LABOUR MARKET – CONCEPTS, FUNCTIONS, FEATURES, PATTERNS

Paşca Cornelia Serena[1]

Abstract:

In an ever changing world, where economic growth interchanges with crisis, society and economy strategic resource is represented by the human resource (manpower or workforce). This article aims to tackle the presentation of a set of conceptual specifications that would reflect the difference between the labor market and the workforce related market concepts, analyzing the main functions and features of the labor market, as well as the presentation of main training and operational patterns of such market.

Keywords: *labour market, concepts, features, functions, models*

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1. THE CONCEPTUALIZATION OF THE LABOUR AND WORKFORCE MARKET

There is no universally accepted opinion regarding the use of one of the two phrases; however one has to mention the fact that the use of the term "market" does not mean that labour is behaving like another commodity or service.

A simple definition of the labour market is given by Derek Bosworth, Peter Dawkins and Thorsten Stromback (1996) who state that the labour market is the place where supply and demand meet, working to determine the price and quantity of the work performed. Michel Didier (1997) defines the market as a means of communication through which sellers and buyers will inform each other about what they have, what they need and the prices that they ask or propose, before closing the transaction. This definition has great applicability on the labour market.

The labour market is the market in which the amount of services that correspond to tasks well established in the job description, are offered for a price or remuneration (Boeri, Van Ours, 2013), that is, to exist on the labour market it is necessary for the work be rewarded.

The labour market is and has to be regulated. In the dictionary of labour law (1997), Beligrădeanu and Stefanescu (1997) define the labour market as "the confrontation between the supply and demand of labour in a given time frame and a geographic area that is usually completed through employment (with an individual employment contract). The worker (employee) means the person exerts his/hers activity based on an employment contract in a public or private company or institution, receiving in exchange a payment.

On the labour market, companies act like buyers on the one hand, but also as bidders with regard to payment, working conditions, and individuals act as sellers, rendering available to employers their knowledge, skills and experience gained. The labour market operates on the principle of competition, the workers competing against each other in view of obtaining or retaining a position. On the other hand, employers compete to attract and maintain within the organizations, the employees that are efficient in the development of the activity and as a result make profit.

Authors like Steliana Pert (1990) or Nita Dobrotă (1997) consider that the labour market is the economic space in which equity holders trade freely, as buyers (the demand), and the owners of the human resource (the supply), as sellers, in which the price mechanism of the work, the real wage, the free competition between economic operators and other specific mechanisms, adjust the labour supply and demand. First and foremost, employees are not an

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[1] Phd, Faculty of Economics and Business Administration, Babeș Bolyai University, Cluj Napoca, Romania, e-mail pasca_cornelia@yahoo.com

abstract production factor, but human beings with families, desires and needs and only then, labour force (Samuelson, Nordhaus, 2001).

The labour market is one of the main components of the market economy along with the goods and capital market. From an economic perspective the labour market is one of the components of the production forces (Zamfir & Vlăsceanu, 1993).

The workforce was and is the "living" factor that gives meaning to the economic life and is the main component of production factors, by whose direct or indirect intervention, all economic activities become possible. In statistical terms, the workforce is represented by the employed population (those working and those actively seeking work) to which the unemployed are added (Schiller, 1983).

The result of the buying and selling act is represented by the workforce and not the work itself. Work is just a "consequence" of applying the workforce in production (Eatwel et.al., 1987) which is delivered by the worker and bought by the employer.

Among the arguments the authors advocating for the term of workforce market (Adumitrăcesei & Niculescu, 1995) we can state that the human factor, who owns the qualification, experience, competence and capacity for working, is the one that constitutes the real object of the transaction and not the salary which is only a means of rewarding the work. Another argument is that in order to obtain goods and services, employers use the workforce and not the work itself. This workforce is different from person to person, each having an efficiency, productivity and different costs. Moreover the social protection is performed with respect to the workforce.

It is necessary to distinguish between the work and the individual, that is between what arises from the work process (goods and services) and the individual who possess the skills and knowledge they provide to produce those goods and services.

In specialised literature, the labour market is defined from two different points of view. The first is that the work is like any other good or service through which people sell their labour in exchange for wages while the second appreciates the work as a commodity different from the rest of the goods (goods / services) referring rather to the supply of labour available on the labour market (Hudson, 2000).

In order for the workforce to become a cargo the following conditions must be met (Popescu, 2002):

a) the possibility to be changed with another commodity through and exchange contract;
b) giving up the ownership;
c) storing in time.

Given that the three conditions cannot be fulfilled simultaneously, we will not treat labour as a commodity. Although opinions are divided and because there are still many contradictions in using only one of the two definitions, it seems that the term labour market was often used when the human being was considered a factor of production, because the work was seen as another good. But labour is not a commodity as we have argued above, this is an activity performed by individual, and what is capitalised is the workforce.

2. THE FUNCTIONS, FEATURES, CHARACTERISTICS AND MECHANISMS OF THE LABOUR MARKET

Many authors including Simona Ghita (2005), Marian Chivu (2007), Andrei Cojuhari & Liuba Dorofeev (2014) believe that the labour market presents a complex content, highlighted by the functions that it performs in the market economy, functions of economic, social and educational nature, consisting of:

- *distribution function of employment* on sectors, industries, professions (occupations), qualifications, territorial areas in line with volume and structure of the labour demand;

- *training function and revenue sharing* of economic operators; through this function the labour remuneration is achieved;
- *social function*; through the labour market the supply and demand of labour meet, the improvement of labour conditions, the humanization of labour, social protection of the unemployed and their retraining are done;
- *educational and training function,*; this feature provides the information necessary for education, vocational training, retraining and reintegration of labour, the accumulation of work experience;
- *political function*; the feature that reinforces social and political stability.

The labour market ensures the balance between the needs for labour resources of the national economy and the possibilities for their coverage. It features a self-regulation mechanism, which in principle is the same on all markets. Common elements of this mechanism are supply, demand and price.

Having as main transaction objective the labour factor, the labour market by its structure and operation is detached from other markets through specific features:

a) the labour market is **segmented**. Arthur Cecil Pigou, a classical economist sought to explain the discrepancies between labour supply and demand since the 1940s, saying that the labour market is segmented due to restricted mobility within the industry and between industries (Leontaridi, 1998). In the broadest sense, the labour market is composed of three "levels": primary, secondary and tertiary (the tertiary contains undeclared work, determined by the evolution of the underground economy). The first level includes the workers who benefited from a higher education and training, where incomes and employment stability are higher and where there are real professional growth opportunities (Reich et.al. 1973). Large companies are especially found in this sector, companies that promote individuals, their career and salary, levels are determined largely by their evolution on the "internal markets". Doeringer and Piore (1971) and Saint-Paul (1996) consider this term as a manner of organizing the labour, that consists of filling vacancies resorting to internal promotions rather than hiring new employees. Such an explanation leads to considering each sector as a group of companies, while primary / secondary segmentation can be found even within the economic entity. In the secondary sector we find a completely different situation, namely high staff turnover, low income, low level of skills of employees, without many chances of promotion, a place where in most cases there are few professional growth prospects. Due to this segmentation, on the secondary market, employees have low wages and wage differences are due to minimal access to education and training (Bae, 2014). Structuring the market in two or more levels, make labour mobility very high within each sector, but less between them due to a lack of homogeneity in employment conditions and remuneration. This segmentation of the labour market between jobs that are "good", well paid and "bad", low paid, not only deepen the gap between the two sectors but even determine employees in the secondary sector to resort to illegal labour to get higher income, even if on the medium and long term the losses are higher than current earnings. Authors like Glen Cain (1976), Bulow and Summers (1985) proposed a segmentation of the labour market in three dimensions where the primary sector is divided into two parts referring to an upper part and a «secondary» part, belonging to the primary sector. The upper part refers to persons on top of the hierarchy that have autonomy, innovation and decision-making capacities, and the secondary refers to people who need medium-level qualifications, with relatively high levels of pay and promotion opportunities (Jaoul-Grammar, 2007). The secondary sector refers to low skilled and low paid people, with little chance of promotion. Many studies have divided the labour market in two or more distinct segments. Segmentation can refer to the characteristics of a firm or an economic entity, occupation, work components, characteristics of the individual or combinations between them (Fichtenbaum, 2006).

To a lesser extent, labour market segmentation can be seen both in terms of labour supply and labour demand.

In terms of labour supply, the segmentation can be made by:

- gender, differentiated between men and women;
- age groups of working age (15-64 years, 16-65 years, 20-65 years, etc.);
- territorial - urban, rural;
- professional categories;
- qualification degrees;
- level of education (primary, secondary, tertiary).

In terms of demand for labour following segmentation criteria may be encountered:

- according to specialities or their chosen professions;
- depending on the jurisdiction - urban, rural, cities, towns and communes;
- depending on the working schedule - full or part time;
- depending on the duration of the contract - indefinite or fixed;
- depending on the location of the labour - inside or outside the company.

b) the labour market is **rigid and inflexible**. The labour market rigidity is natural, as a result of geographical evolution, lifestyle, professional training, as well as by legal and institutional aspects that are determined by gaps within these systems. The differences between salaries exist not only between companies / industries but also between various regions of the country. These rigidities are met especially where unemployment and inflation are high. The minimum wage could also be a factor of the rigidity in the labour market because it leaves no room for a fast adjustment to market conditions (Serban & Aceleanu, 2015). For employers, the obligation of giving this minimum wage takes into consideration the need to hire new employees reported to the level of productivity. If the employee's productivity level is below the minimum wage, the employer may decide to dismiss or not hire new personnel. If the minimum wage is set at a high level, the negative consequences related to employment are higher for people with low productivity such as young people without experience or education, who are somewhat directly excluded from the workforce market, being forced to perform work without legal forms. If the labour market would be a flexible and dynamic one, employees would be able to change jobs quickly enough, therefore creating high quality working places, leaving aside the jobs that are not so productive. Moreover, on such a market, companies would be encouraged to create better paid jobs that would result in a growth of the number of employees. Flexibility means promoting employment and accepting atypical positions: part-time jobs (reduced working hours), jobs with variable work schedule, working at home, self-employment etc., employment with temporary contracts, occasional contracts, contracts per project or fixed contracts. The need for flexibility is determined by increasing competition on a national level, but mostly internationally. Due to the use of flexible labour there is an increase in the workforce efficiency by reducing labour costs but mostly balancing supply and demand of labour.

c) the labour market is a **secondary market** from other markets (capital market, goods and services market), receiving the influences of both, being constantly linked with them, anticipating trends in the labour supply and demand, the reaction of economic operators, receiving and transmitting, in return, medium and long term signals and determining effects that are fund in all social-economic sectors. The structure and volume of the workforce supply are dependent on the demand for labour, just as the demand for labour is dependent on the demand of goods and services, and how they are produced.

d) the labour market is **regulated**; this feature results from the particularity of the workforce as well as from the requirement to ensure employee protection, control the loyal competition through trade unions, allowing the grouping of entrepreneurs who hire wage labour. The labour market legislation must be constantly improved to fight unemployment and ensure the better management of population employment;

e) it is a **contractual and participatory** market. The contract and negotiations between employers and employees give the instruments for the mechanism of regulating supply and demand of labour with quantitative, qualitative and structural aspects (Cojuhari & Dorofeev, 2014). The relations between sellers and buyers are governed by laws and agreements between representatives of employees, employers and public power. Education, training, demographic factors determine the value of labour. The labour market is very "alive" and in a constant change.

f) the labour market is an **administrative market** because at this level companies manage their available resources according to the demand for necessary goods and services, that involves the workforce and considering the personnel wage plan (Ghişoiu, 2000);

g) the labour market has a **multidimensional** character given by the geographic, economic, educational and social scale. *The geographical scale* is given by the profile of the available workforce, population on age categories and the working population. The *economic scale* refers to the population distribution by areas of activity, professions, the public participation in the economic process, the costs implied by the inactivity of the population. The *educational scale* refers to average duration of learning, the population level of training, the number of people that are in a particular form of learning. *The social scale* refer to the costs of social protection, reconversion or insertion of employees on the labour market;

h) the labour market is **inconsistent**, workers having different levels of training, education, qualification, coming from different geographical areas, of different ages, genders, aspirations and standards;

i) it is an **imperfect** market - in the contemporary economy, the labour market is not perfectly competitive and it probably never was. This was demonstrated by Kaufman, in his 2007 work, stating that "we have demonstrated that a perfectly competitive labour market is impossible" (Kaufman, 2007a). The price of labour, which is the wage, is not formed in relation with the supply and demand on the market, as it would be natural, but is determined by factors such as the state of the national and international economies, state intervention, the bargaining power of trade unions or patronage intervention (Ghişoiu 2000). It is very important for the performance of the labour market, to be close to the conditions of the perfect competition. The state could intervene to orient the labour market as close to perfect competition as possible or to limit the negative trends of imperfect competition. Most often trade unions are pressuring companies to increase wages regardless of the financial situation of the companies or the state of national economy, taken as a whole, which leads to low economic efficiency of companies and rising inflation (Ghişoiu, 2000).

Alfred Marshall presents his "Principles of Economics" (1997) the four particular aspects of the workforce:

- perishable in time, so it cannot be stored, preserved;
- cannot be borrowed;
- does not react immediately to changes in the market conditions, the population requiring a longer period of time to adjust in terms of size and structure;

- limited nature of the negotiations, which confronts a privileged position of the employer (who can choose the optimal combination of factors of production) and a less advantageous position of the employee who has a narrower range of resources and choices.

Table no.1 summarizes the features, characteristics and particularities of the labour market.

Table no. 1. Features, characteristics and particularities of the labour market

FEATURES	CHARACTERISTICS	PARTICULARITIES
The distribution of employment by sectors, branches, qualifications, territory.	Segmented.	Cannot be stored, preserved.
Training and economic operators income assigment.	Rigid and inflexible.	Cannot be borrowed.
Social (working conditions).	Interdependent.	Does not react immediately to changes in the market conditions.
Educational (training, vocational training, requalification, reinsertion on the labor market).	Regulated	The priviledged position of the employer vs the employee.
Political.	Contractual and participatory.	
	Administrative.	
	Multidimensional.	
	Inconsistent.	
	Imperfect.	

Source: own processing based on literature review

2. MODELS OF LABOUR MARKET

The development and performance of the labour market is based on several models (Cojuhari & Dorofeev, 2014), which we will present in tabel no.2:

The first is the **classic** model (Adam Smith, Jean Baptiste Say, John Stuart Mill) and is based on the full employment of labour and the overall balance between supply and demand for labour. In the opinion of the above mentioned authors, unemployment is merely a temporary consequence of the labour market and there is only natural unemployment, and if at some point there are gaps between the supply and demand they are regulated through the increase of wages. These ideas are supported by followers of the Supply-side Economics current (The economics of supply) such as Arthur Laffer (2010) or George Gilder (2012).

The devotees of the **neoclassical** model, Leon Walras (1954), Alfred Marshall (1920), Vilfredo Frederico Pareto (1897) argue that like the other markets, the labour market has as a regulating factor, the price, that is the salary, the balance between supply and demand of labour being achieved through wages, therefore unemployment is nearly inexistent. In a competitive market, at the base of the neoclassical model of the labour market, stands the relationship between the wage and degree of occupancy, the latter being determined by the demand and supply of labour (Kaufman, 2007b).

Another model is the **Keynesian** model named after his father, John Maynard Keynes (1936), which in contradiction with the neoclassical model, argues that the labour market is unbalanced. Keynes and his followers believe that the price of labour or the wage is not flexible, but is fixed and there may be an overall balance in the case of underusing the labour, leading to its underemployment, therefore requiring state intervention to realise full employment. So it is the state that sets the necessary workforce through economic and financial levers at its disposal.

The **monetary model** sustained by Milton Friedman (in 1960), Karl Brunner and Allan Meltzer (1971) starts from the Keynesian model according to which the wage is fixed and is moving in one direction, upwards (Woodford, 1999). Monetarists together with Edmund Phelps introduced in 1960 the concept of natural unemployment level, where monetary policy can only replace on short-term the unemployment that is under the natural rate. The budget impulses can influence revenues, and as a result the production or degree of occupation of labour, but only on the short-term. In Friedman's view, the existence of a demand or oversupply in the labour market does not depend on the nominal wages but on the real wages, as traders being rational, adjust wages with prices foreseen or anticipated (Dobrescu et. al., 2011). Factors such as the establishment of a minimum wage level by the state, lack of information about vacancies and supply of labour, trade unions tough position, contributes to the imbalance of the labour market. The solution, according to monetarists is the use of monetary policy lending. In the mid 70's monetarism became the new orthodoxy of macroeconomics (Dobrescu et. al., 2011).

An important model is the **unbalanced labour market**, created at the end of the 70's by Stanley Fisher and John B. Taylor, where the existence of collective labour contracts determines the establishment of nominal wage for employment on the long term. They found that monetary policy could have long-lasting effects even after adjusting prices and wages.

The **efficiency wages model** is based on the notion that there is a relationship between relative wage levels and worker productivity (Cappelli & Chauvin, 1999), that makes workers to be paid at levels that maximize productivity and it refers to the selection process and stimulating employee (Snowdon, & Vane, 2005). Carl Saphiro and Joseph Stiglitz created a model in the 80's in which employees tend to avoid working, except for the case in which companies monitor workers' effort and threaten employees with unemployment (Snowdon, & Vane, 2005).

Table no. 2 The main models of formation and functioning of labour market

Model	Authors	Features
Clasic	A.Smith, J.B. Say, J. S. Mill	- full empolyment - perfect balance between supply and demand - natural or involuntary unemployment
Neoclasic	L. Walras, A. Marshall, V. Pareto	- perfect balance between supply and demand through wages - unemployment almost inexistent
Keynesian	J. M. Keynes	- fixed salary - the state determines the neccesary workforce
Monetary	M. Friedman, K. Brunner, A. Meltzer, E. Phelps	- fixed salary - monetary policy lending
Unbalanced labour market	S.Fisher, J.Taylor	- the existence of collective agreements in order to establish nominal wage
Efficiency wages	C. Saphiro and J. Stiglitz	- workers be paid at levels that maximize productivity - the need of selection and stimulation processes of employees

Source: own processing based on literature review

The main models and their manifestation in the labour market are the classical, neoclassical, the Keynesian, monetary, unbalanced labour market and efficiency wages.

3. CONCLUSIONS

The labour market operates by confronting the supply and demand of labour and it works in every country, on a regional and global scale. Any activity that is initiated or exists in society creates the need for labour.

The labour market operates on the same mechanism as the market of any goods or services. Being the main component of the market its factors, structures and principles are similar to those of the other components, the natural resources market and capital market.

Although there is no opinion widely accepted with respect of the use of one of the two phrases labour market or workforce market, it is necessary to distinguish between work and individual and between what arises from the work process (goods and services) and the individual who possesses the skills and knowledge they provide to produce those goods and services.

From the analysis performed, we concluded that the labour market has a high degree of rigidity and inflexibility, the segmentation of this market takes place both at a general level, the segmentation being done on the main sectors of the economy and to a lesser extent from the point of view of the supply of and demand of labour, there is a real need to regulate this market, being both a contractual and participatory market, with a multidimensional character due to its geographic, economic, educational and social scales.

The classic, neoclassical, Keynesian, monetarist, unbalanced labour market and the salary efficiency models caused the formation and functioning of the labour market.

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