

# Assessing the long-run economic impact of labour law systems: a theoretical reappraisal and analysis of new time series data

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## ABSTRACT

Standard economic theory sees labour law as an exogenous interference with market relations and predicts mostly negative impacts on employment and productivity. We argue for a more nuanced theoretical position: labour law is, at least in part, endogenous, with both the production and the application of labour law norms influenced by national and sectoral contexts, and by complementarities between the institutions of the labour market and those of corporate governance and financial markets. Legal origin may also operate as a force shaping the content of the law and its economic impact. Time-series analysis using a new data set on legal change from the 1970s to the mid-2000s shows evidence of positive correlations between regulation and growth in employment and productivity, at least for France and Germany. No relationship, either positive or negative, is found for the UK and, although the United States shows a weak negative relationship between regulation and employment growth, this is offset by productivity gains.

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## 1 INTRODUCTION

The issue of the economic impact of labour laws has been the focus of intense inquiry and debate at transnational level since the early 1990s, with the publication of the OECD's Jobs Study (OECD, 1994); before that, it played a significant role in the formation of public policy in certain countries, most notably America and Britain, which underwent a process of labour market deregulation during the course of the 1980s. Throughout this period the predominant view within economic theory has been to see labour law rules as interferences with the operation of markets, and as therefore requiring justification on market-failure or related grounds if they are not to result in inefficiencies or distortions. Yet it has proved surprisingly difficult to demonstrate empirically that labour law rules have the negative effects contended for them

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