As a result of the test, the Durbin-Watson test value and the Baltagi-Wu test value were lower than the 2 threshold value. Therefore, it was concluded that the autocorrelation in all three models is serious. The results are given in Table-6 below:

Table-6. Modified Durbin-Watson and Baltagi-Wu Test Results

Model-1	F test that all u_i=0: F(21,303) = 3.07	**Prob>F=0.0000**
	Modified Bhargava et al. Durbin-Watson =.31748223	

	Baltagi-Wu LBI	=.56357798	
Model-2	F test that all u_i=0: F(21,303) = 3.91		**Prob>F=0.0000**
	Modified Bhargava et al. Durbin-Watson	=.30868217	
	Baltagi-Wu LBI	=.54549155	
Model-3	F test that all u_i=0: F(21,303) = 3.07		**Prob>F=0.0000**
	Modified Bhargava et al. Durbin-Watson	=.28597375	
	Baltagi-Wu LBI	=.54217292	

The existence of inter-unit correlation in the fixed effects model was tested with the Pesaran test. According to the results obtained, the H_0 hypothesis indicating a lack of correlation between units is rejected (Model 1: Pesaran's test of cross sectional independence = 3.387, Pr = 0.0007; p <.05; Model 2: Pesaran's test of cross sectional independence = 9.641, Pr = 0.0000; p <.05; Model 3: Pesaran's test of cross-sectional independence =1130.792 Pr = 0.0000; p <.05) and it is concluded that there is a correlation between units.

The diagnostics tests show that the panel has autocorrelation, heteroscedasticity and correlation between units. Therefore, the Flexible Generalized Least Squares (FGLS) model was chosen as the estimator. The results for Model 1 are given in Table-7, for Model 2 in Table 8 and for Model 3 in Table 9 below:

Table-7. Cross-Sectional Time-Series FGLS Regression for Model.1 (Effects of Strictness of Employment Protection on GDP Per Hour Worked)

LP	**Coef.**	**St. Err.**	**t-value**	**p-value**	**[95% Conf**	**Interval]**	**Sig**
S0EP	-.8272	.0854	-9.68	.000	-.9946	-.6597	***
R&D	1.4885	.1700	8.75	.000	1.155	1.821	***
AAW	.0000	.0000	6.20	.000	.0000	.0001	***
CPİ	.05223	.0237	2.20	.002	.0056	.0988	***
LMP	-3.0126	.1287	-23.39	.000	-3.265	-2.760	***
Constant	97.5053	.9580	101.77	.000	95.6276	99.383	***
Number of obs	352	**Wald chi2**	685.46		**Prob>chi2**	0.0000	

According to the results, all parameters were significant and standard errors were low.
SOEP increases by 1%, LP decreases by 0.82%,
R&D increases by 1%, LP increases by 1.48%
AAW increases by 1 LP decreases by 0.00%
CPİ increases by 1%, LP increases by 0.05%
LMP increases by 1%, LP decreases by -3.01%

The equation resulting from the model is given below:

$$LP_{it=} 97.50\,53 - 0.8272\,SOEP_{it} + 1.4885\,R\&D_{it} + 0.0000\,AAW_{it} + 0.5223\,CPİ_{it} - 3.0126\,LMP_{it} + \varepsilon_{it}$$

Table-8. Cross-Sectional Time-Series FGLS Regression for Model 2 (Effects of Strictness of Employment Protection on Young Unemployment Rate)

YUR	**Coef.**	**St.Err.**	**z-value**	**p-value**	**[95% Conf**	**Interval]**	**Sig**
S0EP	2.4170	.2979	8.11	.000	1.833	3.000	***
R&D	-1.8251	.2689	-6.80	.000	-2.351	-1.298	***
AAW	-.0001	.0000	-8.36	.000	-.0002	-.0001	***
CPİ	-.5283	.02989	-17.68	.000	-.5869	-.4697	***
LMP	2.7232	.13071	20.83	.000	2.4670	2.979	***

Constant	19.83	1.501	13.21	.000	16.89	22.77	***

Number of obs	352	**Wald chi2**	1064.19	**Prob>chi2**	0.0000

According to the results, all parameters were significant and standard errors were low.
SOEP increases by 1%, YUR increases by 2.41%
R&D increases by 1%, YUR decreases by 1.82%
AAW increases by 1 YUR decreases by 0.001%
CPİ increases by 1%, YUR decreases by 0.52%
LMP increases by 1%, YUR increases by -3.01%

The equation resulting from the model is given below:

$$YUR_{it=} 19.83 - 2.4170\, SOEP_{it} - 1.8251\, R\&D_{it} - 0.0001\, AAW_{it} - 0.5283\, CPİ_{it} + 2.7232\, LMP_{it} + \varepsilon_{it}$$

Table-9. Cross-Sectional Time-Series FGLS Regression for Model 3 (Effects of Strictness of Employment Protection on Unemployment Rate)

UR	**Coef.**	**St.Err.**	**z-value**	**p-value**	**[95% Conf**	**Interval]**	**Sig**
S0EP	-1.1418	.0933	-12.23	.000	-1.3248	-.9589	***
R&D	-.9870	.0668	-14.75	.000	-1.1181	-.8559	***
AAW	-.0000	6.9999	-5.25	.000	.0005	.0000	***
CPİ	-.0808	.0125	-6.46	.000	-.1053	.0563	***
LMP	2.4211	.0560	43.21	.000	2.3112	2.530	***
Constant	8.6438	.4650	18.59	.000	7.7322	9.555	***

Number of obs	352	**Wald chi2**	2779.52	**Prob>chi2**	0.0000

According to the results, all parameters were significant and standard errors were low.
SOEP increases by 1%, UR decreases by 1.14%
R&D increases by 1%, UR decreases by .98%
AAW increases by 1 UR decreases by 0.00%
CPİ increases by 1%, UR decreases by 0.08%
LMP increases by 1%, UR increases by 2.42%

The equation resulting from the model is given below:

$$UR_{it=} 8.6438 - 1.1418\, SOEP_{it} - 0.9870\, R\&D_{it} - 0.0000\, AAW_{it} - 0.0808\, CPİ_{it} + 2.4211\, LMP_{it} + \varepsilon_{it}$$

Discussion

The findings of the study support the results of studies that employers' reluctance to hire new employees due to the strict EPL that increases the dismissal costs increases youth unemployment in absolute terms and compared to adults (Addison and Teixeira, 2003; Autor et al., 2006; Breen, 2005; Botero et al., 2004; Kahn, 2012) and that this situation will reduce labor productivity by disrupting the efficient allocation of resources (Hopenhayn and Rogerson 1993; Saint-Paul, 2002; Akay 2024).

High youth unemployment rates in an economy not only affect the individual development of young people, but also negatively affect labor productivity, creating pressure on economic growth. Young people enter the workforce with the capacity to adapt to innovative approaches and technologies that can make the workforce more productive. However, high youth unemployment rates prevent the growth of innovative labor. The failure of the young workforce to engage leads to a decrease in innovative solutions and

efficient production methods. It leads to a shortage of specialized labor, especially in emerging sectors such as technology, digital services and green energy.
When young people enter the workforce, they usually have limited experience and skills. When young people are unemployed for a long time, their opportunities to develop their skills and abilities are reduced. In addition, the later they enter the labor market, the longer they remain out of the labor market. This also prevents their career development and skill acquisition, thus negatively affecting labor productivity.
Increasing unemployment among young people can also have serious psychological and motivational consequences for young people. Young people may experience loss of morale, insecurity and disappointment when they cannot find a job. These psychological effects manifest themselves as low job satisfaction and poor motivation when they enter the labor force, negatively affecting labor productivity.

In summary, youth unemployment negatively affects labor productivity in more than one way. Both deficiencies in individual skill development and general imbalances in the economic system and low motivation can lead to a decrease in labor productivity. In order to prevent these effects, it is important to develop policies to increase the participation of young people in the labor force and to provide training programs to ensure skill compatibility.

Conclusion

The flexibility and adaptability of the labor market, where economic crises, technological changes, globalization and demographic changes lead to structural changes, are critical for ensuring economic stability and sustainable development.. In this context, the role of employment protection legislation regulating job security and employment policies is noteworthy.
In this study, the effects of employment protection legislation on the labor market were discussed and the dynamics of the labor market were examined, especially in terms of unemployment and labor productivity. The findings of the study reveal that strict employment protection legislation affects unemployment and labor productivity in the labor market. It is seen that it affects unemployment positively in general, while it causes an increase in youth unemployment and decreases labor productivity.
Policy makers expect employment protection policies to contribute positively to the functioning of the labor market. When the existing literature is examined, it is difficult to say that there is a full consensus on the effects of strict employment protection policies, especially on unemployment and labor productivity. The results of our research are consistent with the results of studies explaining that strict employment policies have positive effects on unemployment and negatively affect labor productivity. What makes our study different from previous studies and contributes to the literature is that it reveals that strict employment policies have positive effects on the general unemployment rate, while they have negative effects on youth unemployment rates.
The sample used in this study was determined from among OECD countries in order to overcome differences in data collection standards between countries. However, the availability of data limited our research to the years 2004–2019 for 22 OECD countries. Since our study is based on a specific time period and is limited to OECD countries only,

the generalizability of the findings to other countries or regional levels may be limited. These limitations should be taken into account in order to correctly interpret the findings of the study.

As a result, the EPL implemented to create a more dynamic labor market by providing labor flexibility and job security should be reviewed. The EPL, designed for the healthy functioning of the labor market, should be designed to facilitate the entry of groups with employment difficulties into the labor market and to take into account labor productivity. In this context, in order to create permanent and healthy transformations in the labor market, it is important to align education systems with labor demands and to strengthen digital skills acquisition policies for young people with employment difficulties.

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