

INSTITUTIONAL ORDER OF THE LABOUR MARKET AS A SUBJECT OF ECONOMIC RESEARCH

The order of the labour market is a significant element of the social and economic order of the economic system. To a large extent it depends on it but it may also constitute an area of separate, more detailed research. The knowledge on the institutional order of the labour market is necessary to introduce consistent policy on this market and to achieve high efficiency of the labour market. The institutional order of the labour market is usually analysed as a purposeful formalized system. However, it also includes informal mechanisms which may support or restrict the market efficiency.

Устрій ринку праці є важливим елементом соціально-економічного устрою економічної системи. Великою мірою він залежить від неї але в той же час може бути сферою окремого, більш детального дослідження. Знання інституційного устрою ринку праці необхідне для проведення послідовної політики на цьому ринку і для досягнення високої продуктивності ринку праці. Інституційний устрій ринку праці зазвичай аналізується як ціле направлено формалізована система. Втім, воно також включає неформальні механізми, які можуть підтримувати або стримувати ефективність ринку.

Устройство рынка труда является важным элементом социально-экономического устройства экономической системы. Во многом он зависит от нее, но в то же время может быть сферой отдельного, более детального исследования. Знание институционального устройства рынка труда необходимо для проведения последовательной политики на этом рынке и для достижения высокой производительности рынке труда. Институциональный строй рынка труда обычно анализируется как целое направлено формализованная система. Впрочем, оно также включает неформальные механизмы, которые могут поддерживать или сдерживать эффективность рынка.

Key words: labour market, institutions of the labour market, formal order of the labour market, informal order of the labour market.

Market order and institutions

The notion of the market order relates to the way of ordering the interactions between participants of the market. The order of the labour market is most frequently understood as a formal order defined in legislation which covers labour issues, as more or less restricting the liberal market order. This order is created as a result of social and economic coincidence determined by politics and history [1, p. 6]. In view of such conditions in the research on the order of labour market the informal rules accepted and followed in society should also be taken into consideration. Norms and rules which create frames for the labour market functioning may also be defined as institutions of the labour market, according to the modern institutional attitude. Let's call on basic definitions then.

According to the attitude suggested by the representatives of the contemporary institutional economics, institutions are a fixed system of rules which put human interactions into order. According to D.C. North, a key representative of the new institutional economics (referring to the traditional institutionalism from T. Veblen's perspective), „(...) Institutions consist of formal rules, informal constraints (norms of behaviour, conventions, and self-imposed codes of conduct), and the enforcement characteristics of both. (...) they consist of the structure that humans impose on their dealings with each other” [2, p. 9]. Likewise, G. M. Hodgson defines institutions as a fixed system of accepted and rooted principles which organize human interactions into a structure. They limit and at the same time activate human behaviours. They are not just principles but a system of social

principles. Rules imply limitations but they also give opportunities for operation and cooperation by creating structures and giving possibilities for making choices [3, p. 424-425]. According to J.R. Hicks, principles come partly from "above" and partly from "below", they should be understandable and acceptable by those who are to use them, which is a condition to achieve balance in the organization in which they are used [4, p. 22]. Institutions can be seen as tools for solving dilemmas which appear in economic operations of entities and groups, they constitute a system of formal and informal rules.

From historical point of view informal institutions existed earlier than the formal ones. In tribal communities close social relations resulted in the development of stable informal structures [5, p.14]. Then they were exposed to evolution so that they could meet the needs of a given community better and that there would be ensured efficiency of the system. Establishing institutions for the needs of a given community under the influence of the determinants and information constitutes an essential reason for the institutional diversity. It is estimated that formal institutions are less than 10 thousand years old, which means that over 90% of the whole period of humankind existence has been regulated only by informal institutions [6, p.1]. Markets are considered as a typical example of spontaneous order. However, the efficiency of the informal mechanisms is limited. Along with the social development and growth of the life standards, relations were getting weaker and the need for formal norms was growing more important [7, p. 1].

Institutions of the labour market may be defined as a system of laws, norms, customs determined collectively and creating restrictions or stimulations which affect individual decisions concerning labour services and the amount of pay. Entities and enterprises treat institutions as a source of data in making decisions [8, p.3].

Formal order of the labour market

Formal institutions of the labour market, defined also as regulations of the labour market, are norms which determine the principles of conduct, and in particular the rights and obligations of economic entities together with the way they are established and introduced, so that their business activities would be consistent with the interests of the society. In consequence the institutions should contribute to the improvement of social well-being as they are established out of the need to formalize various important types of behaviours of the labour market participants. According to tradition regulations of the labour market shape: scope and type of rights and obligations of the employees, obligations and rights of employers, for the benefit of the employees and the country, character of individual and collective relationships of employment and their principles, as well as laws concerning minimum pay. They are always a kind of compromise between the supply and demand interests of the labour market.

The International Labour Organization divides the regulations into three categories of standards: in the first group there are fundamental rights of

employees (including among others: freedom of collective negotiations, principle of equal opportunities), in the second group there are standards aiming at including the social policy of a country in the laws (e.g. principles of vocational trainings), in the third group there are standards which secure rights of the employees and social safety [9, p.18-20]. depending on the level of their development and relative restrictiveness, labour markets may be assessed as either strongly or poorly regulated. Excessive growth of the regulation of the labour market in many countries, especially the European ones, created the need for deregulation of the labour market, which caused a lot of controversy and heated discussions rarely leading to unequivocal solutions.

Selection of the scope and level of the labour market regulation is explained by the three concepts of institutional choice (which refer to market regulation in general). They are: efficiency theory, legal theory and political power theory [10, p.2]. According to the efficiency theory the choice of the labour market regulation is determined by efficiency factors which cannot be achieved in a given case by a pure market mechanism. Then, in a situation of excessive dominance of employers, which leads to abuse, the state will intervene more in relations between employees and employers, increasing the level of employment protection and decreasing the power of the influence, when distortions (defects of the state interference) affected by it are greater than the positive effects, which could lead to exorbitant costs of following the introduced principles.

According to the legal theory, countries which have got a different legal tradition developed different institutional forms of social influence on economic entities and as a result they developed different strategies of managing the market defects. We speak here about two main systems of the sources of law: common law and civil law, which emerged in 12th century [10, p. 2]. On the one hand there have been developed solutions based on confidence between parties of an agreement and seeking private claims in court, on the other hand – there appeared instruments of the state interfering in the market mechanism by establishing laws on a top-down basis. Therefore historical sources of the state law shape the manner of market regulation, including also the labour market. In countries where common law was adopted the role of the market mechanism and the freedom of making agreements are greater. In countries where civil law and socialist law were adopted (still having an impact in transforming countries) regulations and state property have got an important place. There can be even heard the opinion that the statutory law replaces institutions of social democracy there [10, p. 7-8].

According to the political power theory, the system of regulation is always a result of a political potential of a particular formation, its ideas and purposes, because particular parties represent different interests and various social groups. This attitude corresponds with the concept of a partial politician, according to which in the case of similar problems and information different parties will suggest different solutions [11, p. 246-247].

In literature there are shown three ways of shaping the formal order of the labour market: statutory, collective voice and market-based one [7, p. 3]. The statutory regulation of the labour market is considered as a classic form of introducing order on the labour market. It is also called administrative and legislative regulation [12, p. 24]. It is made by means of acts and resolutions introduced in order to establish a desired character of relations between participants of the labour market. The following groups of regulations are included: introducing and protecting universal rights of employees, protecting selected (weaker) groups of the labour market, principles of paying remunerations, specifying work conditions, concluding and terminating relationships of employment.

The collective voice involves voluntary initiation of the process of specifying and introducing principles which shape the relationship of employment. In this case the source of law is a concluded agreement and it results in self-determination of law. Employees, and usually also employers, have their representatives. This model of shaping relations between employees and employers may be realized on the level of an enterprise, a branch or a country, with a different level of coordination. An essential role in such a kind of relations play the trade unions. Advantages of the collective voice have made it a prevalent form of shaping order in relationships of employment in countries with market economy.

The third way of shaping the order of the labour market – the market-based way, leads to defining such a market as non-regulated. However, it may be assumed that this mechanism is a separate way of regulating the labour market as it is also a result of a particular political decision to leave this area to the actions of the market. The central element of the market order of the labour market is an individual contract of employment, both the detailed and the general one. In this type of regulation the most prevalent are informal norms which complement the existing regulations and together create the system. In practice the three forms of shaping the formal order of the labour market coexist. Prevalence of one of the above-mentioned ways of regulation in a given country depends first of all on its legal system, tradition in which it has developed and the culture. In Anglo-Saxon countries - common law – an important role play voluntarily negotiated contracts between employees and employers. In consequence the legal regulations are less important in that countries. The situation is different in countries where principles of civil law prevail.

Research on the formal order of the labour market in a particular economy should focus on basic values which are characteristic for the labour market regulations. There may be included the following: legal protection of employment, minimum wage, active programmes of unemployment prevention, system of unemployment benefits. They may be stated in a descriptive form, but particularly useful in comparisons are those which try to measure them.

The legal protection of employment may be assessed and compared by means

of the Employment Protection Legislation Index (EPL), designed by OECD, which within the scale from 0 to 6 measures the level of employment protection (the higher protection, the higher EPL), separately in three categories: employees with permanent contract, people employed for a specified time and with relation to the conditions of group lay-offs. A similar character has got the rigidity of employment index (scale from 0 to 100, the higher the index, the more rigid regulations), calculated by the World Bank, usually presented together with the non-pay labour cost factor and dismissal cost index. The calculations of the World Bank are used by The Heritage Foundation in constructing the freedom of employment rate (from 0 to 100, the higher the index – the greater the freedom of employment), within the measurement of the economic freedom for the economies of the whole world. Apart from the above-mentioned indicators of the difficulties of hiring employees, rigidity of the working time, difficulties in dismissing employees and dismissal costs, it considers the amount of the minimum pay.

The minimum pay may be fixed by law, then it is the same throughout the country (like for example in Poland or in France) and there is important its relation to the average remuneration or the amount of the unemployment benefit. The minimum pay may be fixed also on the basis of a collective agreement, then it concerns a particular trade (like for example in Germany or in Austria). In such a case it concerns only selected groups of employees and then it is deemed in international comparisons that the minimum pay does not exist.

Active programmes of the labour market may be examined because of the level of realized expenses (for example in % GDP) and the purposes of the expenses: trainings, supported employment, loans for the unemployed or enterprises, as well as services of employment exchange. It is also important how many unemployed people have been covered by particular instruments. An element of the formal order will also be the principles of paying unemployment benefits, that is the amount (e.g. rate of exchanging the pay with the benefit) and potential changes in the amount of the benefit, duration of the payments, other conditions giving a person the right to receive the benefit, such as for example minimum period of employment and payment of appropriate contributions. Also the information concerning the number of people eligible to receive the benefit in a given period of time will act as an estimate which facilitates the assessment of relative restrictiveness of the system of unemployment benefits.

Informal order of the labour market

The order of the labour market includes also informal norms of behaviour of the labour market participants. They create the system together with the formal institutions of the labour market. They include for example such behaviours as: tendency to abide by the provisions of a contract, ethical standards, mutual assistance, cooperation, trust, system of relations, sharing information etc. They frequently appear in literature, among other, under the name of a mechanism based on the principle of reciprocity [5, p. 237]. F. Fukuyama, speaking about

informal norms which support functioning of markets, points to the fundamental significance of confidence as a mechanism based on the assumption that other members of a given community show honest, cooperative behaviour based on jointly followed norms [13, p. 38]. A. Giddens, while explaining the process of building trust, draws attention to its close connection with relations based on the principle of reciprocity [14, p. 94]. This is why the analyses of informal institutions often focus on trust whose level is measured by means of surveys. Trust and all other values which determine social relations between people on the labour market, such as: knowledge offered by them, skills as well as their social attitudes and behaviours, constitute a specific social capital [15, p. 35]. Its attributes are in particular among others: economic and social responsibility, industriousness, resourcefulness, willingness to cooperate, exchanging experience, discipline and willingness to submit to social standards, ability to compromise and take part in a dialogue. The informal order of the labour market, conducive to its efficiency, includes mechanisms based on confidence and is revealed in such values as: willingness and ability of parties to negotiate and reach compromise, mediating, using in practice the principle of reciprocity, developing and introducing good practice concerning proven solutions on the labour market. An indication of the level of development of the informal institutions of the labour market may also be the conciliatory or the conflicting model of collective negotiations, as the features result from respecting or ignoring the above-mentioned values.

The social capital described above may limit the necessity of using formal regulations and make using and observing them natural, with low tendency to break the norms [16, p. 19-20]. The social capital is a substitute for many formal institutions and the greater tendency to abide by the law, the smaller the need for legal regulations in many realms of human activities, and the lower the public transaction costs. Similarly there may be examined phenomena which are in contradiction to it and which develop pathological, destructive relations on the labour market.

The role of informal mechanisms in creating efficient order of the labour market has been relatively insufficiently examined, especially in the area of the theory of economics, but it is certainly worth analysing on the interdisciplinary level.

Resume

Institutional order of the labour market constitutes an important element of the economic order. The speed of adjustments on the labour market and efficiency of allocations of the labour factor depend on its character. The quality of the labour market regulations and their coherence with the system of informal institutions will decide of the character of the institutional order. Another question is whether we can speak of the existence of the institutional order on the labour market in the case of any economy. In economies of established market economy the infrastructure of the labour market is characterized by relative stability. Sources of its changes may have an endogenous character when they are a result of the

process of development and sometimes also frictions among groups of common interests and the struggle for power. It is also influenced by exogenous factors as a result of popularization of innovations and the process of globalization. The same phenomena influence yet unstable institutional systems of countries undergoing economic transformation aiming at market economy or in already developed but still "young" market economies. Many times the institutional balance on the labour market has not been achieved yet. In these countries there are ongoing discussions concerning the need for extensive reforms or improvement of the existing laws. The awareness of the importance of informal institutions is poor. This is one of the reasons of the stresses connected with low work performance, persistent unemployment, low professional activity, discrimination of some groups. At the same time the reason is difficult to diagnose.

Selected bibliography:

1. E. Kryńska: Segmentacja rynku pracy. Podstawy teoretyczne i analiza statystyczna. Wydawnictwo Uniwersytetu Łódzkiego, Łódź 1996.
2. D. C. North: Transactions Costs, Institutions, and Economic Performance. An International Center for Economic Growth Publication, ICS Press, San Francisco, California 1992.
3. M.G. Hodgson: The Evolution of Institutional Economics. Agency, Structure and Darwinism in American Institutionalism. Routledge Taylor & Francis Group, London and New York 2004.
4. J. R. Hicks: Teoria historii gospodarczej. Wydawnictwo Adam Marszałek, Toruń 1999.
5. E.G. Furubotn, R. Richter: Institutions and Economic Theory. The Contribution of the New Institutional Economics. The University of Michigan Press, Michigan 1998.
6. W.H. Redmond: Formal institutions in historical perspective. „Journal of Economic Issues”, June 2008.
7. G. Betcherman, A. Luinstra, M. Ogawa: Labor Market Regulation: International Experience in Promoting Employment and Social Protection, Employment Policy Primer, November 2001.
8. T. Boeri, J.Ours: The Economics of Imperfect Labor Markets. Princeton University Press, Princeton, New Jersey 2008.
9. J-M. Servais: The Future of Work and Related Security: a Discussion of the Need to Place Matters in Perspective. W: The ILO and the Social Challenges of the 21st Century: The Geneva Lectures, Kluwer Law International, The Hague/London/Boston 2001.
10. J.C. Botero, S. Djankov, R. La Porta, F. Lopez-de-Silanes, A. Shleifer: The Regulation of Labor. World Bank, June 2004.
11. N. Acocella: Zasady polityki gospodarczej. Wydawnictwo Naukowe PWN, Warszawa 2002.
12. S. Borkowska: Negocjacje zbiorowe. Polskie Wydawnictwo Ekonomiczne, Warszawa 1997.
13. F. Fukuyama: Zaufanie. Kapitał społeczny a droga do dobrobytu. Wydawnictwo Naukowe PWN, Warszawa – Wrocław 1997.
14. A. Giddens: Stanowienie społeczeństwa. Wydawnictwo Zysk i S-ka, Poznań 2003.
15. H. Januszek: Kapitał społeczny na rynku pracy. In: Kapitał społeczny - aspekty teoretyczne i praktyczne. Ed. H. Januszek, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 2004.
16. B. Pogonowska: Kapitał społeczny - próba rekonstrukcji kategorii. In: Kapitał społeczny – aspekty teoretyczne i praktyczne. Ed. H. Januszek. Wydawnictwo Akademii Ekonomicznej w Poznaniu 2004.