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# labour market policies

an introductory presentation by  
Fred Fluitman

*International Training Centre of the ILO  
Turin, Italy, 2002*

## among references:

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- Betcherman, G. *An Overview of Labor Markets World-Wide: Key Trends and Major Policy Issues*, World Bank, 2002
- Freeman, R.B. *Labor Market Institutions and Policies: Help or Hindrance to Economic Adjustment?*, 1993
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# labour

- **the Oxford Dictionary:**  
**physical or mental work; exertion; toil**
- **economists:**  
**a production factor among others**
- **the International Labour Organisation:**  
**“labour is not a commodity”**



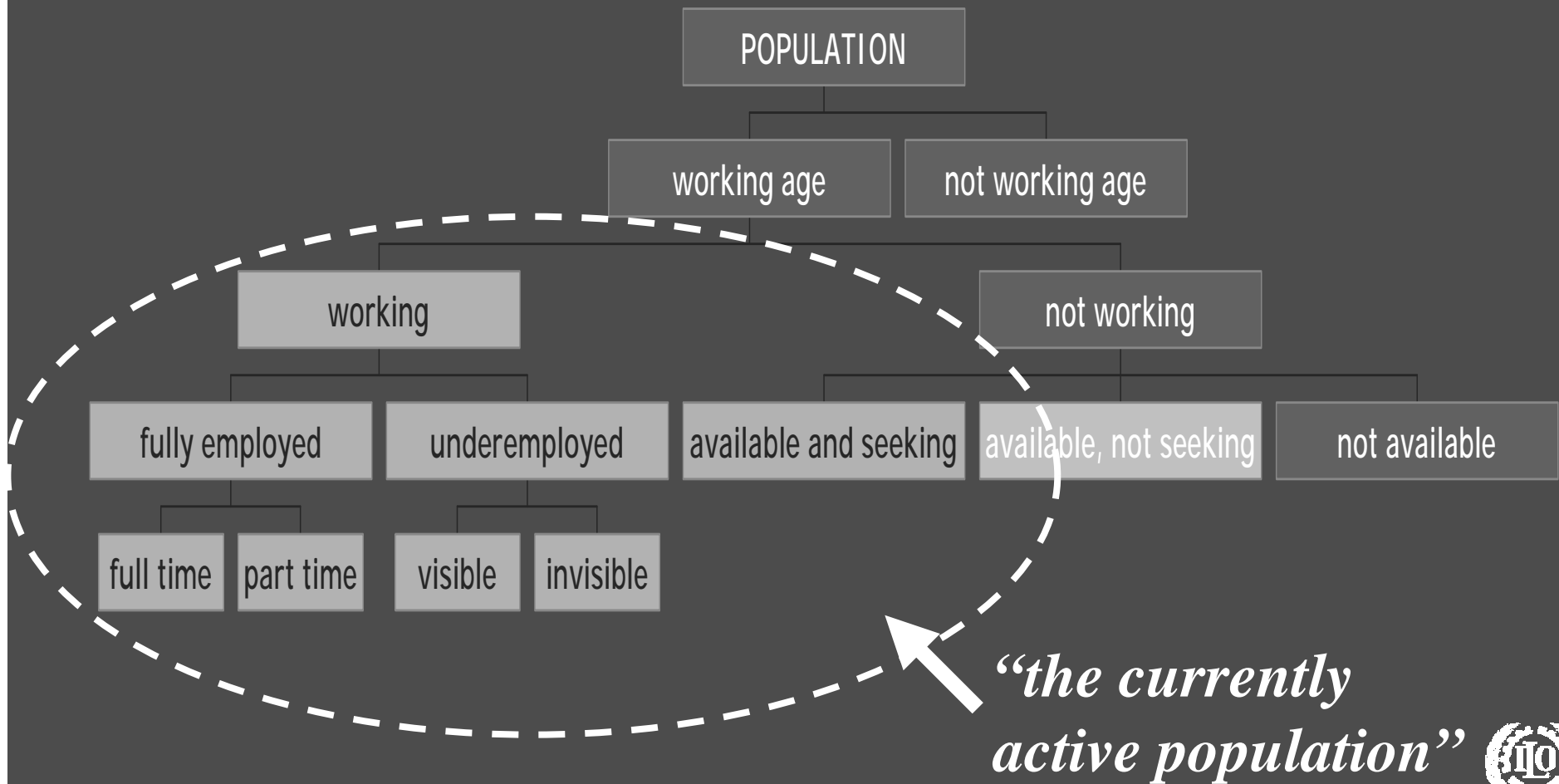
# labour force

all those above a specified age, and during a specified brief period, who are either working, or available for work and seeking it

also known as the economically active population



# labour force



# labour force

**employed**

- **wage-  
employed**
- **self-  
employed**

**unemployed**

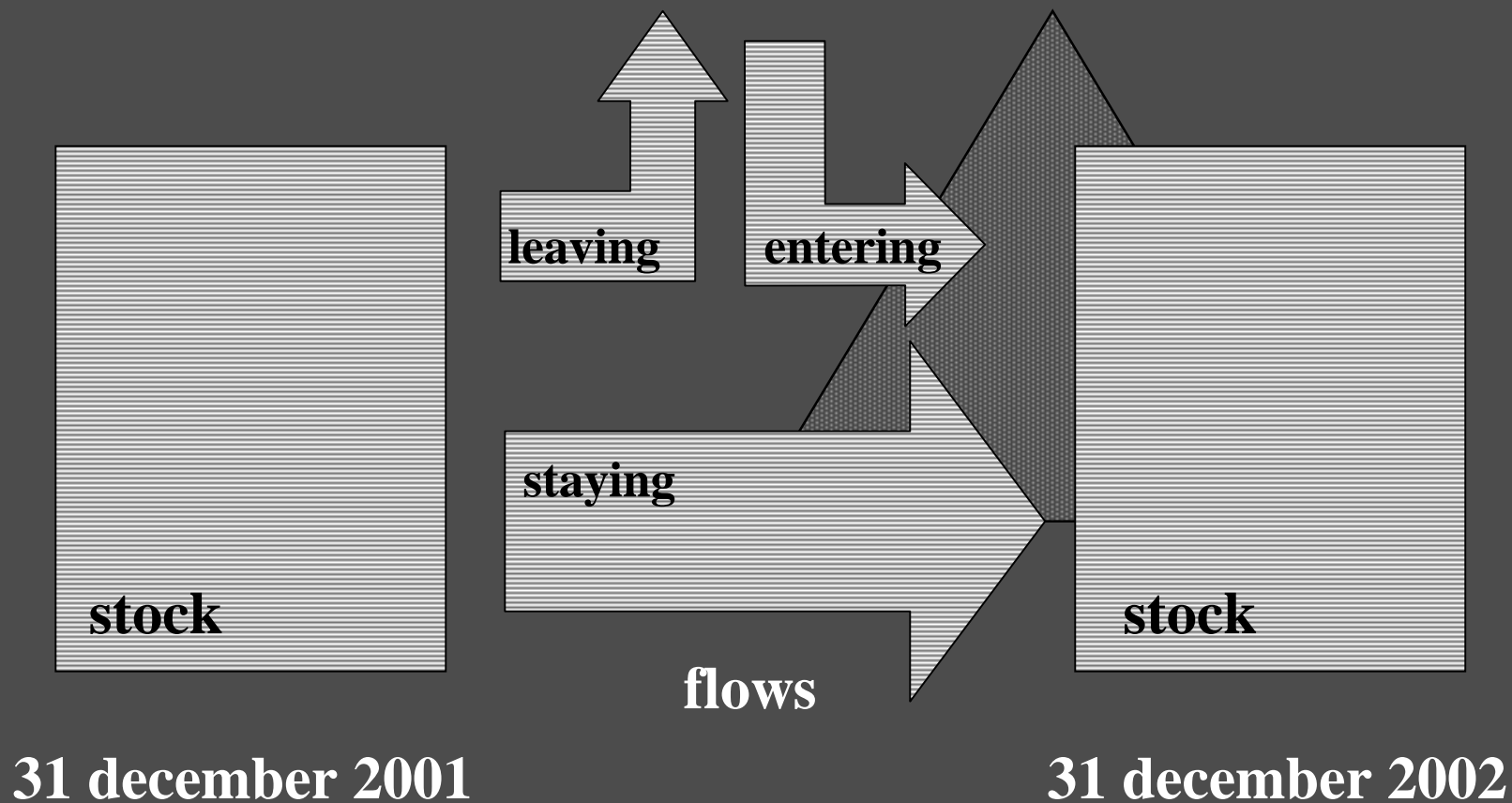


including the  
under-employed

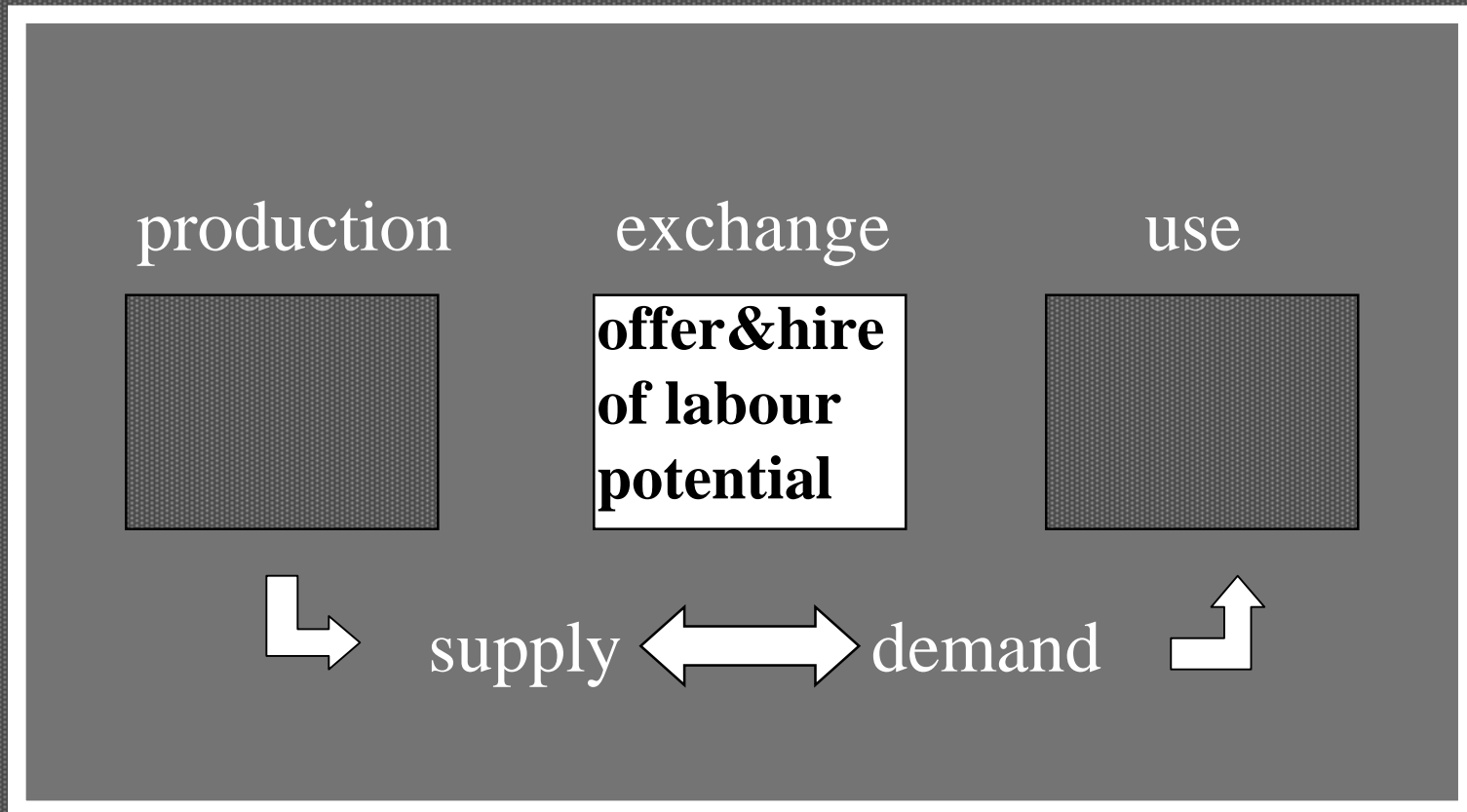
- visible
- invisible



# labour force: stock and flow



# the labour market



# labour market

a market where the services of labour resources are exchanged, or, perhaps more precisely, where the promise of labour potential is made and accepted



# labour market

it is a virtual space where, in a more or less organised manner, the demand for and the supply of all sorts of labour will meet and where wages are determined



# free market?

in free markets, the forces of supply and demand are allowed to operate unhampered by government regulation or other interference; decisions by individual “buyers” and “sellers” are coordinated by movement in prices.



# free market?

in reality, free labour markets don't exist:

“labour is not a commodity”

- people have rights

competition is far from perfect

- contractual relationship inherently unbalanced
- considerable information problems

decisions are subject to regulation

- formal or informal



# regulation

there is no such thing as a perfectly free and flexible labour market anywhere, nor is there one that is perfectly rigid; depending on the country, the debate is about more, or about less regulation; a debate essentially fueled by values and assumptions adopted by economists



# regulation

different countries have different mixes of three modes of regulation:

- statutory, i.e. through laws and decrees
- “voice”, i.e. through collective bargaining
- market-based



# regulation

Freeman(1993): two opposing views on the employment outcomes of regulation

the “institutionalist” view

the “distortionist” view



# regulation

the “institutionalist” view:

regulation provides for social protection  
seen as instrumental in productivity growth  
(training, accumulating firm-specific skills)  
and as a means of moderating the effects of  
downswings in aggregate demand



# regulation

the “distortionist” view:

institutional forms of regulation stand in the way of adjustment to economic shocks, they discourage hiring, and favour “insiders” (regular workers, mostly prime-age males) over “outsiders” (e.g. women and young workers)



## from the Preamble to the ILO Constitution:

Whereas universal and lasting peace can be established only if it is based upon social justice;

And whereas conditions of labour exist involving such injustice hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of those conditions is urgently required;



for example, by the regulation of the hours of work [...], the regulation of the labour supply, the prevention of unemployment, the provision of an adequate living wage, the protection of the worker against sickness, disease and injury arising out of employment, the protection of children, young persons and women, provision for old age and injury, protection of the interests of workers when employed in countries other than their own, recognition of the principle of equal remuneration for work of equal value, recognition of the principle of freedom of association, the organization of vocational and technical education, and other measures.



# the ILO Declaration on Fundamental Principles and Rights at Work (1998)

- freedom of association and the effective right to collective bargaining
- the elimination of all forms of forced or compulsory labour
- the effective abolition of child labour
- the elimination of discrimination in employment and occupation



# factors affecting labour markets

affecting both supply and demand side

- failing institutions
  - labour market information
- political instability, conflict
- natural disasters
- health crises



# factors affecting labour markets

affecting the supply side

- population growth
- changes in labour force participation
- migration within and between countries
- the state of education and training



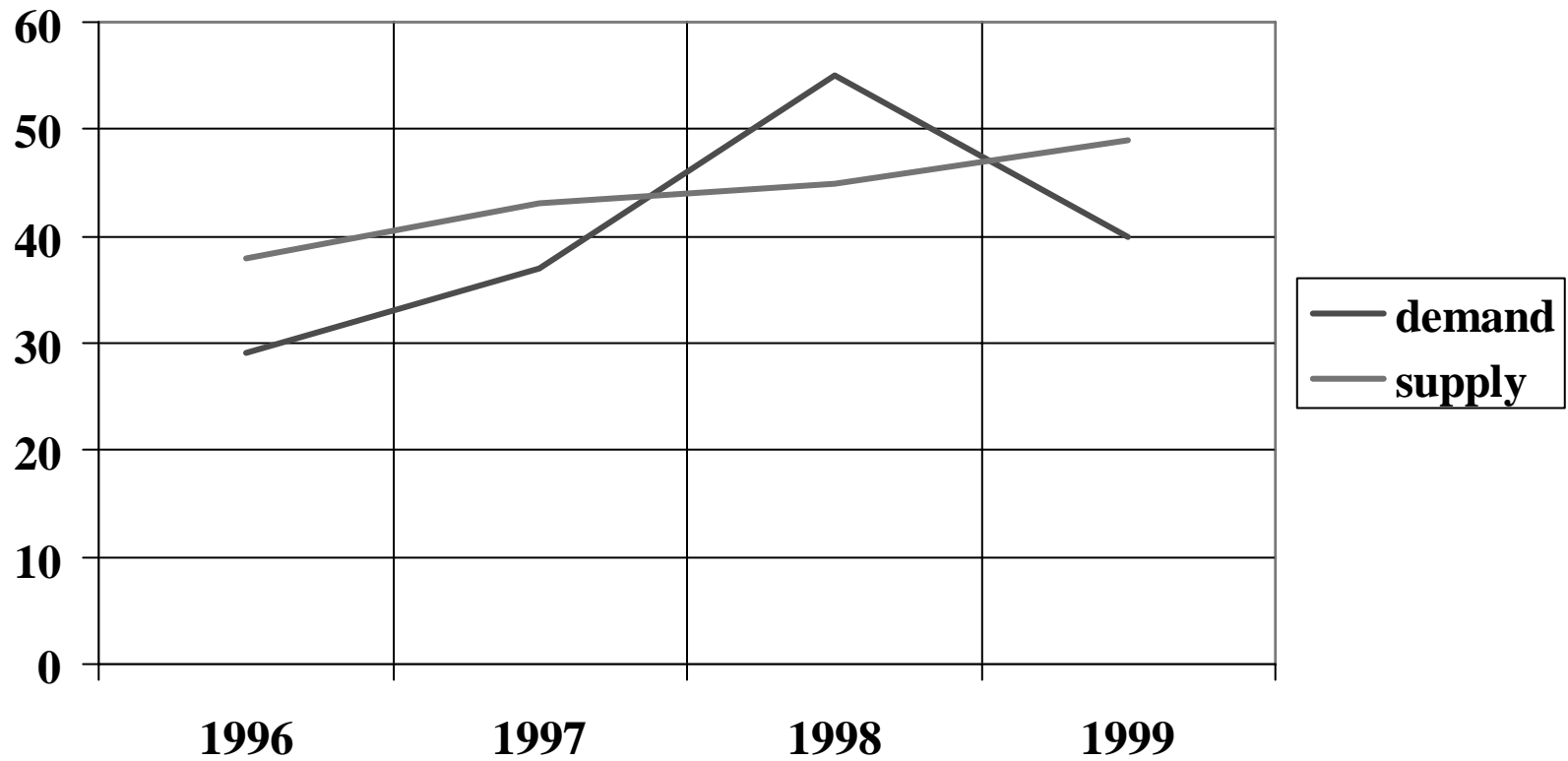
# factors affecting labour markets

affecting the demand side:

- economic/financial crises
- changes in economic structure
- technological change (ICT!)
  - proces innovation
  - product innovation
- globalisation

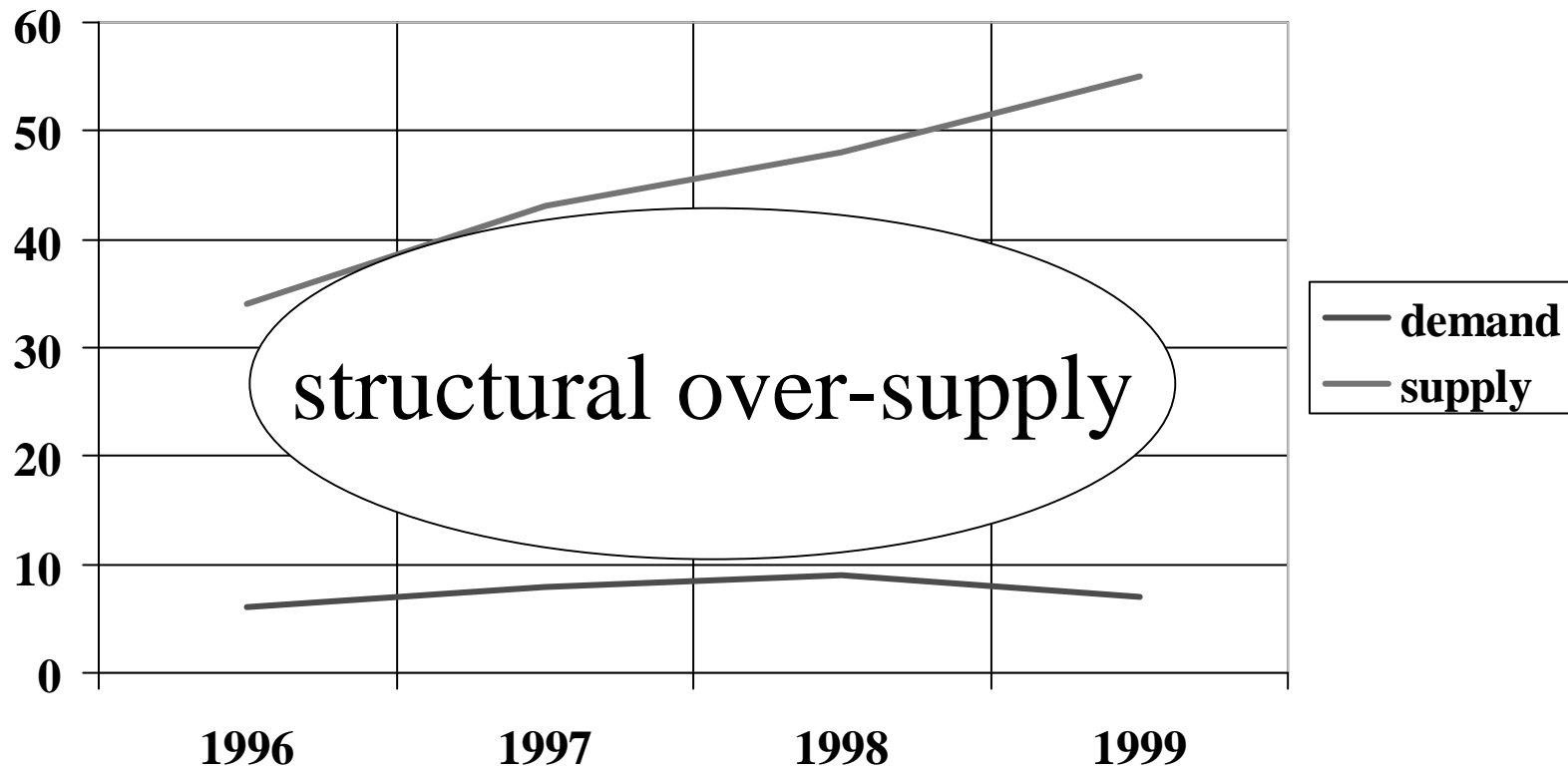


# labour market



industrialised country

# labour market



developing country

# labour markets of developing countries

structural over-supply of labour

generally low levels of education and training

significant un- and underemployment

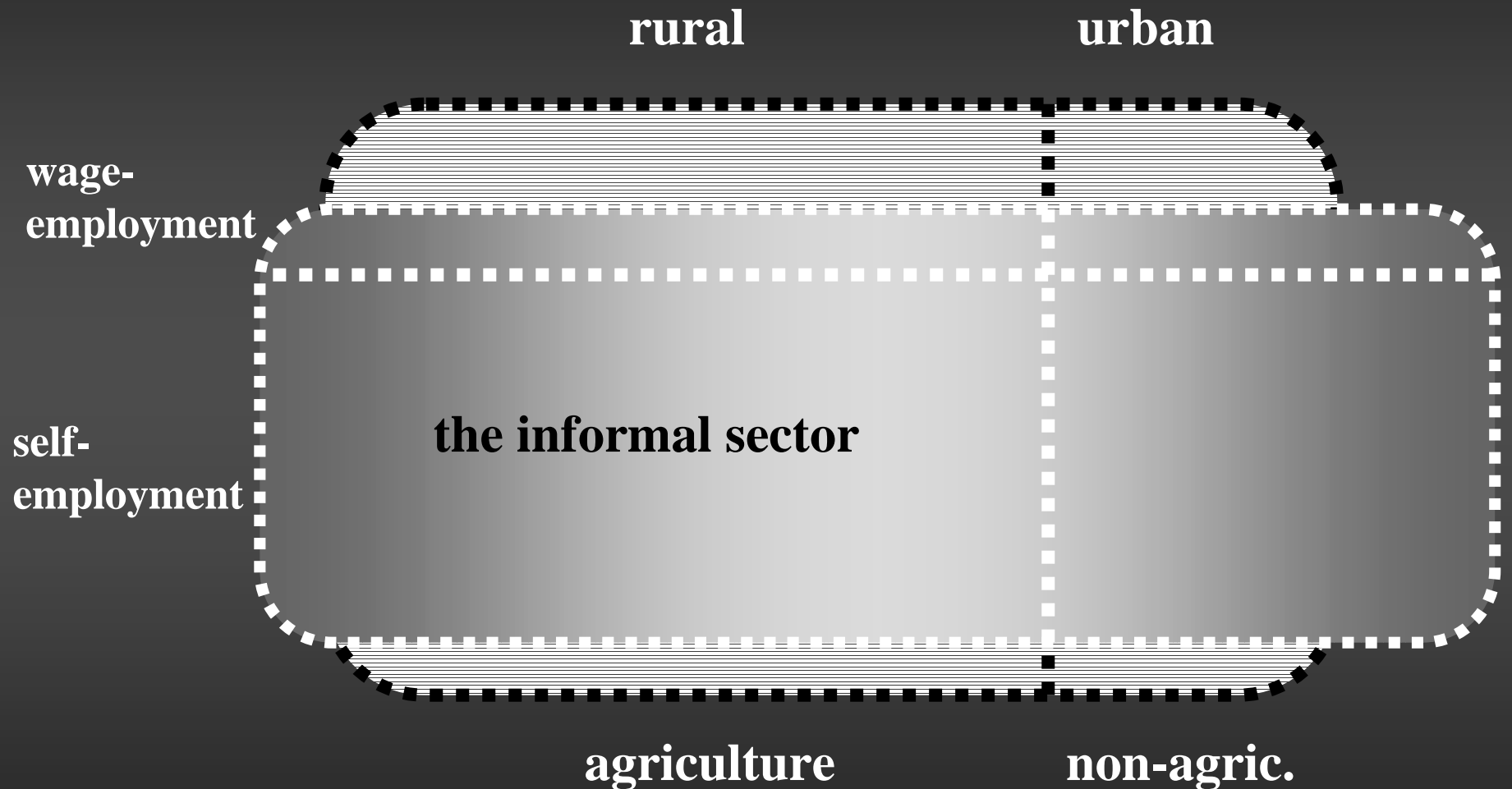
more self-employment than wage-employment

large informal sector of the economy

- institutional forms of regulation remain modest



# employment in developing countries



# labour market management models

- United States: liberal, market driven
- Japan: enterprise centered, industry driven
- Europe: mediating, public-interest driven
- USSR: centrally planned market
- LDCs: marginal management

# labour market policies

- embodied in legislation, or in formal statements of intent, in government regulations, in collective agreements, in budgetary allocations, in the terms of reference and decisions of pertinent institutions and mechanisms, or in the activities of dedicated programmes



# labour market policies

- measures meant to ensure an optimal allocation of labour resources, notably by preventing or correcting labour market failures, i.e. distortions or rigidities in the process of labour supply meeting labour demand.



# labour market policies

- or measures meant to ensure that labour market outcomes are socially acceptable and/or politically expedient



# labour market policies

labour market distortions or rigidities are often associated with the segmentation of labour markets along lines which workers have difficulty in crossing



# labour market policies

barriers to job entry may exist,  
e.g. in terms of education level,  
labour mobility constraints, or  
discrimination based on class,  
gender, or ethnic origin



# labour market segmentation

						<b>supply</b>
		<b>supply</b>	<b>demand</b>			
<b>demand</b>						<b>demand</b>
		<b>supply</b>				



# labour market policies

- do not necessarily aim at creating more jobs, or at extending social protection, or at reducing poverty
- however, policies with such different and possibly conflicting aims may also be conceived so as to strengthen or otherwise complement each other



# active labour market programmes

- primary objectives:
  - (re-) integration of the unemployed;
  - productivity/income growth of under-employed
    - to increase the supply of needed skilled workers (e.g. training employed and unemployed, programs for the disabled)
    - to increase the demand for workers (e.g. direct job creation, incentives to employers, self-employment/ SME promotion)
    - to improve matching workers and jobs (e.g. job search assistance, public employment services, mobility incentives)



# passive labour market programmes

- primary objective:  
income support to the unemployed
  - early retirement
  - severance pay
  - unemployment insurance
  - unemployment assistance
  - public works programmes



consider the case of:

- structural change
- technological change
- economic recession
- shrinking demand
- privatisation
- mismanagement

unemployment



consider the case of:

- mass lay-offs
- downsizing
- dislocation
- displacement
- retrenchment
- redundancies



unemployment



# pertinent labour market policies:

- to prevent/ minimise lay-offs
  - lay-off restrictions
  - employment maintenance
  - enterprise agreements
  - enterprise development



# pertinent labour market policies:

- to deal with lay-offs
  - compensation : passive policies
    - early retirement
    - severance pay
    - unemployment insurance
  - redeployment : active policies
    - retraining
    - counseling and job brokerage
    - promoting self-employment
    - public works

