Western European Journal of Linguistics and Education
Volume 2, Issue 12, December 2024
https://westerneuropeanstudies.com/index.php/2
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THE CONCEPT OF THE LABOR MARKET AND ITS SOCIO-ECONOMIC IMPORTANCE IN THE DEVELOPMENT OF A COUNTRY

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Abstract: This article analyzes the concept of the labor market and its socio-economic importance in the development of a country. The labor market operates alongside other markets, such as raw materials, consumer goods, and services, within the market economy system. It performs socio-economic functions like distributing labor forces and resources, managing employment, and improving working conditions. The article discusses the segmentation, flexibility, and regulation of the labor market, highlighting its role in the economy. The labor market creates competition between companies and workers, where employers aim to attract effective employees, while workers offer their skills. The segmentation of the labor market also ensures the coordination of labor demand and supply. Additionally, the article addresses the rigidity of the labor market, its specific features related to geopolitical, economic, and educational factors, and the necessity of state intervention to maintain its balance.The labor market is an essential component of the market economy and functions alongside other markets, such as markets for raw materials, goods, services, housing, and securities. It is the market that allocates labor resources and makes decisions regarding employment.

Keywords: labor market, workforce, employment, job placement, segmentation, skill levels, working conditions, wages, competition, employers, employees, economic functions, social protection, education and training, employment rate, political functions, labor contracts, recruitment, wage disparities, perfect competition.

The labor market is an integral part of the market economy structure, operating alongside other markets such as raw materials, goods, consumer products and services, housing, securities, and more. A market that distributes labor resources and makes decisions regarding employment is called the labor market. In economics, the terms "labor market" and "workforce market" can be encountered. There is no universally accepted idea between the two phrases; however, the use of the term "market" does not imply that labor acts like other goods or services. According to the simple definition given by Derek Bosworth, Peter Dawkins, and Thorsten Stromback, the labor market is the place where supply and demand meet, and where the price and quantity of work are determined [1] Michel Didier defines the market as a means of communication through which traders and buyers are informed about what they have, what they need, and the prices they are offering. This definition is of great importance for the labor market.

The labor market is a market where services corresponding to clearly defined tasks in job descriptions are offered, and their price or wage is determined. In other words, for the labor market to exist, wages must be paid for work.

In the labor law dictionary, the labor market can also be defined as "the interaction between the supply and demand for labor in a specific time and geographical area." This process is typically carried out through employment (based on a labor contract). A worker (employee) is an individual who performs their activities in a state or private company or institution based on a labor contract and receives payment in return [2].

In the labor market, companies act as both buyers on one hand and as providers of

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wages and working conditions on the other. Individuals, on the other hand, act as sellers, offering their knowledge, skills, and experience to employers. The labor market operates on the principle of competition, where workers compete with each other to obtain or retain positions. On the other hand, employers compete to attract and retain efficient employees in their organizations, as these are crucial for improving performance and ultimately generating profit.

The authors Steliana Pert and Nita Dobrota consider the labor market as an economic field where stakeholders engage in free trade: buyers (demand) and owners of human resources (supply), acting as sellers. Within this market, the labor price mechanism, real wages, free competition between economic operators, and other distinctive mechanisms coordinate labor supply and demand. First and foremost, employees are not abstract factors of production, but rather individuals with families, desires, and needs, who then become part of the workforce.

Many authors, including Simona Ghita, Marian Chivu, Andrei Cojuhari, and Liuba Dorofeev, emphasize the complex nature of the labor market, which is defined by its functions in the market economy. These functions have economic, social, and educational characteristics and include the following:

- The function of employment distribution across sectors, industries, professions, skills, and regions, which aligns with the size and structure of labor demand;
- The educational function and the distribution of income among economic operators; through this function, wages are determined;
- The social function; in the labor market, the supply and demand for labor meet, improving working conditions, humanizing labor, protecting the unemployed socially, and retraining them are carried out;
- The function of education and training; this provides the necessary information for education, vocational training, retraining, and reintegration into labor, as well as opportunities to accumulate work experience;
- The political function; this serves to strengthen social and political stability.

The labor market ensures the balance between the needs of the national economy for labor resources and the possibilities for meeting them. This market is characterized by a self-regulation mechanism, which is common to all markets. The key elements of this mechanism are supply, demand, and price.

As the primary transaction goal, the labor market differentiates itself from other markets in its structure and operation, having the following distinctive features:

a) The labor market is segmented. Classic economist Arthur Cecil Pigou, starting in the 1940s, attempted to explain the differences in labor supply and demand, and he described the segmentation of the labor market by the limited mobility within industries and between industries [3]. In the broadest sense, the labor market consists of three "levels": first, second, and third levels (the third level consists of jobs not related to the development of the informal economy). The first level includes workers who have higher education and training, where earnings and job stability are high, along with opportunities for professional growth. In this sector, large companies exist that encourage employees and promote their career advancement and salary increases. The levels primarily depend on growth within "internal markets." Economists Doeringer, Piore, and Saint-Paul view this concept as a way of organizing labor, where vacant positions are filled through internal appointments rather than hiring new employees. Such a concept turns each sector into a group of companies, while the first and second levels of segmentation can also exist within an economic unit.

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In the second level, however, a completely different situation exists, marked by high turnover, low wages, low skill levels, and often a lack of promotion opportunities. In this sector, professional growth opportunities are minimal. Due to this segmentation, employees in the second market earn low wages, and wage differences are related to limited education and training opportunities. The formation of two or more levels in the market occurs because labor mobility within each sector is high, but there is little mobility between them, as working conditions and wages are not the same. The segmentation between "good" (high-paying) and "bad" (low-paying) jobs deepens the divide between the two sectors and forces employees in the second sector to resort to illegal work in pursuit of higher earnings, even though the long-term losses may outweigh the current income.

Authors like Glen Cain, Bulow, and Summers have proposed segmenting the labor market in three dimensions, where the first sector is divided into two parts: the higher and the "second" part, which belongs to the first sector. The upper part refers to individuals at the top of the hierarchy, who possess autonomy, innovation capabilities, and decision-making power. The second part pertains to individuals with average skills, who enjoy relatively high earnings and promotional opportunities. The second sector focuses on low-skilled, low-paid individuals, whose opportunities for advancement are very limited. Many studies have divided the labor market into two or more distinct segments. Segmentation can be carried out based on the company or economic unit, profession, job components, personal characteristics, or combinations thereof.

Labor market segmentation is reflected in both the supply and demand for labor.

From the perspective of labor supply, segmentation can be based on the following criteria:

- Gender (men and women);
- Age groups (working-age population: 15-64, 16-65, 20-65, etc.);
- Geographical (urban vs. rural);
- Occupational categories;
- Skill levels;
- Education levels (primary, secondary, higher education).

In terms of labor demand, segmentation can occur based on the following criteria:

- Specific industries or chosen professions;
- Jurisdiction (cities, rural areas, municipalities);
- Work schedule (full-time vs. part-time);
- Contract duration (permanent or temporary);
- Location of the workplace (in-company or external).

b) Labor Market Rigidity: The labor market is not flexible but is rigid by nature. This rigidity arises from geographical development, lifestyle, professional training, and legal and institutional gaps. Wage differences exist not only between companies or sectors but also between different regions of the country. These rigidities are especially noticeable in areas with high unemployment and inflation. The minimum wage can be one of the factors contributing to the rigidity in the labor market because it prevents quick adaptation to market conditions. Employers are obligated to pay at least the minimum wage, which affects the hiring decisions and productivity. If an employee's productivity is below the minimum wage, an employer may choose to hire new workers or lay off existing ones. If the minimum wage is set too high, it can lead to negative consequences for hiring, especially for young, inexperienced, or untrained workers, forcing them into informal labor markets [4]. In contrast, a flexible and dynamic labor

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market would allow workers to change jobs quickly, which would lead to the creation of high-quality jobs and push less productive jobs aside. Furthermore, such a market would encourage companies to create well-paid positions, which would increase the overall number of employees. Flexibility encourages job placement and acceptance of non-traditional positions, such as part-time, flexible schedules, remote work, self-employment, temporary contracts, or project-based contracts. Flexibility is particularly essential on an international level due to increasing global competition. Flexible labor leads to higher workforce productivity, reduced labor costs, and overall balancing of labor supply and demand.

c) The Labor Market as a Secondary Market: The labor market is considered a secondary market, as it is influenced by and closely linked to other markets (capital markets, goods, and services markets). It constantly responds to trends in labor supply and demand, incorporates the reactions of economic operators, and transmits medium- and long-term signals and impacts, affecting all socio-economic sectors. The structure and size of the labor force supply are dependent on labor demand, which in turn is linked to demand for goods and services and the way they are produced.

d) Regulation of the Labor Market: The regulation of the labor market stems from the need to protect workers and ensure the specificity of the labor force. It helps control competition through labor unions and allows employers to group together. Labor market legislation needs continuous improvement to better manage unemployment and workforce placement.

e) Labor Market as a Contractual and Participatory Market: The labor market is a contractual market, where negotiations between employers and employees determine the quantity, quality, and structure of labor supply and demand. The relations between sellers and buyers in the labor market are governed by laws and agreements between employees, employers, and public representatives. Education, training, and demographic factors determine the value of labor. The labor market is highly dynamic and constantly changing.

f) Labor Market as an Administrative Market: The labor market is also an administrative market because companies manage their existing resources (including the labor force) according to the demand for necessary goods and services. This includes managing employee wages and labor costs.

g) Labor Market's Multi-Dimensional Nature: The labor market is linked to geographical, economic, educational, and social scales. Geographically, it is determined by the profile of the existing workforce, age categories, and the working population. Economically, it is related to the distribution of the population across sectors, professions, and public participation in the economy. Educationally, it is defined by the duration of education, the educational level of the population, and the number of people with specific qualifications. Socially, it relates to social protection costs and the costs of reallocating or relocating workers in the labor market.

h) Imperfect Labor Market: The labor market is not perfect, as workers vary in terms of their preparation, education, skills, geographical locations, age, gender, aspirations, and standards.

i) Non-Competitive Labor Market: The labor market is not completely competitive—modern economies do not have a fully competitive labor market, and it is unlikely that one ever existed. This was demonstrated in 2007 by Kaufman, who concluded that "we have proven that a perfectly competitive labor market does not exist" [5] said. The price of labor, i.e., wages, is not formed in relation to market supply and demand as it should naturally, but is determined

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by factors such as the state of national and international economies, government intervention, the bargaining power of labor unions, or patronage intervention. For the efficiency of the labor market, it is crucial to come as close as possible to perfect competition conditions. The government may intervene to bring the labor market closer to perfect competition or to limit the negative trends of perfect competition. In most cases, labor unions exert pressure on companies to raise wages, which, regardless of the state of the company or the overall national economy, leads to a decrease in economic efficiency for companies and results in an increase in inflation.

Alfred Marshall presents four distinct characteristics of labor in his work Principles of Economics:

- It is perishable over time, meaning it cannot be preserved.
- It cannot be borrowed.
- It does not respond immediately to changes in market conditions, as adjustments to the size and structure of the population require a longer period.
- The limited nature of negotiations leads to a clash between the employer's advantageous position (who can choose the optimal combination of production factors) and the employee's limited position, where their resources and choices are constrained.

The classical model (Adam Smith, Jean Baptiste Say, John Stuart Mill) is based on full employment of labor and the overall equilibrium of labor supply and demand. According to these authors, unemployment is only a temporary result of the labor market and there is only natural unemployment. If there are gaps between supply and demand, these problems are regulated through wage increases. These ideas are supported by advocates of supply-side economics, such as Arthur Laffer or George Gilder.

Supporters of the neoclassical model, like Leon Walras, Alfred Marshall, and Vilfredo Federico Pareto, emphasize that the regulator of the labor market is the price, i.e., the wage. The balance between labor supply and demand is achieved through wages, so unemployment is almost non-existent. The basis of the neoclassical model of a competitive market is the relationship between wages and job levels, which is derived from labor supply and demand.

The Keynesian model, named after its father John Maynard Keynes, contrasts with the neoclassical model, highlighting that the labor market is not in equilibrium. Keynes and his followers argue that the price or wage of labor is not flexible but fixed, and that full utilization of labor may not exist, allowing for overall equilibrium to occur with unemployment. This requires government intervention. Thus, the government determines the necessary workforce through economic and financial tools.

The monetary model, supported by Milton Friedman, Karl Brunner, and Allan Meltzer, is derived from the Keynesian model. According to this model, wages are fixed and only move upward. Monetarists, along with Edmund Phelps in 1960, introduced the concept of the natural rate of unemployment, where monetary policy can only substitute for unemployment levels lower than the natural rate in the short term. Budget impulses may influence income, which can change production or job levels in the short term. According to Friedman, the existence of demand or excessive supply in the labor market is linked not to nominal wages but to real wages. As traders are rational, they adjust wages based on expected prices. Factors such as a minimum wage set by the government, lack of job information, and strong positions of labor unions contribute to labor market imbalances. Monetarists argue that the solution lies in applying monetary policy to credit. By the mid-1970s, monetarism had become the new orthodoxy in macroeconomics.

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The imperfect labor market, developed by Stanley Fisher and John B. Taylor in the late 1970s, shows that collective labor agreements set nominal wages for long-term employment. They determined that monetary policy could have long-term effects, even after prices and wages have adjusted.

The efficiency wage model comes from the connection between worker productivity and relative wage levels, ensuring that workers are paid at levels that maximize productivity, which is related to the process of employee selection and incentives. In the model developed by Carl Shapiro and Joseph Stiglitz in the 1980s, workers are reluctant to search for jobs, but companies monitor worker movements, forcing them to accept jobs when threatened with unemployment.

The main models that manifest in the labor market include classical, neoclassical, Keynesian, monetary, imperfect labor markets, and efficiency wages. The labor market operates through the collision of labor supply and demand and functions at the national, regional, and global levels in every country. Any activity that begins or exists in society creates a demand for labor. The labor market works in the same mechanism as any market for goods or services. As a key component of the market, its factors, structures, and principles resemble other markets, such as natural resources and capital markets.

There is no widely accepted view on whether to use the expression "labor market" or "workforce market," but it is important to distinguish between the work process (goods and services) and the individuals who possess the skills and knowledge used in production.

Based on the analysis, we conclude that the labor market is highly rigid and not flexible. This market's segmentation is generally performed at the macro level and divided into the key sectors of the economy, with less implementation in terms of labor supply and demand. Regulation is necessary in this market, which has a multi-dimensional nature, with geographic, economic, educational, and social dimensions, and functions as a contract and participating market.

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