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LABOUR MARKET INSTITUTIONS AS THE INSTRUMENTS OF THE INFLUENCE ON MARKET MECHANISMS

Summary: The scale and problem of unemployment in the modern world has been subject to continuous research and debate that consequently furnish a better explanation of its causes and diversity. We are becoming more and more aware of its costs and effects, yet we are not capable of counteracting it in an effective way. Considering the inadequacy of the labour market, both the literature on the subject and everyday practice seem to increasingly point to the essential role of the state and its undertaken market intervention. The labour market institutions exert a direct influence on the labour market. In accordance with the act of 20 April 2004, such entities as the public employment service, voluntary work corps, employment agencies, training institutions and institutions of social dialogue, and local partnership are responsible for the shape of the labour market.

Keywords: unemployment, labour market institutions, labour market mechanisms.

1. Introduction

Like other types of markets in the market economy, the labour market may be exposed to certain adjustments. They mainly come down to laying down new legal standards and are closely linked to state interference. The opposite action is deregulation, which means the reduction in the extent of state regulation and a rise of independent market forces moulding the labour market. This process can occur through a number of stages. At its preliminary stage, it appears as the limitation of the role of the public sector in economy, to be later followed by the establishment of new state policies. The third stage consists of the modification of the instruments of state intervention and the increased employment of the measures aimed at strengthening market mechanisms. Full deregulation is associated with the altered government's function and the diminishing intervention in the private sector. On the other hand, partial deregulation translates into reduced intervention [Wiśniewski 2000, pp. 37-38]. The imminent effect of such activities, primarily entailing the labour law reform, is an increased labour market flexibility and the better alignment of the volume of employment with the fluctuating economic conditions. The disproportionate regulation in the free market economy is an obstacle to the rationalization of

manufacture and employment and their adjustment to the existing economic situation [Kacperska 2008, pp. 69-70]. The degree of labour market regulation is a key factor acting upon the market's functional capacity. The current shape of the labour market regulation and deregulation system is under debate in numerous theoretical studies and practical analyses.

2. Theories and models of the labour market

The phenomenon of unemployment is invariably the focus of researchers. Since the mid-19th century, the causes, differentiations, and socio-economic costs of unemployment have been regularly exposed and analysed. In economic and sociological concepts, unemployment is often inseparable from the labour market and its fundamental mechanisms since it results from insufficient demand for labour, i.e. it occurs because of imbalance.

Formerly, unemployment was seen as ensuing from the emerging capitalist economy. It was believed to be transient and regulated through the self-functioning market mechanisms. However, occasional economy slowdowns caused unemployment to spread and affect a growing number of employees.

The theoretical concepts of the mid-19th century initially addresses mainly independent market mechanisms. According to classical economics, based on the theory by A. Smith, market mechanisms can be balanced in the long run, which will ensure the existence of three dependencies: the positive demand for labour and the size of capital accumulation, the demographic dynamics and the level of wages, and the changes in wages and the situation on the labour market [Kacperska 2008, p. 31]. Considering such an interpretation of unemployment in its contemporary sense, it simply does not exist. What it seems to stress is the action of spontaneous market mechanisms that inhibit the rise of excess population.

The phenomenon of unemployment was treated alike by neoclassicals (A. Marshall and A.C. Pigou). Unemployment, i.e. the difference between the labour demand and supply, arises from, for example, periodical fluctuations in the economy, which triggers changes in the demand for labourers and their labour. The most pivotal mechanism that can ensure the balance and conditions for full employment is the system of real wages. On the other hand, any negative consequences of the mismatch between demand and supply ensue from the lack of free operation of market mechanisms. However, exceptionally, neoclassicals allow for a state intervention (limited and temporary). Some possible actions involve: public works in the time of the crisis, allocating the unemployed to work in such areas where salaries are too high and subsidizing employment through tax concessions [Kwiatkowski 2002, p. 108].

The theory of employment by J.M. Keynes offered a new quality to theoretical concepts. Its main objective was that of the criticism of classical and neoclassical economics, especially the conviction of the effect of independent market mechanisms

as a remedy against unemployment. The central element of the Keynesian theory of employment and unemployment is the assertion that the volume of effective demand for goods (consumption demand + investment demand) determines the general size of production, employment, and unemployment. Keynes sees the causes of unemployment in the insufficient demand for goods; he regards them as forced and related to the lack of actual influence of employees' decisions and behaviours on the emergence or the eradication of unemployment [Kacperska 2008, p. 36].

Another element present in his concept is state intervention. According to Keynes, the employment of appropriate market instruments can prevent the negative aftermath of economic fluctuations. Moreover, an active state intervention in the economic processes promises the state of full employment – an independent market economy is not able to achieve that. Among the measures to be taken by the state, the most crucial is to stimulate effective demand. In order to obtain the desired results, Keynes proposes a co-ordinated application of several instruments such as: monetary policy, fiscal policy, promotion of public investment, particularly in the areas bolstering the growth of employment and income [Kwiatkowski 2002, pp. 118-119].

Keynes's concept was somewhat revolutionary since it warranted (permitted) state intervention in market mechanisms governing the labour market, employment, and unemployment.

Various theoretical considerations underlay the formation of labour market models and these prompted the design of labour market policies. These models were developing in parallel with the specific nature of the labour market, its complexity, its specific phenomena, the socio-economic situation, employment policy regulations, wages policy, collective labour relations, protection of employment, etc. An important factor is also the cultural sphere. With these various factors taken into account, three models of the labour market were distinguished: North American, Western European, and Japanese.

The North American (Anglo-American) model is an example of the market with a completely diminished role of state in the process of resolving labour market issues. The burden of finding and maintaining employment falls exclusively on the individual. Having specific skills, the individual determines his or her position and fitness for employment. The labour market flexibility permits a trouble-free and relatively cheap dismissal of an employee if his or her work brings no benefit to an employer. This is attainable due to the limited role and position of trade unions. The flexibility of employment and low labour costs encourage job generation. However, the lack of job security may debilitate employees' integration with companies' interests. To prevent that and, at the same time, stimulate employees' commitment to company's growth, adequate incentives are provided (share schemes). Such relations being mirrored in the labour market, there is a low level of unemployment (5%) and, importantly, a very low level of long-term unemployment (*ca.* 1%). This situation seems next to perfect. Still, it must be remembered that most jobs in this system are temporary or offering only part-time conditions. Hence, this model reveals a category of employees referred to as "the working poor" [Borkowska 2000, p. 35].

Nevertheless, it is worth noting that despite the highly liberalized market, there is room for activities undertaken by public institutions. An example of this is the support schemes intended for small and medium enterprises. Their main instrument is a comprehensive systems of loan guarantees administered by the SBA, a special government agency (Small Business Administration). This helps create new jobs and promote the development of small- and medium-sized businesses. Across the Atlantic, in Britain, where the labour market policy follows similar guidelines, the state finances some activities, such as trainings for the unemployed or the retraining of employees [Kacperska 2008, pp. 60-62].

The Western European model, with its social market economy, adheres to completely different standards. It is inherently different since its shape is influenced by the national policies of individual European Union Member States. Its main features are: rigid labour market rules, the high degree of centralization of social negotiations, the significant role of the state in moulding the social policy and labour market (welfare state). Collective labour relations are no less important and are marked by tripartite and multi-level character, and nationwide socio-economic interest [Borkowska 2000, p. 37]. In combating the unemployment, much pressure is put on national programs and strategies, but also on action under the common EU policy, whose leading instrument is the active labour market policies and the promotion of employment.

In parallel with the guidelines of the European Employment Strategy, the EU states pursue their own strategies of combating unemployment. In most cases, active labour market policies come into play along with the decisive role of the state responsible for the design and the implementation of the motivational programs for the unemployed and/or those at risk of unemployment.

The third of the models in question has been developed in Japan and can be named an intermediate type. The aim of the labour market activities is to secure a long-term employment strategy and tie wages to seniority and employee's age, which results in the relative inflexibility of employment and wages. The flexible component of the model is manifested in the non-standard forms of employment, particularly part-time jobs, temporary jobs, and employment rotation. The guarantee of social serenity is the close collaboration of the management with regular employees (trade unions) arising from the adopted rule of lifetime employment [Borkowska 2000, pp. 38-39].

As follows from the given examples, different countries foster different ways of handling the challenges of socio-economic situation and the relations prevailing in their labour markets.

3. Labour market institutions. An overview

Unemployment is a complex and multi-faceted problem. Depending on its size, features, and existing socio-economic conditions, affected states adopt tailored solutions. Such that would bring the most beneficial changes in a given time. With

the selection of models governing labour market policies, M. Kabaj categorizes them as follows. Taking into account the assessment of sources and adopted objectives, methods, and strategies of tackling unemployment, this author distinguishes: “the school of the labour market” and “the school of integral approach”. The first approach points to the limited responsiveness of the unemployed and inefficient functioning of labour offices as the underlying causes of unemployment. The second refers to the deficit of jobs as the main cause – in order to improve this situation, the promotion of employment should be installed as a fundamental remedy [Kabaj 2000, pp. 83-84].

Poland has been facing the problem of unemployment since 1990. The economic transformation of the time led to mass lay-offs. It also forced the development of the solutions targeting unemployment, labour market, and employment. They were drawn up by institutions responsible for social policies and emerged from legal regulations. Currently, the Polish labour market is affected by two fundamental elements. One of them revolves around the guidelines and recommendations imposed by the European Employment Strategy. The other is rested on the existing legislation on social assistance, family benefits, the disabled, labour law, labour conditions, social security, social dialogue, and child and family care.

As already mentioned, the state action is/should be hinged on the socio-economic situation. Just as the economic situation evolved, so did the labour market regulations. Nineteen ninety saw the adoption of the Employment Act, which focused mainly on the so-called passive instruments, i.e. assisting the unemployed through benefits and compensation for lost earnings. Another act of 1994 introduced the instruments of an active labour market policy. The current Act of 20 April 2004 on employment promotion and labour market institutions addresses some active measures to promote employment and, importantly, abolishes the state monopoly on aiding the unemployed, job-seekers, and those at risk of unemployment.

All the state tasks in employment promotion, in the mitigation of the effects of unemployment, and professional activation are pursued under the governmental National Action Plan for Employment, which alludes to the requirements of the European Employment Strategy. According to the statute, the entities accountable for taking appropriate action in the labour market are:

1. Public employment services – employment bodies, including the district and regional labour offices to which the minister responsible for employment and regional administration assigned certain tasks required by statute. The tasks include:¹

a) identifying, co-ordinating, and implementing the regional labour market policy and human resources development;

b) allocating the resources of the Labour Fund for employment and employment promotion, human resource development, and the activation of the unemployed;

¹ The tasks are fulfilled by various local government entities: the local self-government, district government, and governor.

- c) preparing labour market analyses, monitoring demand for labour, including the deficit and surplus occupations;
- d) resolving and mitigating the problems associated with the projected collective redundancies;
- e) providing EURES services;
- f) providing the services of career counselling and occupational information;
- g) developing and implementing the programs of employment promotion and the activation of the local market;
- h) providing assistance to the unemployed and job-seekers and recruiting employers;
- i) registering the unemployed and job-seekers (the granting and payment of benefits).

2. Voluntary work corps – state entities specialized in working (training, education, assistance in learning a profession) with the youth at risk of social exclusion and the unemployed below the age 25 years.

3. Employment agencies – private entities rendering employment services (also abroad), as well as vocational guidance, personal counselling, and seasonal work. Their specific tasks include:

- a) identifying employees' qualification and their fitness to a specific job;
- b) identifying the sources and methods of recruiting candidates for specific jobs;
- c) vetting the candidates in terms of expected qualification and abilities by means of a variety of psychological tools and methods;
- d) providing assistance in choosing the right profession and place of work and providing occupational information.

4. Training institutions – public and private entities involved in extracurricular education, mainly intended for the unemployed and job-seekers.

5. Social dialogue institutions – organizations and institutions handling the challenges of the labour market: trade unions, employer and unemployed organizations, NGOs co-operating with public employment services, and voluntary work corps.

6. Institutions of local partnership – they pursue the initiatives of the the labour market partners, support local self-government bodies.

Naturally, the last two mentioned institutions build on the co-operation with social partners (e.g. employment councils) in order to complement and expand the services offered by the public employment bodies by the social partners and employment agencies. It also invokes the principle that the current labour market policies provide the ground for the co-operation of public (state), social, and private institutions. Their activities may be both consultative-advisory and practical (training, career counselling).

To address the development of the services or the instruments of the labour market and social integration, the labour market institutions may receive financial backing from the state budget, the Labour Fund, and the European Social Fund.

Among the listed institutions, the public employment services boast the greatest share in employment promotion, the alleviation of the effects of unemployment, and professional motivation. However, according to research, the persons suffering from a disadvantageous position on the labour market associate these institutions mainly with the necessary registration and benefits. They are not considered as the places of effective assistance in overcoming unemployment.

The labour market abounds in other entities supporting the operations of the listed institutions. These are district and municipal information centres, academic career offices, school career centres, centres supporting entrepreneurship. Also, numerous NGOs tackle the labour market issues. Analysing the tasks to be handled by the individual institutions, these entities can be said to have a real opportunity of influencing the phenomena and processes on the labour market.

Yet another important question pertaining to the labour market institutions is their co-operation with other entities aiding the unemployed. Unfortunately, according to the authors of the *Final Report on the Evaluation Study* [2009] devoted to the co-operation of the labour market institutions with other entities, such a collaboration is implemented only at the local level, i.e. municipal social assistance centres, district family assistance centres, and district labour offices. It is predominantly confined to the exchange of information (about the client, the type of support, etc.) and training or comprehensive types of support (e.g. counselling). Still, there is no regulation requiring the co-operation of the labour market institutions with other institutions at the regional and central level.

Also, insufficient co-operation with employment agencies arouses concern as intended by the legislator, they were to assist the district labour offices in commercial activities. The issue that is worth noting is also the much undervalued auxiliary role of NGOs, which are often in a position to assume certain responsibilities of public administration (e.g. handling difficult clients).

Having investigated the broad theoretical and research material on the labour market, a conclusion can be drawn that its numerous and various issues are already settled. The experience of other countries in solving labour problems (e.g. Sweden – developed welfare, Denmark – the idea of flexicurity) may represent a point of reference. However, the differences in economy, law, society, culture, and even mentality may impede the implementation of their well-proven solutions.

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INSTYTUCJE RYNKU PRACY JAKO INSTRUMENTY ODDZIAŁYWANIA NA MECHANIZMY RYNKOWE

Streszczenie: Problem i skala bezrobocia to we współczesnym świecie przedmiot ciągłych badań i dyskusji, w rezultacie których dysponujemy lepszym wyjaśnieniem jego przyczyn i zróżnicowania, mamy coraz większą świadomość jego kosztów i konsekwencji, ale nadal nie potrafimy w skuteczny sposób mu przeciwdziałać. Zdając sobie sprawę z niedoskonałości rynku pracy, bierze się pod uwagę możliwość interwencji państwa w mechanizmy rynkowe. Bezpośrednią rolę w niej odgrywają instytucje rynku pracy. Zgodnie z obowiązującą ustawą, za kształt rynku pracy odpowiedzialne są takie podmioty jak: publiczne służby zatrudnienia, Ochotnicze Hufce Pracy, agencje zatrudnienia, instytucje szkoleniowe oraz instytucje dialogu społecznego i partnerstwa lokalnego.