# Labor Market Institutions and Employment

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The role of labor market institutions and policies has received great attention throughout the history of labor economics. Labor market institutions are responsible for a wide range of policies, regulations, and organizations that affect the labor market, though their impact on employment can vary depending on the specific institutions and the economic context across countries. This entry attempts to provide an overview of five main labor market institutions and policies, i.e., the minimum wage, employment protection, the power of unions, active labor market policies, and unemployment insurance/unemployment benefits. It also presents theoretical expectations of their effects on employment outcomes and collates relevant results from the related literature, focusing mainly on the most recent empirical evidence. Finally, this entry provides insights regarding labor market institutions and offers proposals for shaping the labor market landscape.

minimum wage | employment protection | active labor market policies | unions | unemployment insurance/unemployment benefits | employment

Throughout the history of labor economics, in almost all nations, labor market institutions and policies have crucially impacted the changing pattern of unemployment [1]. In general, labor market institutions and policies are essential for shaping the employment realm globally. However, their effects can be complex and country-specific, and empirical research studies are constantly investigating their impacts on employment outcomes in order to determine whether they are benefitting (or how they could benefit) labor market dynamics and policymaking [2][3].

Notably, there are differences in the labor market's features and unemployment rates between the European Union and the United States, as well as within the European Union [4]. Many economists, including Nickel (1997) [5] and Blanchard and Wolfers (2000) [6], suggest that differences in employment levels and unemployment rates between nations can be attributed to differences in the role of labor market institutions and regulations, a role that is designed with the intention of supporting the effective labor market policy to be formed. More specifically, the minimum wage, the influence of unions, employment protection regulations, active labor market policies, the amount and duration of unemployment benefits, and several other factors such as passive labor market policies, social welfare programs, and anti-discrimination laws might explain differences among major developed countries [7].

Moreover, institutions appear to be heterogeneous across countries, and the same institutional design may have diversified effects in different countries [8]. This work attempts to investigate the impacts of five important labor market institutions and policies on employment outcomes. These institutions are the minimum wage, employment protection regulation, the role of the unions, active labor market policies, and unemployment benefits/unemployment insurance.

This analysis initially explains the meanings and several aspects of each of these institutions and policies, and then it presents the theoretical expectations of their impacts on employment. Thereafter, it offers a review of the literature on their effects on the total employment level, followed by meta-studies and the most recent empirical evidence covering the period 2022–23 on this issue. At the end of this entry, concluding remarks and policy implications are given.

## References

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