

THE EFFECTIVE AND REGULATORY MECHANISM OF THE LABOUR MARKET

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Abstract: The current paper aims to research the functioning mechanism of labour market, departing from the idea that labour market represents a constitutive part of the market system, the market system stands as a subsystem of economy and the economy itself a subsystem of the society.

First of all, the labour market mechanism results from the essential interdependencies between the structural components of such market, between the labour market and the other markets, between the market system and the economic one, as well as between the economic and social system. Secondly, the labour market mechanism arise from its functional relations with the operational, executive, legislative, institutional and organizational structures of the social system from which it belongs, and which functional relations manifest as public preferences towards the functioning of the labour market.

Therefore the regulatory mechanism of the labour market functions in two main steps, each of them comprising means and instruments for the implementation of the regulatory process: the spontaneous mechanism (based on objective necessity) and the intervention mechanism on the labour market, making use of various external economic means.

The reflection in theory of the working mechanism of an economic process or group of economic processes, of a commodity market or the interdependence between all goods and service markets, of an area of the real economy or the economic system, works out with the help of the complex notion of economic mechanism (Treaty of contemporary economy, 1987).

The notion of economic mechanism originates from the general theory of systems, standing as an extension and an application to the social field of this theory. According to this theory, every functioning entity is made up by several interdependent components, called sub-systems, which carry out the specialized functions of the system they belong to. Furthermore, any functioning system acts as a system which has a regulatory mechanism, whether it works autonomous or in interdependence with other system. Within society, the regulatory mechanism has a dual nature: they are spontaneous (emerge from a need or they are objective) and secondly, they are conscious (as a result of the intervention within the social activities of the subjects that fulfil regulatory social functions). The self-regulation and the conscious regulation are two inseparable sides of the functioning mechanism of every social process.

The labour market stands as a component of the markets system, together with the product and services markets and financial markets with all their sub-components. The market system, on its turn, represents only a sub-component, a sub-system of the market economy, which fulfils the function of exchange and circulation of all economic

goods, were the production, distribution and consumption sub-systems adds up. Finally, the economy is included in the global social system and is interacting with all the other sub-systems of the society through several functional relations, double dependence between the labour system and social one, horizontal and vertical relations, direct and mediated relations. The labour market arises from all these inter-relations and implements its regulatory mechanisms. The real economy becomes functional only within a given social system (concrete), in the same way the labour market cannot work effectively unless within a economical system generated by the respective society.

1. The economy – society sub-system. The mechanism of the market economy.

The economy of a state, as a sub-system of the society, fulfils the **substantial self-insurance** function, accomplished by the production of goods and services, together with the aggregate processes that insure the satisfaction of people consumption needs. Within the social system, the economy acts in interdependence with the other sub-systems.

Firstly, one should remark the connection between the economy and the political system, system made of political organizations of the social groups and public authority institutions, which helps express the interests of the society constituents on one way and formulate the objectives and global interests of the social system on the other way.

Secondly, the economy interacts with the system of executive-operational structures, which carries out the function of accomplishing the objectives of the system, both those particular to the social structure constituents as well as the general ones. The components of the economic, politic and executive-operational sub-systems form together the institutional-organising structure of the state societal system.

Thirdly, the institutional-organizing structure is in permanent interdependence with the sub-system of dominant society values, which fulfils the integration function, insuring the relative cohesion of the societal system. The sub-system of values exists through the behaviour of the members of the nation-state community and stands as the modelling factor for the organizations and institutions functioning, of the relations between and of the effective running of the societal system altogether.

The political sub-system, by means of its institutions and organizations, defines not only the immediate economic objectives, but also the objectives of all the other society sub-systems which involve actions with an economic dimension. The operational-executive sub-system, by means of its organizations along with the state executive bodies, is directly or indirectly involved in economic activities, acting as economic agents or regulatory factors of their behaviour. On its turn, the cultural model (the values sub-system), stands as a conditioning factor for the economic behaviour of the people (individuals), both the working force as well as the economic agents, but also the economic and socio-economic organizations and of institutions involved in economic decisions and actions (T. Parsons, N.J. Smelser, 1965).

The permanent interaction between the continuous evolving society sub-systems, marked by several partial distortions along with the general tendency and strive towards a general equilibrium, represents the **general mechanism for the functioning of the society**.

Independent from the other society subsystems, the economy in itself acts as a system which includes several other subsystems or component blocks, such as: economic agents, their resources, the mutual relations or the horizontal relations between the economic agents and the process or resource reallocation, production, exchange and consumption, the interdependence relations between economy and the

other components of the societal system. Between production, exchange and consumption of goods and services, as genuine economic process and the allocation of resources, as an adjustment process of the production, there is an in-separation and double dependency (J. Konrai, 1974), through which the economy functioning and regulatory mechanism manifest itself.

The economic agents, as individual bodies, are the cause of the regulatory function of the economy but cannot overtake the role of regulatory subject, because the production system is detached from the society needs system, acting as two different powers: the aggregated demand and the aggregated supply of goods and services. The personification of the production and consuming actors cannot be realised unless by the market institution, and the confrontation between the supply and demand becomes the impersonal subject of social production regulation, meaning the allocation of resources and consequently the adjustment of the relations between the economic agents. The market regulatory mechanism by means of demand, supply and prices is spontaneous and permanent.

Other type of subjects, such as organizations and institutions, exists and contribute to the regulation of the market economy. The organizations of the various economic agents have as purpose to meet and achieve the economic interests of each social group. The relations between the organizations of economic agents are horizontal and are established according to the market mechanism, but they aim to maintain or to modify the ratio of forces on the market of goods and services in favour of the social groups they represent. As subjects of the adjustment processes of the functioning of the economic system, the public institutions promote the general interests and needs of the societal system, called *public preferences or agreed preferences*. The institutions act either as public economic agents or subjects of public decisions (legislation, regulations, norms, rules, standards, deregulations, etc); they do not replace the microeconomic agents and they establish as a system of restrictions and incentives which facilitate the activity of the primary economic agents towards the accomplishment of the general economic interests of the societal system. The relations between the economic agent, the public institutions and the private microeconomic agents are horizontal economical relations while the ones between the institutions as subjects of public decisions and the regular economic agents are vertical ones, open and mediated by intermediary chains. By means of the vertical relations the global social system conditions the economy, which becomes one of its subsystems (J.K. Galbraith, 1967).

Separating between the economic agents, the economic organizations and public institutions endowed with orientation tasks of the economic activities, together with the division between the vertical and horizontal interrelations that take place between these components, are essential for capturing the concept of the effective and regulatory mechanism of the economy, (T.S. Koopmans, J.M. Montias, 1973), which reflects itself in several steps:

a. Through the horizontal relations – settled in a free and way and departing from an equal juridical position between independent economic agents – the private economic interests of these agents are being set into move and the process of activation and deactivation of resources is taking place, giving birth to the first step of regulatory (adjustment) mechanism of the economy – represented by the market mechanism.

b. The vertical relations between the economic actors and public institutions endowed with responsibilities in organizing and insuring the functioning of the social

life, gave birth to the second step of the economy functioning mechanism: the ruling and regulatory economic mechanism (J.M. Monties, 1976).

The regulatory relations of the horizontal economy are permanent and spontaneous, emerging in the situation of necessary relations, while the vertical relations are conscious and active (constructive), totally or partially changing the necessity relations into existence relations. Therefore, the mechanism of functioning economy is made up of two interdependent components: the spontaneous mechanism based on the market and a social mechanism outside the market. The market mechanism holds many qualities in what concerns the allocation of resources, but generates also failures. There are goods and services which stand as essential conditions for the functioning of the societal system, but cannot enter in a insufficient manner in the interest sphere of economic agents producing commodities (public goods and activities), although they consume important economic resources. Allocating resources for such activities cannot be done through the market mechanism but through a conscious mechanism of economic ruling and regulation by an actor situated outside the market relations, concretely through the structural and instrumental economic policies.

The general mechanism of the market economy states the way in which the regulation of economic activity and its dynamic is realised, through the interdependence between the structural elements of the economic activities which change their position and mutual dependency ratio according to the change of conditions that make the economic system. In the same time, the general mechanism of the market economy functioning is made of an assembly of means, methods and supporting and orienting levers of the economic activity based on the efficiency principles and economic rationality (G. Silasi, 1991). By means of horizontal relations between the economic agents, which appear from necessity, the market economy mechanism is spontaneous, therefore objective, while by means of vertical relations between the economic actors, between them and the society institutions, the regulatory mechanism consists of public authorities and organizations intervention in the economy in order to guide its evolution towards achievement of social purposes.

2. *Labour market – subsystem of the economy and the society.*

In a market economy the activities are being carried out with the help of paid labour, which makes the labour market to hold an important place within the social system. The transactioned commodity on this market is the labour force or the capacity of employees to develop useful activities, in favour of the buyer, after the closing of the buying – selling process. From a certain point of view, the labour force meets the general characteristics of common merchandise and acts on the competitive market in the state of demand of labour force, supply of labour force and the price of labour (wage, salary). On the other side, the labour force is a special commodity, different from the others; it exists only in relation with the living personality of the human individual, which, although is the bearer of the labour force, is not the object of market transactions but a free person from both juridical and economical way. The living personality of an individual is a “product” of the social system, being conditioned by it before, during and after the completion of the selling – buying process of labour and making such market very complex in its nature; within its context are taking place a lot of economic, political, social, cultural, professional and other types of interests of the salesmen and buyers of labour, of organised social groups (unions, employers, etc) and interests of the entire society, represented by the public powers which are to fulfil special tasks on this market.

Labour, in its quality as commodity associated with the living personality of the individual, is directly conditioned by the degree of the community development from where the individual lives (belongs to) along with its past, current and future evolution of the community. The owner of the labour force builds himself within the family, the social group and the community where he belongs and is connected in a natural and social way, by means of living conditions, education, professional training, culture and spirituality. Furthermore, the owner of the labour force needs to support himself and his family, according to the current epoch he lives in, having the interest that the price of his labour is enough to offer the opportunity of a decent living standard, benefiting from the human rights and freedoms.

The trading of human abilities, aptitudes stands not as effective work but a potential or a future one, leaving the space for further conditioning of the labour force, such as: the way the employees will have to do the tasks they were employed for, the working duration, the working, leisure and health insurance conditions, working security, work conflicts, working productivity, the level and evolution of the wage according to the prices of consumption goods and services, working mobility between jobs as well as employers, living conditions of the employee family, retirement schemes and the juridical system of pensions, etc.

The transactions on the labour market are characterised by some special feature: the labour sells itself not once and forever, but on short term periods (hours, days, weeks, months) and the buyer becomes not the owner of the bought merchandise but only the beneficiary of using it in efficient activities which produce goods or services. The employment contract of the employee is strictly defined by juridical regulations having a prohibition character. Make use of the working force can take place only for the activities specified in the contract and only within the legal time limits. Transactions of the labour market are characterized by the preferentiality of the labour owner as well as by its buyer (Emilia Ungureanu, 2005). The labour market is a contractual – participative one; between the bearers of the labour supply and demand negotiations are taking place, contracts are signed, which for a limited time harmonise the interests of the two parties.

The practice and theory of the labour market evolved within the modern and postmodern society from the model of perfect competition market to the imperfect competition market model, and from this one to the theory of labour market segmentation, some segments holding a competition character while others a non competitive one. The perfect competition labour market model represents an exception in today's economy when the negotiations between the supplier and the demander no longer take place in a direct one to one way at the gate of the enterprise, but in a direct way through intermediation of workers organizations and employers, businesses of recruitment and distribution of working force and other institutions, based on regulations. The transactions effected on the current labour markets take place both at micro-social level as well as various levels of macro-social organization, where the institutional and non-institutional intervention elements are very strong, establishing the features of a imperfect and regulated market. The regulations of the labour market have both a national as well as an international character, the international labour legislation prevailing over the national one. In a globalised and regional integrated society, the regulations with an international spreading become more and more important (C. Bratu; G. Stegarescu, 2003). The institutions and organizations which operate on the labour market reflect the interests of organized groups of participants to labour transactions as

well as the general interests of the normal functioning of social system. Due to such reason, the labour market, throughout its functioning has a predisposition towards conflicts, which need to be limited in order to ensure the social balance. By means of negotiations, social dialogue and cooperation between all interested parties, the institutions, organizations as well as the regulations are meant to appease the conflicts and unbalances of the labour market.

3. *The functioning mechanism of the labour market and its phases.*

The labour market ought to maximise the economic and social effects of the labour transactions, both for the employees as well as the employers. As the labour market is a component of the markets system, and the markets system a subsystem of the economy, the functioning mechanism of the labour market acts as a component of the general mechanism of the market economy. Structured and fragmented, the labour market is an imperfect one, regulated and institutionalised, hence organised at social level, thus adding to its own economic aspects a legislative and institutional framework, together with the more focused or expanded intervention of public administration and the organizations of labour market actors.

The extensive social-economic regulation of the way the labour market is operating in a modern economy, the existence of numerous structures of different natures which make up this market, the horizontal and vertical interrelations between the labour market components, between the labour market and the other markets, between the markets system and the economic one, between this one and the social system, when all these elements are constantly changing their position and mutual dependency reports within the social system, together with all means by which the labour market is supported and guided, all such elements create the ***effective and regulatory mechanism of the labour market.***

Two categories of processes and social economic relations are mingling along the functioning process of the labour market: ones spring out from necessity and are impersonal (objective), while others derive from the operational –executive and organizational-institutional structures, as well as the system of values existing in the society. As a result of such relations, the regulatory mechanism of the labour market divides itself in a visible and persistent way in a spontaneous (objective) mechanism and an intervention mechanism, by which all processes connected to paid labour manipulation are being regulated in a conscious way, making use of all available instruments outside the market (M. Babeanu, Gh. Vlasceanu, 2007).

The spontaneous mechanism of effective and regulated labour market embodies:

a. The self-adjustment of aggregated supply and demand of labour, as well as the wage level which takes place beyond the solicitants, suppliers or intermediaries intervention possibility, which act as agents on the labor market;

b. Ensuring the necessary correlations between all labour market divisions, characterised by a continuous uneven evolution;

c. The distribution process of the labour resources, needed by all national economy components, from all specializations and training levels, according to the general principles of the market;

d. The dynamic process of spontaneous correlation of the labour market with other markets and all economic activities.

Being an objective mechanism, the spontaneous labour market mechanism consists of the self correlation of several mechanism with required character, as steps (phases), such as:

- The interdependency relations between the labour market subsystems: demand, supply, efficiency wage, within all segments and in an aggregated way on the overall market;
- The spontaneous relations of mutual conditioning between the economic system and that of markets and labour market system;
- The necessary inter-conditionality relations between the social system, economic system, the markets and labour market system.

The notion of spontaneous labour market mechanism derives from the vision which considers the labour force as being, firstly, a common merchandise, which price (wage) results in a spontaneous way according to the correlation between the supply and demand of labour force. In this case, the labour market mechanism is examined from the point of view of general features of the labour force, mechanism which, in interaction with other markets mechanisms needs to generate impacts compatible with efficiency, sustainable development and social and economic equilibrium.

The intervention labour market mechanism, which makes use of social instruments from outside the market, has as fundament the vision which considers the labour force as a special merchandise, different from all the others, which functions as a special production factor, and whose remuneration is determined by the combination between the game of supply and demand and labour market specialised and regulated organizations and institutions, which fulfil an important social role in appeasing the free game of such market forces. The social practice during the modern and postmodern era proves that the labour market, through its spontaneous mechanism, does not hold the absolute capacity of self-regulation; the labour market is an imperfect one where the demand, supply and salary are evolving both according to the general laws of the market as well as according to demographic, historical, organizational, institutional, social, cultural and psychological factors, in order to appease the high fluctuations of the salary, demand and supply of labour within the nation- state space.

The most visible characteristic of the contemporary labour market is embodied by the spontaneous tendency to produce serious unbalances between the labour supply and demand, with attenuations in the upward (ascending) phase of the business cycle and accentuations in the downward phase, reflecting in the outrunning of labour demand by the supply side with serious consequences towards real salaries and unemployment, as well as structural unbalances between the aggregated labour supply and demand within the different labour market segments, some territorial or professional segments being characterised by excess of labour while others by excess of demand, simultaneously reproduced in unemployment as well as vacant labour placements. Using institutional, administrative and organizational instruments, the labour market intervention mechanisms are meant to keep within decent limits, from a social point of view, the unbalances and un-correlations between the structural labour market components, between the labour market and the social and economic system.

The key components of the labour market intervention mechanism are:

A. The legal regulations which consist in formulating legislative packages regarding the labour market, such as:

- a. Employment and remuneration laws (the minimum guaranteed gross basic salary, the negotiated salary, employment conditions);
- b. Employment conditions laws (regulation of working time, the security and health at the work place, regulation of the relations between the employees and employers, the liability towards labour security and health);

- c. The legislation of social protection for the employees and unemployed
- d. The legislation of solving the work conflicts

B. The actions of the institutions involved in the labour market:

- a. The government through its Ministry of Labour acts towards: evaluate and efficiently utilize labour, coordinates the education and professional training of workers, coordinates the social and professional re-integration of unemployed people, establishes the minimum basic salary in economy, coordinates the labour inspection and social protection, promotes the employment of labour (elaborates employment and unemployment policies and strategies, labour flexibility);
- b. Employees institutions- which promotes their interests in an organised way (professional associations and organizations, federations and union confederations);
- c. Employers institutions (branch or territorial organizations, employers federations or confederations)
- d. The institutionalisation of the collective negotiations between unions and employers, with the state acting as mediator and guarantor of the labour legislation;
- e. The institutionalisation of reconciliation and work conflicts solving by cooperation between the employees and employers institutions
- f. The institutionalization of regulations and public authorities control over the respect of normal working conditions (labour inspection).

The labour market institutions are socio-economic structures which regulate the labour market beyond its objective stipulations; they carry out important tasks relating to employment, unemployment and labour remuneration, control by means of certified institutions the way the labour force is utilised, affects in a positive way the economic development and accumulation process (Emilia Ungureanu, 2005), contributes to the stabilization of economic growth rate (Gheorghe Răboancă, 2003).

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