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Analysis of the theoretical foundations of the formation of the labor market

The article analyzes the main theoretical and methodological approaches to the study of the labor market in works of representatives of different economic schools, reveals the features of the existing concepts of the formation of the labor market, it is emphasized that, in general, they complement each other, marked by both continuity and inconsistency. Theoretical models with multiple sectors and segments and empirical analysis using different kinds of data are then reviewed. A brief concluding section addresses some priority research needs. The article discusses the various theories of the labor market: classical, Keynesian, neoclassical. The labor market is seen as a broad and a narrow sense.

Key words: labor market, labor force, theory of labor value, labor value, unemployment, employment, labor demand, labor supply, theories of labor market.

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Еңбек нарығының теорияаралық негіздерін талдау

Мақалада әртүрлі экономикалық мектеп өкілдерінің жұмыстарының негізінде еңбек нарығының теориялық-әдіснамалық тәсілдері зерттеледі. Қолданыстағы еңбек нарығының тұжырымдамаларының ерекшеліктері ашылып, бірін-бірі толықтырып отырады. Сондай-ақ, теориялық моделдерде эмпирикалық талдаудың секторлар мен сегменттері түрлі мәліметтермен пайдаланылады. Қорытынды бөлімде, кейбір басым қажеттіліктері зерттеледі. Мақалада еңбек нарығындағы әртүрлі теориялар қарастырылады: классикалық, кейнсиандық, неоклассикалық. Еңбек нарығын кең және тар мағынада қарастыруға болады.

Түйін сөздер: еңбек нарығы, жұмыс күші, еңбек құны теориясы, баға, еңбек, жұмыссыздық, жұмыспен қамту, сұраныс еңбекке деген, ұсыныс еңбек теориясы, еңбек нарығы.

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Анализ теоретических основ формирования рынка труда

В статье анализируются основные теоретико-методологические подходы к исследованию рынка труда в работах представителей различных экономических школ, раскрываются особенности существующих концепций формирования рынка труда, подчеркивается, что в целом они дополняют друг друга, характеризуясь одновременно преемственностью и противоречивостью. Также рассматриваются теоретические модели с несколькими секторами и сегментами эмпирического анализа с использованием различных видов данных. Заключительный раздел рассматривает некоторые приоритетные потребности исследований. В статье анализируются различные теории на рынке труда: классическая, кейнсианская, неоклассическая. Рынок труда может рассматриваться как в широком, так и узком смысле.

Ключевые слова: рынок труда, рабочая сила, теория трудовой стоимости, цена труда, безработица, занятость, спрос на труд, предложение труда, теории на рынке труда.

**ANALYSIS OF THE
THEORETICAL
FOUNDATIONS OF THE
FORMATION OF THE
LABOR MARKET**

This paper analyses main theoretical and methodological approaches towards labor market research in the works by various economic schools representatives. It also reveals peculiarities of modern conceptions of labor market formation. It has been stated that these peculiarities are mutually complementary and characterized both by succession and antipathy.

The term «labor market» will be used in this paper to refer to the place where labor services are bought and sold. In some labor markets, people are paid employees, selling their labor services to an employer in exchange for a wage or salary. In other labor markets, people are self-employed (also called own-account workers), in which they sell their labor services to themselves. As used here, «labor market» is a comprehensive term including both paid employment and self-employment.

The theory of the labor market and labor relations associated with the names of the founders and creators of the labor theory of value – William Petty, A. Smith, D. Ricardo, JB Say, Karl Marx. Scientific views of the founders of classical economics were formed at a time when there were free competition and the market system is not experiencing a deep economic crisis. The classical economists were convinced of the omnipotence market regulators and defending this idea, believed that full employment is provided because the supply and demand in the labor market is always balanced. The equilibrium state of the demand and labor supply in the market is ensured by its cost.

Model of the labor market proposed by Adam Smith (1723-1790) reflects the relationship between the demand for workers and the funds intended for the payment of wages. For example, he said: «Demand for people living wage can be increased in proportion to the funds for the payment of wages» (Smith, 1993). Smith is the creator and developer of the labor theory of value theory of labor market (the provisions of which, and its basic ideas relevant to current conditions), the theory of a living wage, employment, unemployment. Noting that the salary varies depending on the performance of labor, Smith had anticipated some of the provisions and the conclusions of the modern theory of equalizing wage differentials.

Continuing to develop the ideas of the classics, a prominent theorist Karl Marx (1818-1883) completed labor theory of value,

made a number of concepts that are relevant to the study of the labor market. Marx's Labor theory of value is based on the assumption that the labor market workers do not sell the work, and his ability to work – labor – in the commodity market the owner of the money is not opposed to the work itself, and working.

It is his labor (Marx, Engels, 1954-1981). The process of consumption of labor is at the same time, the production of goods and surplus value. Marx for the first time introduced the concept of «market labor «,» labor «, developed the theory of surplus value, formulated the dual character of labor, created the theory of relative surplus population, justifying the inevitability of capitalism formation of the reserve army of labor (unemployment).

In contrast to the classical school, in the framework of neoclassical economics directions (A. Marshall, J. B. Clark, A. Pigou, L. Walras, A. Laffer, R. Hall, A. Rees, M. Feldstein et al.) , work is not recognized as the creator of the cost of goods, and the value of a commodity is determined by its marginal utility. If the classical theory of the labor market is stated that all types of income generated by labor alone, the neoclassical – the income generated by all the factors of production. Market work at neoclassical theory treated as a single market, only factor of production, labor is a commodity of the market traded. The price of labor is determined by the interaction of supply and demand proposal, and the work has a homogeneous and indivisible. Neoclassical theory emphasizes great importance of investment in human capital, considering them as the foundation of economic growth.

The founder of the neoclassical school English economist Marshall (1842-1924), seeking to combine the theory of marginal utility and the theory of production costs concluded that neither the demand nor the offer are not a priority in determining the price, has developed a framework of analysis of labor demand and supply, put forward the concept derived demand revealed the dependence of trade unions on the elasticity of demand for labor, noted the uncertainty in the labor market, determined by a non-competitive nature of the market, has proved inadequate labor market (Marshall, 1993). Like the classic Marshall believed that the market system provides full use of resources, including labor, he did not see the need for state regulation of employment. This view prevailed among economists until the 30-ies of XX century.

However, in the 30s, this picture of harmony in the economy has become increasingly questioned. The volume of production in developed Western

countries has fallen by half, unemployment rose up to 25%, while real incomes have fallen by 60%. Against the background of mass unemployment, the claim that this problem can be resolved by itself at the expense of wages, become insolvent. All contributions are becoming increasingly advanced J. Keynes (1883-1946) theory of the need for state intervention in the regulation of the economy to achieve full employment.

Representatives of the Keynesian view understand the labor market as an inert, static system in which the price of labor is rigidly fixed. The presence of involuntary unemployment caused by a lack of aggregate demand, which can be eliminated using a proactive fiscal policy, including measures of budgetary and monetary regulation. J. Keynes and his followers argue that in a market economy there is no mechanism to guarantee full employment and reasons for unemployment is the lack of synchrony in the adoption of major economic decisions on savings and investments (Keynes, 1993).

An effective means of ensuring employment in the framework of the Keynesian concept is the expansion of the investment activities of the state. However, it should be noted that the Keynesian methods of the middle of the XX century proved insufficient against unemployment. For example, if in the middle of 60-ies of XX century, the unemployment rate in developed countries ranged from 3-4% in 80-90 years it reached 6-8% (Pavlenko, 2004). Public methods of economic regulation, proposed by Keynes, have not worked. The search for ways out of the crisis has led to increased interest in the monetarist concept proposed in the 50-s by M. Friedman and his supporters.

Nobel laureates like a Milton Friedman (1912-2006), E. Phelps (1933) argued that in a market economy the price mechanism itself defines a rational level of employment, as it is a self-adjusting system. Monetarists proceed from rigid price structure for labor and unidirectional upward trend in wage rates (Friedman, Hayek, 1990). According to the monetarists, the labor market is able to come to equilibrium in the presence of the natural rate of unemployment, which corresponds to a level compatible with the actual conditions of the labor market.

In order to balance the market monetarists propose to use the tools of monetary policy to stimulate investment and business activity and an increase in such way employment. In the labor market model natural rate of unemployment reflects the structural characteristics of commodity markets and the labor market. According to monetarists, public

policy, Ultimately, it should be aimed at achieving the natural rate of unemployment, reflecting the structural imbalances in the labor market and non-cyclical market conditions in the economy.

In economics, the end of the 40s attempts were made to adapt the Keynesian theory in the framework of the neoclassical synthesis, which Keynesian economics is regarded as a special case of the neoclassical theory, dedicated to a specific state of the economy with underemployment. In general, representatives of the «neoclassical synthesis» (J. Lampert, Paul Samuelson (1915-2009), D. Hicks (1904-1989) believed that the economy is a system in equilibrium, except for special cases, which describes the Keynesian theory (Samuelson, 1997; Lampert, 1994). The essence of the neoclassical synthesis is the synthesis of macro-economic ideas of the classics and the macroeconomic analysis of Keynesianism, combined with fiscal and monetary policy, allowing the economy to restore the balance at the level of high employment even in the case of reducing the demand for labor. The main objective of neoclassical synthesis is to find the optimal combination of market self-regulation to the stability of state influence on the economy, which builds and improves the conditions of market mechanisms.

Starting in 1960-1970 years, the problem of the labor market actively investigated from the standpoint of institutional economics, an economic system through the prism of the category «Institute». According to institutionalists (Veblen (1857-1929), George. Dunlop (1840-1921)

J. Commons (1862-1945), George. Galbraith (1908-2006)), the labor market is an area of negotiation between employers and employees and the rules describe the behavior of the subjects on this site. A key place in the research institutionalists take issues of mutual coercion of workers and employers, including by means of collective agreements, with the participation of trade unions. This area is characterized by a departure from the macroeconomic analysis and the desire to explain the existing discrepancies in the labor market characteristics of the dynamics of the individual sectors, social, occupational and demographic groups.

Particular attention is paid to research institutionalist analysis of the impact of social and political institutions to the labor market, the analysis of occupational and sectoral differences in the labor force and, consequently, in the level of wages. The main idea of this theory is the need to strengthen social control over the economy. It becomes particularly acute problem of social

guarantees of employment. Institutionalists believe that the employment issues can be solved with the help of various kinds of institutional reforms, which determine the behavior of subjects in many ways in the labor market (Veblen 1984).

Representatives of the institutionalist approach, questioned the existence of a competitive labor market, rational behavior of the individual, automatic achieving an optimal state of the economic system. They are critical of the extended classical economic school provision for uniformity of the labor market and opening up employment relations. Institutionalists (Dunlop, Derenger Gordon, Payor, Leadbeater, Granovetter, Atkinson et al.) Have introduced the concept of the economic theory of clusters of jobs, we laid the foundation for the theory of labor market segmentation.

The cluster concept of the labor market is characterized by the association of homogeneous Dunlop jobs in intra- and inter-firm levels in the clusters. Each cluster is made up their level of pay and unique to his specific production relations. This theory denies the existence of a single labor market with a free flow of labor and a single payment; It shows that between professions, enterprises, industries and regions remain stable differences in pay, and control of labor behavior is not only wages, but also the conditions and content of the work; trade unions and the state have a significant impact on the development of the labor market.

These provisions in the early 70s have been further developed in the concept of P. and M. DeringerPiora (Doeringer, Piore, 1971), according to which, together with the external labor market, such a competitive market, large enterprises have set up their domestic labor markets. The authors of this theory believe that internal labor markets are largely relatively autonomous and independent of the fluctuations of the external competitive market, since the conditions of work and pay them are regulated sufficiently robust administrative regulations, customs, norms, standards. The appearance of such relatively independent domestic labor markets due to the specifics of qualifications required for the production and the need for training in the workplace.

Development of the theory of the segmented labor market has Deringer and Piore to the concept of the dual labor market. The essence of this concept lies in the allocation of «primary» and «secondary» segments separating employees into two groups. The first group consists of workers employed on a permanent work full-time and full-time with virtually guaranteed workplace, wages

above the equilibrium level and a high level of social protection. The second group are employed on short-term contracts, work part-time at a lower wage, without guarantees preservation of places in times of economic downturn, the lack of social benefits provided by the enterprise core group of employees. These two groups form, respectively, the primary and secondary labor markets, among which there are strict institutional barriers that prevent the penetration of outsiders to the primary labor market.

It should be noted in the contract theory of institutionalism Employment M. Bailey, D. and K. Gordon Azariadis (Bailey, 1971), became widespread in the mid-1970s. The basis of this theory is the position that employers and employees enter into a long-term contractual relationships of implicit contracts (implicit, not legally formalized). Employees with specialized training, and employers interested in the fact that their relationship was quite stable and lasting.

Therefore, employers in the downturn of production don't reduce labor costs, but in the period of its rise don't increase. This provides a more uniform and smooth change in the level of wages within certain limits. Thus, the fixed salary and the long-term work in one place is due to optimally structured and rational employers and employees. As a result, long-term and sustainable contractual relationships between employers and employees can not only keep the skilled workers in times of crisis, but also greatly reduce the risks of the market.

At the end of the 70s in developed economies started to happen fundamental structural changes related to scientific and technical progress, the use of computer and information technology, manufacturing, information and customized goods, the development of productive forces and production relations. New trends in the world economy have come into conflict with strict regulation of working conditions, job security and social protection, hindered the freedom of choice of both workers and employers. At this time, received extensive development and dissemination of the concept of flexible market (R. Buae G. standings), the basis of which made provision for the need for deregulation of the market, the transition to a more

flexible, individualized and non-standard forms of employment.

The concept of labor market flexibility by G. Standings defined as the ability to respond adequately to changes in prices, demand and supply of labor, which manifests itself in changing the quantity, quality and price of labor (Standing, 1986). Flexible labor market involves the formation of various forms of relationships between the state, employers, unions and employees, designed to provide the necessary conditions for the free expression of market regulators and the free choice of alternative models of development dictated by the natural economic expediency.

In modern conditions for solving the problems of the labor market and employment in a country used different theories, and sometimes certain provisions of several theories. However, the negative effects of the reforms in the economy and social and labor issues in the country with the use of monetarist prescriptions theoretically have not been substantiated. This is confirmed by many researchers, noting that the modern world live in conditions of constant economic and financial war, smashing weapon which began importing economic theories and knowledge, do not comply with the problems of transition economies or economies burdened by external debt.

But given the global experience and building on the achievements of modern Western economic theory and practice, domestic science will develop new theoretical concepts of the labor market, taking into account the specifics of Russian reality and conditions for the formation of a civilized labor market in Kazakhstan.

We believe that the analysis in this paper suggests the applicability of models to a wide variety of problems in labor market.

They can contribute to the understanding of many phenomena that are difficult to account for in other ways. And they have very different normative implications than do other labor market models. Taking account of the effort-elicitation problem calls into question the general proposition that private labor market arrangements are efficient. It also complicates the analysis of various labor market policies.

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