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## DETERMINANTS OF LABOUR MARKET INSTITUTIONS AND THEIR REFORMS FROM THE PERSPECTIVE OF ECONOMICS AND POLITICAL SCIENCE

### DETERMINANTY INSTYTUCJI RYNKU PRACY I ICH REFORM Z PERSPEKTYWY EKONOMII I POLITOLOGII

This presented study is an integrative review of 101 journal articles selected from the Web of Science Social Science Citation Index database in the field of economics and political science, focusing on the determinants of the heterogeneity of labour market institutions, both spatial and temporal. It aims to identify research gaps in the economics literature by comparing it with another social science discipline. The main limitation is found within the mainstream economics, which indicates that labour market institutions are an optimal response of a representative voter to market failures, or the preferred way (by that voter) to redistribute income. The analysis focuses on the spatial heterogeneity of institutions (between countries), with minimal consideration of their temporal evolution. In contrast, political science strongly focuses on selected cases of institutional change, incorporating the preferences and actions of not only voters but also of trade unions, employers' associations, and political parties. The study concludes that allowing the rational agent to have an impact on the institutional choice through both voting and interest groups would enable mainstream economists to better explain labour market reforms without compromising the discipline's defining features.

Keywords: labour market institutions; economic reforms; integrative literature review  
JEL: D78, J58, P11, P16

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Opracowanie jest integracyjnym przeglądem 101 artykułów wybranych z bazy Web of Science: Social Science Citation Index, z czasopism należących do dyscyplin ekonomia oraz nauki o polityce, które dotyczą przyczyn zróżnicowania instytucji rynku pracy zarówno w przestrzeni, jak i w czasie. Celem pracy była identyfikacja luk w literaturze ekonomicznej przez porównanie jej z literaturą należącą do innej dyscypliny nauk społecznych. Lukę taką znaleziono w ramach ekonomii głównego nurtu, która wskazuje, że instytucje rynku pracy są optymalną odpowiedzią reprezentatywnego wyborcy na zawodności rynku lub preferowanym (przez tego wyborcę) sposobem redystrybucji dochodów. Analiza ekonomiczna skupiona jest na zróżnicowaniu instytucji w przestrzeni (między krajami), ale prawie zupełnie pomija ewolucję instytucji w czasie. Natomiast nauki o polityce są mocno skupione na badaniu wybranych przypadków zmian instytucjonalnych, włączając do analizy nie tylko wyborców, ale przede wszystkim działania i preferencje związków

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zawodowych, organizacji pracodawców i partii politycznych. Na podstawie dokonanego przeglądu rekomenduje się, aby w ramach ekonomii głównego nurtu uwzględnić możliwość wpływania na wybór społeczny przez racjonalne podmioty nie tylko drogą głosowania, lecz także za pośrednictwem grup interesu. Pozwoliłoby to ekonomistom głównego nurtu lepiej wyjaśniać reformy rynku pracy bez konieczności zmiany stosowanego paradygmatu.

Słowa kluczowe: instytucje rynku pracy; reformy gospodarcze; integracyjny przegląd literatury  
JEL: D78, J58, P11, P16

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## I. INTRODUCTION

Labour market institutions are defined as a ‘system of laws, norms, or conventions resulting from a collective choice and providing constraints or incentives that alter individual choices over labour and pay’ (Boeri & Van Ours, 2021, p. 24). In practice, regulations concerning hiring and firing workers (i.e. employment protection legislation), rules concerning the minimum wage, the tax wedge, and passive or active labour market policies are commonly treated in economics as labour market institutions (Boeri & Van Ours, 2021; Nickell & Layard, 1999; Turrini et al., 2015). Throughout this study, labour market reforms are understood as changes in these formal institutions.

Even though the impact of these institutions on labour market outcomes is still being measured, it has been widely acknowledged since the late 1990s that labour market institutions are a key determinant of these outcomes (Boeri, 2010; Boeri & Van Ours, 2021; Pilc, 2017). It has also been established that they determine, among other factors, how quickly the economy can adjust to various shocks (Blanchard & Wolfers, 2000; Boeri & Jimeno, 2016; Duval & Furceri, 2018; Organisation for Economic Co-operation and Development [OECD], 2021). As a result, labour market institutions are one of the determinants of economic growth. Furthermore, these institutions have a decisive impact on the distribution of income from labour (Berg, 2015; Wiese et al., 2024). Consequently, they also determine the income inequality and the political situation (Marx, 2015; Rueda, 2008).

Labour market institutions are characterized by path dependence, and their radical reforms are rare (Pilc, 2017). However, smaller changes are implemented frequently. In fact, there were, on average, more than two reforms of labour market institutions per year per country among the EU-15 states (excluding Luxembourg) during the period 1980–2007 (Fondazione Rodolfo De Benedetti, 2010). During and just after the global financial crisis of 2008–2009, the intensity of reforms was even higher (Turrini et al., 2015). Interestingly, despite some convergence among European countries towards a more liberal labour market institutional framework (Boeri, 2010; Boeri & Van Ours, 2021), significant differences in labour market regulations persist across these countries (OECD, 2020).

Despite the importance of labour market institutions, relatively few studies in the economics literature have attempted to explain why these institutions exist, why countries regulate their labour markets differently, and what factors determine the timing, direction, and scope of labour market reforms. Mainstream economists started to explore these questions in the late 1980s, but these analyses never gained prominence in the discipline (Saint-Paul, 2000; Wright, 1986). This lack of interest contrasts sharply with the abundance of studies within economics that analyse the impact of labour market institutions and their reforms on labour market outcomes. It also contrasts with the political science literature, which has analysed the evolution of labour market policies and regulations and the causes of their heterogeneity among developed countries over the last 50 years (Myles & Quadagno, 2002).<sup>1</sup> The limited interest in the determinants of labour market institutions is surprising, given that economists have developed a well-suited tool for this analysis, namely the theory of public choice.

Thus, the aim of this study is to summarize the economics literature concerning the determinants of labour market institutions and their reforms, and compare it with the political science literature on the same topic. This comparison enables the identification of research gaps in the economics literature and suggests ways to fill these gaps by making comparisons with another social science discipline. Due to the limited number of publications on the topic in economics, this is probably the first study of this kind, making it a valuable contribution.

The study has been conducted as an integrative review and is based on the set of 101 journal articles selected from the Web of Science Social Science Citation Index database, encompassing the disciplines of economics and political science (as classified by this database). The review focuses on three crucial elements of the analysed studies: the main identified determinant of the institutional framework in a study, the primary actor determining the institutions, and the method employed in the study.

The results reveal a gap in the mainstream economics literature, namely the lack of a theoretical explanation of what determines the direction, scope, timing, and durability of labour market reforms. This limitation is not present in the political science literature and (paradoxically) does not seem to restrict purely empirical studies published in economics journals. Based on the comparison with political science, it is recommended to extend the theoretical analyses in mainstream economics by allowing the rational agents to determine public choice through interest groups. In such a setting, labour market reforms could be analysed as the outcome of shifts in the negotiated compromises among these groups, driven by changes in the available resources to them.

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<sup>1</sup> It does not mean that there is no communication between economists and political scientists. A recent example of a close cooperation is the Growth Models literature, where some political scientists and Post-Keynesian economists are able to speak the same language (Palley et al., 2023). Yet, such a cooperation is absent in the mainstream economics.

The article is organized as follows. The second section describes the process of searching and selecting articles from economic and political science journals. The third section summarizes the articles published in journals from the field of economics. The fourth presents an analogous summary for articles published in political science journals. The fifth section aims to integrate the approaches presented in these two disciplines. The closing section concludes.

## II. METHODOLOGICAL APPROACH

### 1. An integrative review

There is a growing awareness in economics that a literature review is a study in its own right, where published articles constitute a set of analysed objects. Theories, methods, data sources, and findings are characteristics of these objects that can be systematically analysed and synthesized to organize existing knowledge in a consistent and informative way. Such reviews can be divided into two broad categories, depending on the chosen method of synthesizing the gathered material (Thomas et al., 2012). An aggregative (adjudicate) review compares a large collection of similar studies (often empirical ones) to obtain a single, reliable result. In contrast, a configuration (redirect) review aims to create a new theory, explore the validity of a theory in particular circumstances, or compare the approaches applied in various strands of the literature. For this reason, configuration synthesis is often based on a list of heterogeneous studies that do not need to be numerous but should be representative of the classes to which they belong.

The presented study has been conducted as an integrative review and falls within the group of configuration studies. An integrative review summarizes a single research topic within different communities of practice (schools of thought) and then integrates it into a single, coherent framework (Cronin & George, 2020; Hopia et al. 2016; Whittemore & Knafl, 2005). Its aim is to broaden the researchers' perspective on a topic and redirect their interests to new areas or methods of research. An integrative review includes elements found in other types of reviews. It begins by gathering the review studies using a broad query (similar to a systematic review), then assigns the studies to communities of practice and synthesizes them within these communities of practice (akin to a narrative review) and finally adds its unique element: comparing these various approaches and integrating them.

Ideally (Cronin & George, 2020), an integrative review should find all the studies that were written on a topic (completeness) and, for each identified community of practice, select the most representative studies (balance). Achieving both these aims is difficult in practice. For many topics, completeness is hard to attain within the scope of a single review, while defining boundaries between particular communities of practice is often arbitrary. Selecting the most representative studies may also involve arbitrariness and be biased

by the lack of completeness. Finally, in any kind of review including studies of poor quality is generally unjustified, however assessing quality can be especially challenging in an integrative review because various communities of practice may define quality standards differently (Whittemore & Knafl, 2005). Thus, excluding studies of disputable quality may increase the reliability of the final conclusion but once more involves arbitrariness. With these caveats in mind, it was decided to select such criteria for the conducted query that maximize the replicability of the review and limit its subjectivity.

## 2. Selection criteria

The conducted review was limited to journal articles included in the Web of Science Social Science Citation Index database, which covers more than 3,500 journals with more than 10 million recorded publications (Clarivate, 2024). The query was designed to produce numerous results, but only studies cited at or above threshold levels, set differently for particular publication years, were included in the analysis. In line with the study's motivation, the query was restricted to journals classified to economics or political science in the Web of Science database. The Web of Science's classification has been also used to categorize articles analysed in the review. The query was limited to articles written in English and published before 29 February 2024. Without the citation threshold, the query would have produced 2,587 results. However, the applied thresholds reduced this number to 1,588 studies (more than 61%), which were processed in the subsequent analysis step. The text of the query, applied citation threshold levels, and the number of included publications are presented in Table 1.

The decision on how to formulate the query was not straightforward due to the ambiguity in economics regarding the operational definition of labour market institutions. In economics literature, the inclusion or exclusion of labour market characteristics in the set of analysed labour market institutions is often determined by prevailing conventions and data availability (Boeri & Van Ours, 2021; Turrini et al., 2015).<sup>2</sup> In contrast, the term 'labour market institutions' is not frequently used in political science: it appears in the text of five (out of 47) collected studies classified solely as political studies. Thus, following common convention in economics, the applied query includes employment protection legislation, the minimum wage, and instruments of labour market policy. Retirement regulations are also added, because the rules of early retirement programmes (part of passive labour market policy) and the employment protection of older workers are adjusted according to retirement regulations. Moreover, these regulations are often a salient topic for trade unions, whose demands concerning other labour market institutions may

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<sup>2</sup> Nickell and Layard (1999), in the *Handbook of Labor Economics*, in the chapter devoted to labour market institutions, even write that 'It is difficult to define precisely what we mean by labor market institutions, so we simply provide a list of those features of the labor market which we shall consider. The boundaries of this list are somewhat arbitrary' (p. 3037).

be adjusted to their expectations regarding retirement and pensions. Thus, it is expected that retirement regulations are determined similarly to other analysed institutions. The query also incorporates the tax wedge needed to finance labour market programmes and pensions. However, against the prevailing convention in economics (Boeri & Van Ours, 2021; Lehmann & Muravyev, 2012), wage bargaining coordination and trade unions density are excluded, as they are treated in the study as sources of political strength of interest groups that influence how the previously mentioned institutions are shaped. This also means that studies explaining changes in the union density rate or relative political power of trade unions and employers’ associations were excluded from the review.

**Table 1**

The text of the query and the number of identified publications

Query components						
Determinants	Labour market institutions	Web of Science Categories	Publication Date	<i>N</i>	Citation threshold	<i>n</i>
determinants OR 'political economy' OR 'political economics' OR explaining OR 'evolution of' OR reform	AND 'labour market institutions' OR 'labor market institutions' OR 'employment protection legislation' OR 'non-employment benefits' OR 'unemployment benefits' OR 'unemployment insurance' OR 'unemployment assistance' OR 'retirement' OR 'active labour market policy' OR 'active labor market policy' OR 'ALMP' OR 'minimum wage' OR 'tax wedge'	AND 'Economics' OR 'Political Science'	1 Jan 2022 – 29 Feb 2024	321	0	321
			1 Jan 2021 – 31 Dec 2021	176	1	147
			1 Jan 2019 – 31 Dec 2020	338	4	217
			1 Jan 2017 – 31 Dec 2018	259	7	153
			1 Jan 1900 – 31 Dec 2016	1,493	12	750
			Sum of studies	2,587		1,588

*Note.* *N* – the number of publications found by the query, *n* – the number of publications qualified for abstract reading based on the number of citations. The query was conducted in March 2024.

Source: the author’s elaboration based on the Web of Science Social Science Citation Index database (Clarivate, 2024).

### 3. Inclusion criteria

Despite focusing the query on the determinants of labour market institutions and their reforms, many of the found studies were not directly related to the analysed topic. Therefore, based on the titles and abstracts of the selected 1,588 studies, it was decided (by reading them) whether they meet the following inclusion criteria:

a) The scope of the study had to encompass at least one analysed labour market institution, namely: employment protection legislation, unemployment benefits, active labour market policy, minimum wage, tax wedge or retirement regulations.

b) The study had to focus on the determinants of labour market institutions or analyse the circumstances of introducing a reform of at least one of these institutions.

Reading the abstracts to apply the inclusion criteria reduced the number of analysed studies from 1,588 to just 121, which were then qualified for a full reading. Detailed reading further reduced this number by 23, as some studies did not sufficiently meet the inclusion criteria.<sup>3</sup> Moreover, to increase the representativeness of the economics subsample, three articles (Alesina et al., 2015; Turrini et al., 2015; Vindigni et al., 2015) published in economics journals, which either did not meet the citation criteria or were missed by the query, were added. As a result, the final sample consists of 101 articles: 32 belonging solely to economics journals, 47 articles solely from political science journals, and 22 articles published in journals covering both disciplines. The collected articles were published between 1976 and 2023 in 52 journals. The most represented journal in the sample is *The Socio-Economic Review* with 10 articles, followed by *The Comparative Political Studies* with 6 articles, *The European Journal of Political Economy*, *The Journal of Political Economy*, *Public Choice*, all with 5, and *The Journal of European Public Policy* together with *Politics & Society*, each contributed 4 articles.

All reviewed studies belonging solely to economics or political studies have been cited within the text. However, it was decided not to present in the manuscript studies classified by the Web of Science as belonging to both economics and political science, because they did not have an impact on the conclusions and due to the space limitations. Their list and descriptions are available upon request.

### 4. Limitations

The chosen method to conduct the query aimed to increase the methodological rigour of the review. Using an electronic database as a source of publications ensures replicability, while treating the level of citations as a measure of representativeness and using the Web of Science categories to assign

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<sup>3</sup> During the process of assessing the articles in light of the inclusion criteria, no automation tools have been used.

publications to disciplines reduces the reviewer's subjectivity in assessment. The effort to limit the impact of reviewer subjectivity on the results also determined the decision to refrain from assigning the collected studies to particular communities of practice within the analysed disciplines.

These choices mean that the conducted review focuses on mainstream publications in economics and political science, omitting many nuances within these disciplines. This issue is exacerbated by selecting the Web of Science database as the single source of reviewed studies, as it contains fewer articles than Scopus or Dimensions (Singh et al., 2021), and by using citations thresholds that excluded some potentially important studies. In particular, in the case of economics, the review almost exclusively discusses and compares the public choice approach (based on the neoclassical school of thought), while largely omitting other (heterodox) approaches that have more similarities to political science, especially in terms of the applied methods. Thus, the review exacerbates the differences between economics and political science. However, this exacerbation serves the paper's aim well, because the studies that are the most distant from mainstream economics and highly regarded (cited) are potentially the most impactful sources of recommendations for economics.

Another limitation is that the presented study was conducted by a single reviewer trained in the discipline of economics. This introduces the risk that the perspective of political science presented in the review is somewhat biased. For instance, some keywords characteristic of political science might not have been included in the query, or some crucial studies omitted by the query might not have been arbitrarily included.

### III. THE PERSPECTIVE OF ECONOMICS

The collected economics literature that models labour market institutions as an outcome of collective choice can be divided according to three methodological approaches. The first approach aims at theory building and is based on deduction formalized with a mathematical model. It is usually accompanied by some econometric illustration, often based on publicly available data. Among the 32 reviewed articles, 17 belong to that group. The second approach is empirical and focuses on econometric models based on data that are usually difficult to access. This is represented by 10 studies. Finally, 5 studies found by the query have used case studies.<sup>4</sup>

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<sup>4</sup> The study by Arpaia and Mourre (2009) is a literature review and is not included in any of the mentioned approaches. However, the study by Seltzer (1995) combines econometrics with elements of a case study. For this reason, it has been counted twice. That is why the sum of mentioned studies is equal to 32.



## 1. Deduction based on the median voter

The theoretical strand of economics literature frequently follows the logic of the median voter model. This approach models public choice using the concept of a fully informed,<sup>5</sup> infinitely long-lived agent (or agents)<sup>6</sup> who have a decisive impact on a collective decision through the voting process, usually restricted to a single-dimensional choice over a single institution (Cremer & Pestieau, 2000; Gabszewicz & van Ypersele, 1996; Hassler et al., 2005; Lacomba & Lagos, 2007; Saint-Paul, 1998). This allows researchers to focus on modelling the preferences of a single agent and to extrapolate these preferences to the whole society. Following this logic, it is shown (Saint-Paul, 1998) that a society represented by a median employee (assumed to be a low-skilled insider) will choose an active labour market policy that minimizes the pressure of outsiders on insiders' wages, the tax burden, and the risk of unemployment among insiders. These latter two factors are also shown to be important determinants of unemployment benefits (Di Tella & MacCulloch, 2002). Based on this approach, it is hypothesized (Gaston & Rajaguru, 2008) that older employees should benefit from active labour market policies less than younger ones, implying that preferences concerning labour market policy should also depend on the age of the median voter. The median voter approach is also used to analyse the pressure from international competition on labour market institutions. It is claimed that trade openness restrains the median voter's preferences towards protective labour market institutions (Gabszewicz & van Ypersele, 1996).<sup>7</sup> However, other scholars (Grodzicki & Możdżeń, 2021) argue that it is not necessarily the competition pressure per se, but rather the economy's position in the international division of labour, that is a crucial determinant of institutional choice.

Even though the approach based on a fully informed, infinitely long-lived agent radically simplifies real-world political processes, it remains useful for understanding cross-country differences in the labour market institutional frameworks. For instance, it is shown (Algan & Cahuc, 2009) that countries where a large part of the society believes it is unjustified to claim benefits that one has no right to obtain are also those prone to insuring employees against unemployment risk through unemployment benefits rather than through employment protection legislation. Other scholars (Boeri et al., 2012) highlight that a society's choice of how to provide insurance against unemployment (via unemployment benefits or employment protection legislation) depends on

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<sup>5</sup> An exception is Golosov and Iovino (2021), who introduce an information asymmetry between the government and voters.

<sup>6</sup> Some studies divide the voters into two or more groups, identify preferences of representative agents in these groups, and analyse how these agents will form coalitions – see Boeri et al. (2012) or Vindigni et al. (2015). This approach should be rather seen as an extension to the median voter model. An interesting exception in this context is the study by Profeta (2002) who uses a probabilistic voting model.

<sup>7</sup> An analogous conclusion is presented by Boulhol (2009), who argues that labour market regulations lose their function of redistributing wealth from capital owners to workers when the capital can be moved abroad without cost.

the education level of the workforce. In other words, the greater the fraction of highly skilled employees in a society, the more it prefers unemployment benefits over employment protection. Additional studies (Alesina et al., 2015; Hassler et al., 2005) show that there is a self-reinforcing mechanism between the geographical mobility of the population and the strictness of employment protection legislation or the generosity of unemployment benefits. Finally, another study (Vindigni et al., 2015) explains that the utility-maximizing choice concerning employment protection made by similar workers in response to the same economic shock, but from different countries, depends on the initial level of employment protection in these countries. Thus, this study explains why labour market institutions are path-dependent and are not reformed homogeneously in response to the same global shocks.

The approach based on a fully informed, infinitely long-lived agent who votes is also applied to demonstrate that certain labour market institutions, despite being harmful to labour market outcomes, are, in fact, second-best solutions to some market failures (Arpaia & Mourre, 2009). The aforementioned study (Algan & Cahuc, 2009) concerning claims of benefits that individuals have no right to obtain can be included in this category as well. It considers protecting employees against unemployment risk with employment protection legislation as a second-best policy solution that is necessary in countries where a significant portion of society claims benefits that they should not obtain. In a similar vein, it is shown (Goloso & Iovino, 2021) that the misuse of disability benefits by those who are able to work is an optimal solution to the government's inability to commit to a policy towards unemployment risk, for instance, due to the election cycle. Another article (Lazear, 1979) argues that a mandatory retirement age is an optimal solution for both employers and employees when employers cannot precisely monitor worker productivity. It is also claimed (Casamatta et al., 2005) that early retirement, which offers some redistribution, is a solution that a rational agent might choose when no redistributive policy without distortions is available. Similarly, another study (Brinkman et al., 2018) argues that the preferences of the young and old generations concerning financing the pension system differ because young people encounter borrowing restrictions in the financial market.

## **2. Empirical approach based on econometrics**

As mentioned above, apart from model building based on deduction, the empirical approach applying econometrics is also prevalent in the economics literature. This approach is for instance employed to identify the macroeconomic determinants of labour market reforms. It is established that in EU countries, reforms were more frequent during crisis years and when the unemployment rate was high (Turrini et al., 2015). The purely econometric approach also demonstrates that globalization has a limited impact on labour market institutions, with the exception of employment protection legislation for regular contracts (Potrafke, 2010). Additionally, it has been indicated that variation in local levels of prices and GDP per capita rates determines the

heterogeneity of minimum wage rates among counties in China (Schmillen et al., 2023).

However, econometrics, together with surveys, are also used to analyse voters' preferences. One such study provides support for the median voter model by showing that the majority of voters in France, Germany, Italy and Spain in 2000 opposed both cuts and increases in social security and welfare spending (Boeri et al., 2001). Furthermore, the study showed that respondents' welfare state preferences were mostly shaped by their economic situation. This strand of literature also confirms that retirees support increasing the retirement age, with support being especially strong among those who have just retired (Bittschi & Wigger, 2023). Moreover, it is shown that older workers acquire more information about the stability of the pension system than younger ones and are less frequently surprised by unannounced reforms aimed at increasing the retirement age or decreasing pension benefits (Ciani et al., 2023).

Econometrics is also used to identify variables that affect the voting decisions of parliament members. This strand of literature (Cox & Oaxaca, 1982; Seltzer, 1995; Silberman & Durden, 1976) finds that U.S. Congress members respond to the economic characteristics of their constituencies (e.g. the percentage of workers with low wages, the percentage of teenage workers, the size of small businesses, trade union membership) when voting on minimum wage legislation. This result is corroborated by another study (Sobel, 1999), which finds that changes in the level of the minimum wage in the United States are well-explained by changes in the ratio of trade union density to the corporate tax rate (a proxy for the political strength of employers). Thus, this line of research acknowledges the influence of business communities, which, as a minority, are almost completely neglected by the median voter approach. This line of research also finds that agents can impact public choice not only through voting but also by organizing into interest groups, a possibility that is commonly excluded in the theoretical models discussed above.

### **3. Case studies and heterodox economics**

As mentioned earlier, five collected studies in economics use case studies. The first such study (Seltzer, 1995), apart from econometric analysis, reconstructs and interprets historical facts that determined the introduction of the minimum wage law in 1938 in the USA. The study reveals that legislators, during the discussion on this act, raised arguments that are difficult to be hypothesized from mathematical models (for instance, that the act violated state sovereignty, or that it would help to prevent crimes). Another study (Dooley, 2023), based on the interviews with business representatives and document analysis, finds that the liberalization of the Irish labour market after the global financial crisis 2008–2009 was largely supported by employers in non-export-oriented sectors, whereas for export-oriented companies it was largely irrelevant because it did not significantly affect their costs. The next three studies belong to institutional economics. The first of these (Dixon & Sorsa,

2009) describes pension reforms in Finland, France, and Germany (using only secondary sources) and claims that a broader institutional context matters for the way apparently very similar reforms were implemented in these countries. A similar conclusion is presented for the evolution of the pension system in the United Kingdom (Walker & Foster, 2006). Another paper (Scorsone & Klammer, 2021) interprets the introduction of unemployment insurance at the beginning of the twentieth century as a change in the ethically ideal type of work contract: from a mutually beneficial agreement between independent parties to a value of its own that should be preserved.

#### IV. THE PERSPECTIVE OF POLITICAL SCIENCE

The gathered political science publications can be divided according to two methods: case studies and econometric analyses.<sup>8</sup> Among the analysed set of 47 articles, 27 can be categorized as the former, 19 as the latter, while one study (Rueda, 2006) uses both methods. The collected case studies consist of detailed historical reconstructions of the reform process of a particular institution (or institutions) in a selected country (or countries). The strategies and actions of political parties and interest groups (trade unions, employers' associations) are central to this type of analysis. In contrast to the approach used in economics, this method does not deduce how reforms affect the interests of particular actors but often relies on interviews and the analysis of available documents to identify the aims of the interest groups and political parties (King & Rothstein, 1993). At the same time, the studies based on econometrics are, in practice, indistinguishable from their counterparts in economics.

To a large extent, the econometric studies in political science identify the same determinants, mechanisms, and actors involved in shaping the labour market institutions as those highlighted in the case studies.<sup>9</sup> For this reason, and in contrast to economics, it was decided to organize the presentation of the collected studies based on the actors whose actions were analysed (voters, interest groups, political parties, veto players, and international organizations). However, the distinction between the case studies and econometric studies was also emphasized.

##### 1. The impact of preferences and actions of voters

The analysis of voters' preferences, both from the perspective of their impact on the introduced reforms and the factors that determine them, is predominantly conducted using econometrics. In one such study, after including many potential determinants of adopting minimum wage legislation by the

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<sup>8</sup> An exception is Rehm (2011).

<sup>9</sup> It is because the econometric studies in political science tend to validate conclusions obtained in case studies (e.g. Gilardi, 2010). It is hard to observe such a relationship between theoretical and empirical works in economics.

U.S. states, it is concluded that citizens' political preferences are the variable that strongly matters for political actors (Whitaker et al., 2012). In another study, it is found that the retrenchment in unemployment benefits among the OECD countries is a consequence of the falling probability of a middle-income worker becoming unemployed (Pontusson & Weisstanner, 2018; cf. Rehm, 2011). Another study in this group reveals that the place of living determines preferences for labour market policy. Specifically, in booming German regions, respondents tend to prefer an active policy over a passive one, while in economically declining regions, they choose the opposite (Pinggera, 2023). Similarly, it is also found that the rising indebtedness of individuals in those U.S. states where the safety net is relatively weak is a strong predictor of the voters' willingness to expand social protection, including unemployment benefits (Wiedemann, 2022). Another study reveals that labour market insiders are less willing than outsiders to pay higher taxes to create more jobs (Rueda, 2006). In another publication, it is conjectured that individuals do not support higher public spending if the bureaucracy is inefficient or corrupt. Based on this conjecture, a correlation is found between the measure of bureaucratic capacity and active labour market policy spending in advanced economies (Dahlström et al., 2013). Thus, it may be noticed that this line of research not only confirms that individual preferences matter for policymakers but also that these preferences are driven by economic interests.

In this context, an interesting study finds that voters' trust in the governing party has a positive impact on the introduction of reforms (Gabriel & Trüdinger, 2011). These results suggest that voters do not collect full information about the policy proposals and rely on trust as a heuristic to shape their preferences. By the same token, it is not surprising to encounter findings showing that public opinion concerning a particular reform proposal may be changed by a government's communication strategy (Elmelund-Præstekær & Emmenegger, 2013).

The importance of voters' preferences is mentioned by some case studies as well. It is argued that the statutory minimum wage was introduced in Germany because the working poor became a salient topic in public discourse, and voters expected some action to limit that problem (Marx & Starke, 2017). The salience of high unemployment for voters is also proposed to explain retrenchment in unemployment benefits in Germany and Sweden (Davidsson & Marx, 2013). Another study (Fleckenstein et al., 2011) concludes that deindustrialization and the rising importance of general skills in the labour market contributed to the declining generosity of unemployment insurance in Germany and the UK (in fact, a policy that the rational median voter would choose in those circumstances). Similarly, the lack of difference in skills between permanent and temporary employees is used to explain why these two types of employment contracts were regulated similarly in France, in contrast to many other developed countries (Vladas, 2013). It is also noted that proposing a reform that is supported by voters may be a successful strategy, even if a powerful business group tries to block it – as was the case with the pension reform in Peru (Dargent Bocanegra, 2022). Similarly, introducing a reform opposed by the public significantly increases the probability of its failure. A good example

of such an attempt is the failed initiative of the Swiss People's Party to limit the generosity of pensions, which lacked support from its voters (Afonso & Papadopoulos, 2015).

## 2. The role of interest groups

The role of trade unions and employers' associations is analysed using both case studies and econometric methods, yielding similar results. The involvement of these organizations in determining labour market institutions helps to explain why some labour market reforms are introduced even if the voters' preferences remain stable (e.g. Ebbinghaus, 2019). For instance, a strong relationship is found between politicians' (including Republicans) support for extending post-employment benefits for public employees in the United States and the size of public employees' unions (DiSalvo & Kucik, 2018). Similarly, it is found that politicians elected from highly unionized U.S. states are substantially less likely to switch their votes on the minimum wage (Meinke, 2005).<sup>10</sup> It is also found that the 'over-provision' or 'under-provision' of new labour market policies introduced during the COVID-19 pandemic depended on the political power of the groups that benefited from them (Clegg et al., 2023).

In another study (Rasmussen & Pontusson, 2018), data on unionization and the existence of the Ghent system of unemployment insurance were gathered for 20 countries for the period 1870–1970. They were used in the difference-in-differences specification to demonstrate that high unionization preceded the Ghent system, contrary to the assumption in a large share of the literature. It was also found that the impact of immigration on the generosity of unemployment benefits depends on the strength of trade unions and the political affiliation of the ruling party (Lipsmeyer & Zhu, 2011). In other words, when trade union density is high and left-wing parties control the parliament, immigration increases the generosity of unemployment benefits. Furthermore, during the transition period in post-socialist countries, a strong correlation is found between the privatization and restructuring of state-owned companies (where trade unions were relatively strong) and the increase in expenditure on labour market policy or the tightening of employment protection legislation (Pilec, 2015).

At the same time, many studies highlight that trade unions are still able to block some labour market reforms, as was the case with unemployment insurance retrenchment in Sweden (Anderson, 2001), or at least ensure that the costs of a reform are distributed more equally among labour market participants (Bridgen & Meyer, 2009; de la Porte et al., 2023). It is also noticed that one of the ways to successfully reform labour market institutions is to offer some compensation to the interest group that would lose from the reform (Etchemendy, 2001).<sup>11</sup>

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<sup>10</sup> The crucial role of trade unions in implementing minimum wage regulations is also highlighted by Marx and Starke (2017) or Meyer (2016).

<sup>11</sup> Transforming the narrative about the reforms based on recent economic theories is also found to be help the policymakers in this context (Larsen & Andersen, 2009).

Finally, another study finds that the actions of employers' organizations depend on their size and cohesion. Thus, when employers' organizations are centralized and cohesive, they support policies that increase workers' productivity in the long run (such as active labour market policy), which is beneficial for both employees and employers (Swank & Martin, 2001).

### 3. Political parties, veto players, international organizations

In fact, the starting point of many reviewed articles within political science (both the case studies and econometric ones) was the conjecture that existing institutions are, at least to some extent, the result of the political struggle between left-wing parties seeking the support of trade unions (or labour, more broadly) and right-wing parties representing capital.<sup>12</sup> In this context, it is for instance found that the political affiliation of the government determines the direction of reforms in active labour market policy (Bonoli, 2010; Hieda, 2021). In some cases, that logic is extended by utilizing the insider-outsider model (familiar to economists) to show that labour supply is, in fact, divided into two groups with different preferences, and left-wing parties tend to pursue policies beneficial for insiders at the cost of outsiders (Holland & Schneider, 2017; Rueda, 2006). It is also noted that the Ghent system of unemployment insurance, which was common in Europe in the first half of the twentieth century, was discontinued only in those countries where the political parties were not clearly divided into 'pro-worker' left and 'pro-business right' and, as a result, there were no parties that were unambiguous political beneficiaries of the system's existence. Moreover, one study argues that the sole motivation of political parties to introduce some labour market reforms is to undermine the political strength of interest groups that are not their supporters (Cioffi & Dubin, 2016).

The situation in the political scene seems to determine also the size of the introduced reforms. For instance, it has been indicated that a strong parliamentary majority of the ruling coalition, together with favourable economic conditions, can trigger a large reform programme (Allan & Scruggs, 2004; Rueda, 2006; Voigt, 2019; Zohlnhöfer & Voigt, 2021). Interestingly, another study argues that political parties in Germany exacerbated the shift in public opinion concerning the regulation of the labour market, leading to the introduction of a major liberalizing programme known as the Hartz reforms (Picot, 2009).

An interesting line of study is the role of veto players in determining the labour market reforms. In this context, it is found that when the veto players strongly disagree ideologically, the political agenda of the minister proposing a reform becomes insignificant in explaining the shape of the introduced reforms (Becher, 2009). Finally, the impact of recommendations published by the OECD and the EU on reforms has also been analysed. It is indicated that EU recommendations are correlated with higher spending on active labour market policy (Armingeon, 2007).

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<sup>12</sup> For a perspective on developing authoritarian states, see Ford et al. (2021) or Pula (2020).

## V. INTEGRATING ECONOMICS WITH POLITICAL SCIENCE

The collected set of documents suggests that the main line of division lies not necessarily between economics and political science, but rather between the mainstream economics on one side and political science allied with heterodox economics on the other.<sup>13</sup> This division arises from differences in paradigms used by these communities of practice, which are reflected both in the preferred method of analysis and obtained results.

Mainstream economics relies on deduction and reductionism to construct theoretical models of institutional choice. It aims to explain the heterogeneity of labour market institutions by focusing on the preferences of a representative agent who has only one tool for changing the institutional framework: voting according to a majority rule. Consequently, mainstream economics can largely account for why different democratic countries regulate their labour market differently, but struggles to explain reforms of labour market institutions that are not driven by changes in voters' preferences. However, mainstream economics offers a single theory of selecting labour market regulations by a society that produces falsifiable predictions.

Political science provides a broader perspective by introducing additional actors and analysing more mechanisms of labour market reforms. It heavily relies on case studies and uses induction to build various competing theories of institutional change. As a result, political science can analyse the heterogeneity of labour market institutions both across countries and over time. It excels in identifying interactions between various actors and current economic or political conditions to propose explanations for why particular labour market reforms have been introduced.<sup>14</sup>

Yet, as far as the aim of the study is concerned, replacing the paradigm used in mainstream economics with that of political science is neither feasible nor advised by the conducted review. The reliance of mainstream economics on a single set of assumptions (the *homo oeconomicus* model), deduction, and the language of mathematics, reduces the likelihood that mainstream economists would build conflicting predictions based on the same premises. This is not an advantage of political science, within which there is some inconsistency among the collected articles regarding whether analysed agents have an interest in supporting a particular institution or not. A good example here is active labour market policy. One study in political science (Rueda, 2006) states that it is not profitable for trade unions and major left-wing parties to support this policy; another (Bonoli, 2010) concludes that this profitability differs for particular instruments of that policy; while a third (Tepe & Vanhuyse, 2012)

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<sup>13</sup> At least such an alliance is suggested by the (small) set of collected heterodox studies. The comparison of heterodox economics with political science deserves a separate study which can be a topic for further research.

<sup>14</sup> Interestingly, when economics and political science use econometrics, these differences are almost unnoticeable.



asserts that trade unions have an interest in pursuing this policy, at least as their second-best goal.

Such ambiguities can be exacerbated by using the case study method, which, in practice, helps the researchers to overemphasize the impact of those factors they consider crucial. A good example is the introduction of the statutory minimum wage in Germany in 2015, analysed by four case studies in the collected set of documents. One study argues that its introduction was a consequence of a change in trade unions' stance on the minimum wage due to rising competitive pressure from low-wage earners on union members (Meyer, 2016). The second study agrees but adds that the rising salience of the problem of the working poor among the voters was also a crucial factor (Marx & Starke, 2017). The third study underlines the strong parliamentary majority of the government, weak opposition parties, and favourable economic conditions (Voigt, 2019). The fourth study highlights the political weakness of employers' associations (Mabbett, 2016). All these determinants are probably valid, but their relative strength in explaining why the reform was introduced is ultimately left for the reader to decide.

Therefore, it is recommended that mainstream economics allow agents to organize into interest groups that act as their representatives to explain labour market institutions and, especially, their reforms. Labour market reforms in this context could be analysed as the result of changes in the negotiated compromise among these groups, influenced by changes in available resources. These resources should be understood broadly, including not only the size, cohesiveness, and centralization of the interest groups but also the macroeconomic conditions and the elements of the political system such as the political affiliation of the government, its position in the legislature, and the existence of veto players. Interestingly, the analysis of organized interests has an established tradition in mainstream economics literature, initiated by Olson (1971). Even more intriguing is that a similar framework for analysing why particular regulations are introduced, as proposed above, was already described by Becker (1983). The only difference is that Becker's framework concentrated on the regulations concerning taxes and subsidies. It is striking that, regarding labour market regulations, mainstream economists have not applied Becker's framework to this new area but have instead preferred to rely on the much older and more constraining approach of the median voter.

## VI. CONCLUSIONS

The aim of the study was to compare articles published in economics and political science journals that explain why labour market institutions are as they are and why they are reformed. A query based on the Web of Science Social Science Citation Index returned a set of 101 studies published between 1976 and 2023, which were compared using an integrative review. The anal-

ysis focused on three elements of the studies: actors that decide about the institutional framework, the main determinants that shape that framework, and the method of conducting the study.

The review revealed a limitation within the mainstream economics: due to its chosen method of analysis (deduction based on the representative agent who votes), it can at best broadly indicate where the politico-economic equilibrium for labour market regulations lies. However, in terms of explaining how the process of reaching that equilibrium unfolds, the mainstream economics literature can only suggest which reform proposals are viable and potentially long-lasting and which are likely to be short-lived. In other words, mainstream models are useful for understanding the heterogeneity of labour market institutions in space but have almost nothing to say about their heterogeneity in time.

This gap is to some extent filled by the studies in heterodox economics and econometric analyses that incorporate a broad set of factors. Both these approaches demonstrate the limitations of relying solely on the assumption of a rational agent who votes and they highlight the importance of institutional context, interest groups and macroeconomic conditions in explaining labour market reforms.

Political science shares with economics the assumption (often implicit) that individuals support policies beneficial to them. However, political science extends the group of actors determining labour market institutions beyond the representative voter. By introducing interest groups, political parties, and veto players, it shows that changes in voters' preferences are at best a sufficient condition for labour market reforms, but not a necessary one. The interplay between prevailing market conditions, the political power of interest groups, and the current political scene can initiate reforms independently. Moreover, even when reforms reflect a shift in voters' preferences, their scope is predominantly determined by the interaction of these three factors. The use of case studies in political science facilitates the observation of such interactions, making it well-suited for analysing the simultaneous impact of various factors on a single institution in a particular country.

However, the recommendation for further research in mainstream economics is not to abandon the rational agent approach. The strong reliance on the *homo oeconomicus* model, deduction, and mathematical language limits the risk of arbitrarily choosing which factors are more important in shaping the labour market institutional framework and which are less relevant – a risk to which the case study approach is prone. Therefore, the proposed recommendation is to lift the assumption that agents can impact the institutional framework only through voting. Introducing the possibility for agents to organize into interest groups that act as their representatives, with the power to obtain political rent that changes in reaction to economic and political circumstances, should make the explanations within mainstream economics much closer to the real-world process without losing its defining features.

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