

Chapter 1

Introduction



The original purpose of most labor market policies, e.g., labor standards law, minimum wages, unemployment insurance, or work hour restrictions, is to enhance social welfare of a specific group of individuals and sustain a fair social relationship. However, the labor market may be distorted by the introduction of these public policies. The introduction of public policies may create disincentives for labor supply or labor demand (in terms of work hours and employment). Yet, the negative effects of these policies may not be obvious when these public policies were designed and implemented. To evaluate the effects of labor market policies, rigorous economic analysis is required.

In this thesis, we examine the labor market effects of two public policies. In Chapter 2, we investigate the effects of national health insurance (NHI) on the labor market in Taiwan. While NHI is broadly implemented in many developed countries and some newly-industrialized countries, its effects on the labor market are seldom investigated in the literature. One exception is Gruber and Hanrraty's (1995) study. They examine the case of Canada, where NHI was introduced in 1962. Because the NHI premiums in Canada are analogous to lump sum taxes, the implementation of the Canadian NHI did not have any impact on worker hours, wage rate, and employment. Taiwan's NHI program is quite different from the Canadian one. The premiums of Taiwan's NHI, which are proportional to workers' wages, are like payroll taxes. In addition, the linkage between the premiums and medical benefits in Taiwan is weak. It is expected that the tax feature of the NHI premiums

in Taiwan creates disincentives to work and to employ. By studying the case of Taiwan, this thesis contributes to the literature by enhancing our understanding on the labor market effects of NHI.

To illustrate how NHI affects the labor market, we present a theoretical model of the labor market in order to motivate our empirical analysis. Our theoretical model predicts that the equilibrium hours will decrease with the introduction of NHI, while the NHI effect on the equilibrium wage rate is ambiguous. In our empirical analysis, we use the difference-in-difference (DD) method. In the empirical model, we allow a worker's sectoral choice to be endogenous, and our estimations are conducted via a two-stage procedure. We use survey data from the Manpower Utilization Survey (MUS) for the years 1992–1996. According to our empirical results, there was a significant reduction in the work hours after the introduction of NHI, especially for males; and we do not find any significant wage impact of NHI on the labor market. Our empirical results on the labor market effects of NHI are broadly consistent with our theoretical predictions.

In Chapter 3, we study the impact of employment protection legislation (EPL) on labor market turnovers. While EPL provides job security to employees, it imposes firing costs on employers. An increase in firing costs may discourage employers from terminating employment. In addition, it may discourage employers from hiring in order to avoid future firing costs. It may also discourage employees from quitting due to the decrease in new employment opportunities. This may negatively affect economic efficiency and productivity. However, in the literature, empirical studies assessing the effects of EPL on employment flows do not obtain unanimous results.

This can be attributed to their use of aggregate data for cross country comparison, which may be confounded by heterogeneity in the enforcement of EPL.

To illustrate how EPL affects labor market turnovers, we investigate the introduction of Labor Standards Law (LSL) in Taiwan. The LSL is the first comprehensive labor law in Taiwan. We employ monthly establishment-level data from the 1983–1995 Employment and Earnings Survey (EES) for our empirical analysis. We estimate the effects of Taiwan’s enactment of the LSL on the rates of worker flows, job reallocation, and churning flows by means of the difference-in-difference-in-difference model. The empirical results show that the introduction of LSL in Taiwan had significant negative effects on labor turnovers, and the negative impacts on the labor market turnovers increase with the strength of LSL enforcement and establishment size.

References

Gruber, Jonathan and Maria Hanratty (1995) “The Labor Market Effects of Introducing National Health Insurance: Evidence from Canada,” *Journal of Business and Economic Statistics*, 13(2), 163–173.