Magdalena Knapińska, Assoc. Prof., PhD
Poznań University of Economics and Business

https://doi.org/10.26366/PTE.ZG.2018.138

Economic policy of the state in the field of employment and labor market

Summary

The article attempts to organize the achievements of literature in defining economic policy, as a manifestation of the activity of the state in the economy. Particular attention should be paid to the justification for state intervention in both the functioning of the economy as a whole, and interference in the same labor market already. A manifestation of that intervention is carried out by the countries of labor market policy and its variants have been classified in the literature as models of labor market policies. The analysis is therefore theoretical and empirical illustration attempt these issues in the form of presentation of the scale of expenditure on labor market policy in the form of international comparisons.

Key words: economics, labor market, labor market policy

Introduction

For entities conducting economic policy, the labour market is important as it is a segment of the economy, which can be unreliable, because it is regulated by the market mechanism. Generally, there is even a connection between the economic situation and the situation on the labour market. And this often requires the state to undertake actions of a more or less direct nature, relating, for example, to the application of active or passive labour market policy programmes. Therefore, it is worth taking a closer look at the conditions of such state interference in the operation of the market mechanism on the labour market and the forms of its adjustment by means of labour market policy. The aim of the study is to present theoretical considerations concerning the economic policy of the state in the field of employment and the labour market. Moreover, the article indicates the forms of its adjustment by means of labour market policy instruments.

Reasons for state interference in the operation of the labour market

The economic literature recognises that state's interference in the economy is caused by the imperfection of the market mechanism itself or its failure or specific limitations and distortions in its operation. The following causes of market malfunctioning are pointed out [Stiglitz2004, p.6-7; Jarmolowicz, Knapinska 2005, p. 73 et seq.

Firstly, market failures are caused by externalities that arise when the costs or usefulness of consumer and production decisions of individuals can be passed on to other entities that do not participate in the usefulness and costs of the goods and services in question. This is also a typical abnormality of commodity markets, and this phenomenon is also observed in the labour market.

Secondly, the reason for the imperfection of the market mechanism is the indivisibility of goods and production factors, which occurs when the market is controlled by producers who, contrary to the principles of full competition, can sell fewer products at inflated prices, with the natural monopoly being a glaring example of it.

Thirdly, the primary market failure may also be determined by a lack of information, which creates uncertainty when estimating the usefulness and quality of individual goods, services and factors of production, and consequently the effects of individual choices, and ultimately often leads to market imbalances.

Fourthly, market distortions are also caused by problems for market participants to adapt to the rapidly changing market situation. This phenomenon consists in irrational reactions of entities on the supply and/or demand side to changes in prices and means a change in offered or desired quantities of goods as a result of disturbances in the operation of the law of supply or demand.

Interference of the state in the sphere of economy is necessary due to the need for a legal system regulating the problem of ownership and the rules of concluding contracts between economic entities. Moreover, this interference is justified by the market failures described above.

An important reason for state interference in the sphere of market mechanism, which is also often indicated in literature, is also the existence of the so-called public goods (Wisniewski 1999, p. 8-10; Lis 1994, p. 27-34), which distinguishes them from private goods because their use by one person does not mean that they cannot be used by other people at the same time. Moreover, there is the so-called problem of "stowaways / free-riders", i.e. people who use these goods and who at the same time have not paid for their use. Because of that,

among other things, only the state can "produce" public goods as an entity concerned about meeting social needs (Stiglitz 2004, p. 151).

Existence of socially beneficial and unfavourable goods is also an important reason for state interference. These include, for example, taking up treatment or education and consuming alcohol or drugs. At the same time, it is the task of the state to stimulate the consumption decisions of individuals in order to ensure their well-being, but not by giving "consent" to social losses associated with drug addiction or a low level of education.

Another important reason for state interference is its efforts to achieve a fairer distribution of national income, when market forces are conducive to the principle of income polarisation, which the state - in the case of excessive or "growing" polarisation - usually tries to prevent. Another or even deeper reason why the state interferes in the operation of the market mechanism is the instability of the economy in general and the lack of a fully effective, automatic mechanism for restoring balance (Wojtyna 1990, pp. 42-44).

Zenon Wisniewski perceives the problem of the causes of state interference in a slightly different, though also interesting way. According to this author, the currently known theories of the labour market provide at least five basic arguments for the application of state interference in the labour market. These arguments are: insufficient transparency on the labour market, "mismatch", insufficient susceptibility to risk, discrimination of problem groups and hysteresis (Wisniewski 1999, pp. 16-20).

The first argument is related to the fact that the labour market is characterised by uncertainty due to lack of information. Thus, on the one hand, jobseekers have specific qualifications and skills, and on the other hand, employers are also looking for employees with certain qualifications and skills. Hence, in reality, we are dealing with many segments of the labour market rather than with a single market on a macroeconomic scale.

On the other hand, the so-called "mismatch" phenomenon means that there is sometimes a situation in the economy, in which there are vacancies, despite unemployment on the market. Such unemployment is usually caused by allocation processes on the labour market - and in traditional terminology - includes frictional and structural unemployment. The reasons for this phenomenon are: insufficient market transparency caused by lack of information, regional imbalance on the labour market and skills imbalance. Regional imbalances exist when job vacancies are located in regions other than unemployment, while skill imbalances mean that some occupations have labour shortages.

Insufficient risk aversion is mainly due to the reluctance of labour market participants to act over a longer period of time. For example, small and medium-sized enterprises tend to

invest less in human capital and jobseekers rarely spend their own resources on further training (fearing the failure of such investment).

On the other hand, discrimination against problem groups usually occurs when the demand for employees coming from such groups as unskilled people, the long-term unemployed, the disabled, foreigners, women, etc. decreases. This demand decreases due to the fact that according to specific assessments, these workers are not able to meet the high requirements of the first labour market.

While in the case of unemployment the phenomenon of "hysteresis" is understood first of all that unemployment will remain at the level caused by various and earlier "shocks", even after their impact has subsided. For example, the longer a person remains unemployed, the less chance of finding a job, which also causes long-term unemployment.

In the opinion not only of the author mentioned above, the existence of this type of phenomena on the labour market also significantly contradicts the thesis about the spontaneous tendency of the market mechanism to restore the state of balance. Therefore, also due to the reasons indicated above, it is proposed that the state should interfere in this sphere and in order to limit their negative economic consequences.

Moreover, and according to another approach to the causes of state interference in the labour market, first of all it is stressed that the phenomenon of unemployment itself is highly unfavourable, because it also means - and simply - the loss of potential goods and services that could be produced by the unemployed if they found productive employment.

Finally, the existence of unemployment also represents a burden on the economy in the form of costs linked to the payment of unemployment benefits, the financing of job-seekers' support apparatus and expenditure on other measures to combat unemployment. The existence of unemployment is also associated with psychosocial costs in the individual, family and collective nature, which mean social discontent, frustration, social and political conflicts arising in this context.

Therefore, the gravity of the negative effects of unemployment also determines the necessity of solving this problem, including state intervention aimed at counteracting unemployment.

Not without significance - against this background - is also the fact that unemployment is a result of macroeconomic processes to a large extent. Therefore, only the macroeconomic policy pursued by the state can "mitigate" this phenomenon.

Finally, an important argument in favour of state interference in the labour market is the greater or lesser "presence" of the state in the sphere of wage regulation. These activities

may be justified by e.g. the advisability of preventing excessive increase in salaries , because it is unjustified by the increase in labour productivity. The state should also take care of material conditions of living and development of employee families in general, and by maintaining the relation between wages and the purchasing power of money, it also cares about the balance of the internal market for goods and services and maintaining competitiveness on a national and international scale. Undoubtedly, there is also a link between wage levels and maintaining and creating jobs. Various and specific objectives of the state include avoiding blatant and excessive differences in remuneration for work performed in similar positions and with similar effectiveness, and to work towards a minimum (convenient) securing the level of remuneration in the economy (Meller 1992, p. 8).

The concept of labour market policy

As already noted, full employment is one of the main objectives of economic policy. In view of the fact that the achievement of this objective in a market economy encounters significant and varied difficulties and constraints, a relatively satisfactory level of achievement is generally considered to be the level of employment that can be achieved with a natural unemployment rate.

The achievement of this objective is a matter for the State in its employment policy, which is part of economic policy. At the same time, employment policy is such actions of the state, which aim not only at full (high) employment, but also at rational management of human resources in the macroeconomic, regional and local spheres. Therefore, these measures also take into account the impact on phenomena and processes related to the social and professional preparation of the population, as well as the inclusion of human resources in active and productive participation in the functioning of the labour market (Jarmolowicz and Knapinska 2010, p. 180 et seq.).

Above objectives in a more pragmatically understanding include in particular: increasing the quantitative employment level, development of the quality of human resources, development of entrepreneurship and creation of new jobs, increasing the adaptability of enterprises and their employees to the changing conditions of management on the labour market, strengthening equal opportunities on this market and - more generally - growth of labour productivity as a factor of production and, consequently, of social production.

At same time, the influence of the state through macro- and microeconomic instruments (within the economic policy, including employment) on the labour market is

significantly imitated. The effectiveness of such a policy is weakened by such conditions as lack of perfect mobility of capital and labour, limitations in the possession and flow of information, often imperfectly developed market infrastructure and others.

As can be seen from the above, employment policy cannot always be (and usually is not) equated with labour market policy. Hence, in the opinion of many economists, labour market policy should also be treated as a relatively separate (or autonomous), but at the same time an important part of employment policy. Still, others classify it as industrial and labour relations. In any case, labour market policy is undoubtedly - at least in part - oriented towards goals other than employment policy.

Labour market policy focuses more on addressing the structural and social problems of an already functioning labour market, while employment policy, through the creation of new and full-fledged jobs, also aims at full or high employment in one way or another. It should be added that while the focus of employment policy is on labour supply and demand together with measures and institutions of global control of these values, labour market policy is most often limited to instruments used by labour offices themselves.

Janusz Meller perceives the problem of relations between employment policy and labour market policy in a different way. According to this author, one can distinguish between these policies by their role in counteracting unemployment. If we look at the sources of unemployment in the state of the economy itself, which produces too few jobs, then combating their shortage can be achieved through an active economic policy supporting pro-employment development. Such a policy is only the employment policy, which creates economically justified, effective and relatively permanent jobs (Meller 2001, p. 73).

However, if the sources of unemployment are to be found more in the malfunctioning of the labour market itself and its elements, then the reduction of unemployment can only be achieved by means of programmes and measures to activate the labour market and the unemployed, i.e. the labour market policy.

Labour market policy is usually characterised by four main objectives. According to Z. Wisniewski, the implementation of the so-called employment objective is to reduce the size of unemployment; the structural objective - to reduce structural mismatches in the labour market; the production objective - to increase the productivity of the labour force. The implementation of the fourth, more social objective is to provide financial security for people affected by redundancies and to adapt the unemployed who have particular difficulties in the labour market (Wisniewski, 1999, p. 20).

On the one hand, the state can stimulate an increase in demand for labour by influencing the labour market and, on the other hand, reduce the supply of labour. Increasing the number of jobs is done, among other things, by subsidising wages and employment in order to maintain or increase the current level of employment in private companies. The state may also create new jobs in the state sector, including on the basis of special employment growth programmes. In addition, an important way of increasing labour demand is to encourage entrepreneurship in the broad sense, to support the creation of new jobs in the private sector among small and medium-sized enterprises, to stimulate local employment growth initiatives, or, for example, to provide financial and organisational assistance to the population in "self-employment", i.e. the transition from "unemployment status" to "employment" in one's own company.

On the other hand, the reduction of labour supply may take place in particular through early retirement, extending the period of education, extending or extending the scope of compulsory military service, shortening the working time, extending holidays, reducing the number of overtime and part-time employment.

With regard to labour and employment legislation, it could also be noted that the functions and tasks of the state as a labour market policy actor are also expressed through the development of job matching and the mitigation of the economic and social effects of unemployment.

Labour market policy is a method of state interference, which has its supporters, especially among the followers of the classical and neoclassical approach, for which solving employment problems comes down mainly to improving the course of adjustment processes in the labour market. Hence, it is proposed to improve the quality and flow of information on labour demand and supply; development of vocational guidance; stimulation of sectoral, regional, professional and qualification mobility of workers; and even possible periodic reductions in wage rates in order to stimulate the economy. At the same time, however, this policy is also intended to "complement and strengthen" macroeconomic policy (including employment).

Labour market policy models

The subject literature offers many typologies of labour market policy, which are most often derived from models of implemented economic and social policy. Their differentiation results from different traditions, cultural and economic conditions existing in different

countries, as well as a set of different objectives and instruments used in the implementation of particular labour market policies (Fraczek 2015, p. 50).

Table 1. Labour market policy models in the doctrine of social policy

Item	Unemployment benefit system	Active labour market policy	Labour market policy objectives
Scandinavian (Nordic) - Denmark, Finland, Sweden, Norway	A generous system of support for the unemployed in terms of both the amount of benefits and the time of their payment.	The basic solution - high expenditure on ALMP	Integration, full employment, equality, Keynesian interventionism
Corporate (Continental) - France, Germany, Belgium, Austria, Japan	Variable, adjustable, generally generous	Relatively important, high expenditure on ALMP	Mixed model; high protection of the employed, wide range of unemployment protection; high participation of social partners in politics; use of the third sector of non-governmental organisations
Mediterranean (Latin) - Italy, Spain, Greece, Portugal	Less developed (generous benefit system in Portugal)	Low coverage, low expenditure on ALMP	Avoids the use of the social security system; passive system, emphasis on society
Liberal (Anglo-Saxon) - Ireland, United Kingdom, United States, Switzerland, Australia, Canada, New Zealand	Weak, short support period and low level of benefits	Very low expenditure on ALMP	Targeted at people excluded from the labour market; support for private sector development, liberalism, reduction of interference in the market mechanism

Source: (Nagel, Smandek, 2010, p. 39).

Table 1 presents labour market policy models in the context of social and economic policy models. As can be seen from the above information, these models are also connected with widely described and distinguished models of market economies, and the features of economic systems somehow determine the type of conducted labour market policy. This can be clearly evidenced by the scale of expenditure incurred in individual countries on labour market policy, i.e. on ALMP - active and PLMP - passive variant of it.

Figures showing the level of spending on labour market policy, measured as a percentage of a country's GDP, are presented in Figure 1. According to these data, the highest percentage of GDP on labour market policy was allocated in Denmark - especially at the beginning of the analysed period, i.e. in 2004. The relatively high level of such spending in Spain in 2009 and 2014 should also be noted, which is certainly related to the increase in unemployment in that country after the crisis of 2008. Interestingly, earlier, i.e. in 2012, the

highest level of analysed expenditures was also observed in Spain (3.7%) and Ireland (3.48%), the Netherlands and Belgium (2.9%) and Finland (2.44%) [www.oecd.org, accessed on 28.11.2016].

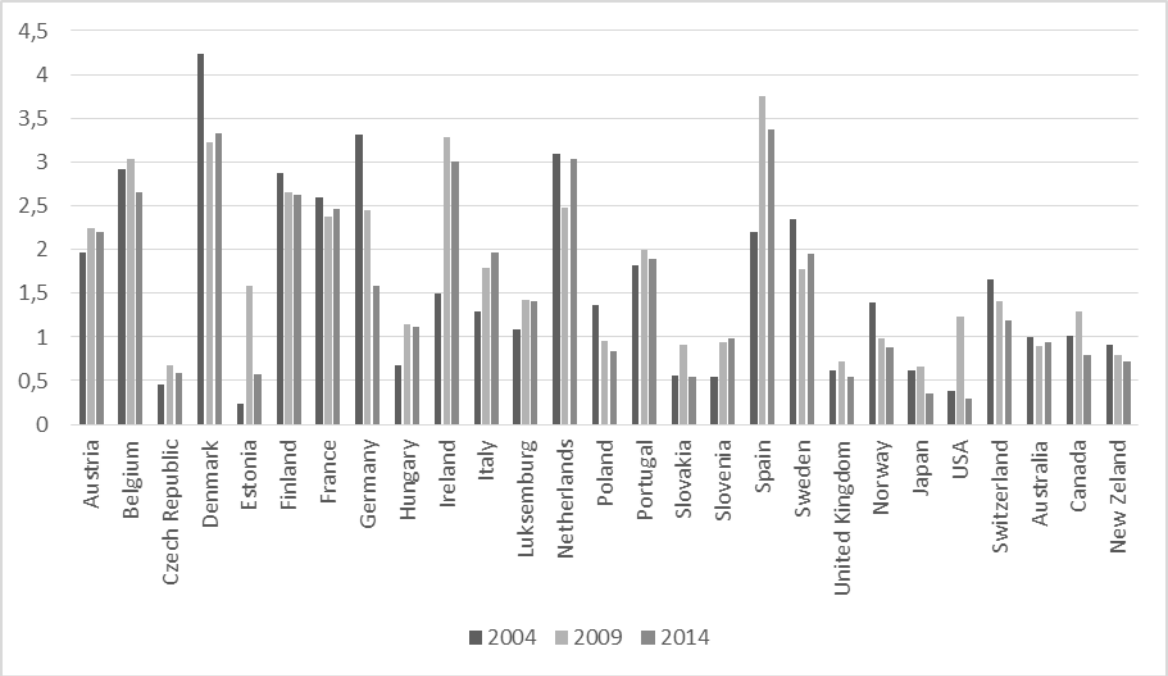

Figure 1. Expenditure on labour market policy as a % of GDP in selected OECD countries

Source: Own calculations based on data available at www.oecd.org, accessed on 28.11.2016.

The system of financing labour market policy is one of the factors determining the extent to which it is used. In the countries of the European Union, the labour market policy is financed mainly by entities paying contributions to unemployment insurance. Contribution systems react pro-cyclically and do not perform their functions during prolonged shocks. Premium income in good times - when labour market policy spending decreases - is high and falls in times of crisis. This causes a cyclical ‘stop-and-g’o impact on the labour market (Furmanska-Maruszak et al., 2015, p. 22). Therefore, the expenditure shown in Figure 1 and covering the period before and after the crisis of 2008 is far from the assumptions resulting from the presented labour market policy models.

It is also worth looking at the structure of expenditures, i.e. their division into an active and passive part of the labour market policy. Appropriate figures are presented in Figure 2.

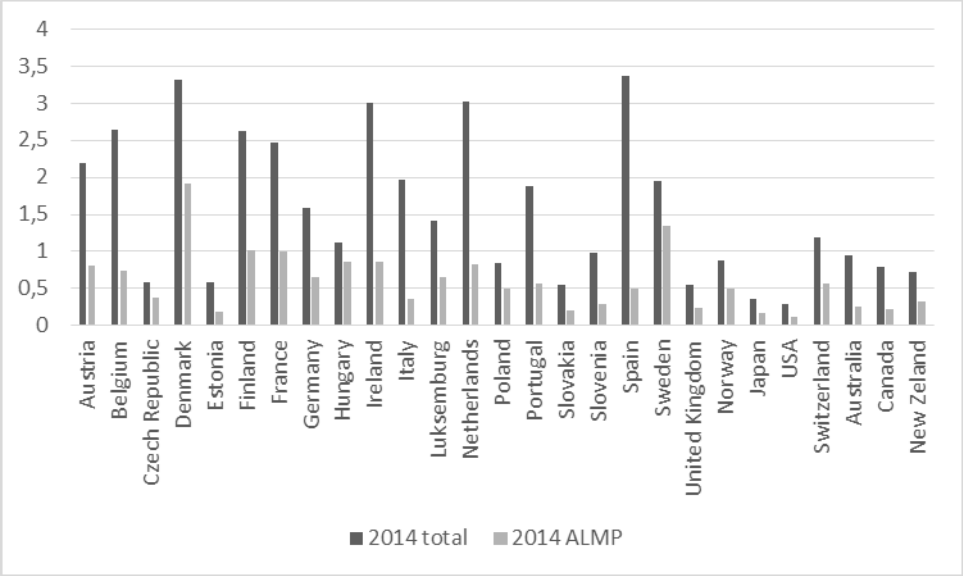

Figure 2. Public spending on labour market policy in general and active as % of GDP in selected OECD countries in 2014.

Source: Own elaboration based on statistical data available at www.oecd.org, accessed on 28.11.2016.

As can be seen from the data in the figure, nearly half of the expenditure on policies was on active policies in countries such as Denmark, Sweden, Norway, Hungary and Poland. Therefore, these are countries where the role of active forms of counteracting unemployment in labour market policy is appreciated. A much lower level of expenditure on active forms was recorded in countries such as: Austria, Belgium, Italy, the Netherlands, Portugal, Spain, Great Britain, Australia, Canada. This group contains countries representing at the same time different models of labour market policy. This fact can be explained by the still unstable situation after the crisis in terms of the unemployment rate, which is at very diverse and sometimes still high levels, as in the case of Spain, where the rate was still 24.5% in 2014.

Conclusion

To sum up, it can be noted that the actions of individual countries leading to employment growth are based on different assumptions, and the extent of spending on active forms of counteracting unemployment depends on the tradition and history of industrial relations that define the systemic nature of a given economic model. In the case of employment and labour market policies pursued in the EU countries, it should be stressed here that the EU sets out the so-called General Guidelines for conducting this policy at the national level, and the Member States are obliged to act within the guidelines set at the EU level (Knapinska 2012, p. 250).

Therefore, common directions can also be sought in the expenditure itself and in the objectives of such expenditure, which should be treated as an assumption for further research on labour market policy in the international aspect.

References

Frączek M.(2015), *Cele rodzaje i efekty polityki rynku pracy*, w: Frączek M. (red.), *Polityka rynku pracy. Teoria i praktyka*, PWE, Warszawa, s. 45-53.

Furmańska-Maruszak A., Męcina J., Michoń P.,Szylko-Skoczny M., Wiśniewski Z.(2015), *Polityka państwa na rynku pracy. Uwarunkowania – kierunki zmian – efekty*, Wydawnictwo Uniwersytetu Mikołaja Kopernika, Toruń.

Jarmołowicz W., Knapińska M.(2005), *Polityka państwa na rynku pracy w warunkach transformacji i integracji gospodarczej*, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań.

Jarmołowicz W., Knapińska M.(2010), *Polityka państwa na rynku pracy*, w: Jarmołowicz W. (red.),*Podstawy makroekonomii*, Wydanie drugie poprawione, Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu, Poznań 2010, s. 177-186.

Knapińska M.(2012), *Wspólny europejski rynek pracy. Geneza-rozwój-funkcjonowanie*, Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu, Poznań.

Lis S.(1994), *Rola państwa w okresie transformacji gospodarki Polski*, w: Lis S. (red.),*Transformacja systemu ekonomicznego w Polsce*, Prace Komisji Nauk Ekonomicznych, nr 18, PAN, Oddział w Krakowie, Kraków.

Meller J.(1992), *Makroekonomiczna polityka wynagrodzeń w gospodarce rynkowej*, Praca i Zabezpieczenie Społeczne, nr 10-11.

Meller J. (2001), *Przestrzenne zróżnicowanie polskiego rynku pracy i jego konsekwencje*, w: Orczyk J. (red.), *Dylematy zatrudnienia w warunkach postępującej integracji Polski z Unią Europejską*, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań.

Nagel K., Smandek I.M.(2010), *Polityka rynku pracy i źródła jej finansowania*, Uniwersytet Ekonomiczny w Katowicach, Katowice.

Stiglitz J.E.(2004), *Ekonomia sektora publicznego*, Wydawnictwo Naukowe PWN, Warszawa.

Wiśniewski Z. (1999), *Kierunki i skutki deregulacji rynku pracy w krajach Unii Europejskiej*, UMK, Toruń.

Wojtyna A.(1990), *Nowoczesne państwo kapitalistyczne a gospodarka. Teoria i praktyka*, PWN, Warszawa.
www.oecd.org

Polityka gospodarcza państwa w dziedzinie zatrudnienia i rynku pracy

Streszczenie

Celem artykułu jest próba uporządkowania dorobku literaturowego w zakresie definiowania polityki gospodarczej, jako przejawu aktywności państwa w gospodarce. Szczególną uwagę należy zwrócić na uzasadnienie ingerencji państwa zarówno w funkcjonowanie gospodarki jako całości, jak i na ingerencję w sam już rynek pracy. Przejawem tejże ingerencji jest prowadzona przez kraje polityka rynku pracy, a jej odmiany zostały w literaturze sklasyfikowane jako modele polityk rynku pracy. Przedmiotem analizy są zatem rozważania teoretyczne oraz próba empirycznej ilustracji tychże zagadnień w postaci prezentacji skali wydatków na politykę rynku pracy w formie porównań międzynarodowych.

Słowa kluczowe: ekonomia, rynek pracy, polityka rynku pracy