Is the labour market really a market?

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At best, the term "labour market" is common parlance, at worst a misnomer. Although we know there are different "markets" for different types of skills, careers, geographic locations, etc., their divisions are but poorly defined substitutions and this can be observed at the level of job offers and the demands that they express. This goes some way to explaining the permanent coexistence of job vacancies and unfilled job applications. This situation is the result of structural imbalances that highlight the limitations of a standardised homogenous market and the illusory nature of lines of reasoning that claim to have global insight.

But beyond the phenomenon of a heterogeneous market, there is a more serious reason to discuss the notion of a labour market or labour markets. In reality, matching supply and demand of job offers does not follow the same rules as usual market mechanisms. There are at least two reasons for this:
– Firstly, because the terms and conditions of employment contracts are constrained by regulations (minimum wage, maximum working hours, redundancy conditions, etc.) specific to a given economy or sector, which in turn are influenced by political choices, collective bargaining agreements and negotiations. At least in the short run, these choices and negotiations are not uninfluenced by the economic climate and the rate of unemployment and they take into account these imbalances to a greater or lesser extent. However, we are still a long way away from the classic model of adjusting prices based on supply and demand confrontation. This does not mean either that these adjustment mechanisms are fatally inefficient. Their use can be justified at the micro and macroeconomic level: in particular, some rigidity on falling wages and employee numbers can actually help stabilise demand and economic activity during crises.

– Secondly, because a major aspect of job mobility (including matching jobs with applicants), wage determination, etc. is carried out within firms (and more often within institutions) in accordance with their own in-house procedures and rules. That is to say as part of the managerial system rather than in a decentralised manner that characterises the way markets function. However, this approach (using the "internal job market") is one way to solve problems that the "external market" treats so poorly.

Partly because the skills and/or effectiveness of employees are affected by the phenomenon of information asymmetry. That is to say, their worth can be best evaluated within the institution, which results in "favouring existing employees" and because above all, job stability is often secured by investing in employees already working in a company; this is known as constituting a specific human capital. In certain production processes, implementing differentiation strategies or developing certain types of innovation can create a significant competitive edge for a company.

Finding the optimal balance between institutional logic and market fluctuations

Obviously, creating balances in the "pseudo labour markets" is both a question of institutional patterns (or administrative) and market fluctuations. This duality partially responds to good reasoning if not actual necessities. These reasons and necessities depend on a number of characteristics of the economic and social system: its production specialisations, its level of development, its predominant corporate model (type of governance, nature and scope of objectives), its level of social protection, etc. What this all means is that there is no preferred (or more efficient) model for the functioning of labour markets. More specifically, there is no optimal weighting between regulation and contractual freedom, in this domain at least. A system which protects employment, as is the case in continental Europe (more so than in Anglo-Saxon countries), is without doubt only viable as long as it is consistent with long-term business models, levels of skilled employment and the better positioning of its productive activities. Many conditions that we know are not spontaneously guaranteed but which, at least, define possible ways of reform.

In this sense, imbalances in the labour market (unemployment and employment inequality) are chiefly the result of incoherences between the different dimensions of the system we have just mentioned. However, these inconsistencies are potentially numerous and in fact occur very frequently. For example, when employment regulations prevent firms from being flexible (i.e. when financing or strategic positioning does not work) there is a risk of under employment and creating duality in the labour market. That is to say that the "privileges" in terms of the salaries and job guarantees enjoyed by some employees will be offset by poor working conditions and job insecurity for other sections of the labour force. This inequality tends to be reproduced internally insofar as casual workers are placed in a position where they are incapable of acquiring the necessary skills to change their status. This means that both types of jobs and markets are permanently closed off from each other. Especially as this reasoning is transposed at the macro-economic level i.e. certain sectors - and their employees - are used as adjustment variables in order to offset the guaranteed incomes enjoyed by others. This underlines how competition flaws in the goods and services markets can also be used as an element of analysis and as a way of putting forward recommendations.

That being said, an overly unregulated job market also produces comparable undesirable effects. In addition to the feelings of insecurity and inequalities that it can produce, an overly high level of mobility can slow down the acquisition of specific skills or simply devalue them.

A question of coherence

To sum up: the place of rules, agreements, pricing mechanisms in the labour markets must be reviewed and possibly rectified in line with other characteristics of the economic and social system. It shows that resolving possible problems in the market is not exclusively the domain of employment policies.

But based on what assumptions and in what order should this harmonisation take place? For example, should we consider that the supply and demand structure for jobs can only be changed slightly in the short and medium term? And regarding low-skilled jobs, reducing under employment would result in changes to the minimum wage, less generous unemployment benefits, government subsidies to lower the cost of labour, etc. Or can we admit that is possible to act in terms of the content of these jobs and work towards to re-qualifying them as well as improving the working conditions associated with certain activities? More generally, can we enhance job offers to further economic and/or social aims by mobilising labour forces that have become distanced (or always have been) from productive activity? And how?

Another question: can we assume that the financiarisation of the economy with its implications on the objectives and prospects of firms, cannot or should not be questioned and that we should adapt jobs and wages to the profitability demands required by markets? Or should we look for ways to relax these restrictions in order to allow firms to extend their long-term prospects and take advantage of the benefits brought about by long-term investments in the company's employees?

Or: Should innovation strategies be designed and applied according to the Schumpeterian principle of "creative destruction" i.e. the permanent renewal of companies, which involves the continual reallocation of production factors, frequent visits to the external labour market by employees, and relaxing redundancy and hiring conditions? Or should we consider that innovations, or at least a majority of them, are born and develop within existing businesses and are based on the accumulation of knowledge and skills over time? In which case, we must ensure the long-term survival of firms and protect jobs that can be seen as a factor of productivity.

Questions of this type are potentially numerous and the answers even more so. If nothing else, these questions highlight the fact that the analysis of the "pseudo markets" cannot be carried out independently from other dimensions of the economic and social system. In the same way that proposals aimed at improving their operations cannot strictly concern employment policies. This is because these markets are "multiple" and fragmented. But above all, because the process used for matching job offers with job seekers (as well as determining wages and other working conditions) come in various forms, most of which have nothing to do with the usual representation of market mechanisms. However, nothing demonstrates that these mechanisms are, in general, the most efficient manner of mobilising and developing human resources in a given economy.