Concepts and theories regarding economic balance in incidence with the labor market

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Abstract

Some researchers of the labor market explicitly or implicitly declare themselves adepts of concepts more or less relevant for the real situation of the national economy and its prospects. An analysis of these concepts is necessary at least from the following reasons: first, they reflect a history of crystallization of the economic thinking in its evolution in correlation with the economic and technical-scientific development process; and second, the said concepts represent a theoretic ground indispensable for the practice of our transition, which, although surprising, may contain specific characteristics and consequences even to pre-capitalistic orders, sometimes primitive, with which the economic history confronted hundreds of years ago.

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1. Classic and neoclassic approaches of unemployment and the labor market balance

In the classic theory, the unemployment problem is not raised as such, as it is interpreted only as a consequence of super-production for certain products. As such, only a temporary, sector and local unemployment would be triggered because a general super-production is not thought of. This reasoning derives from J.B. Say’s Law, published in 1803 in “Traité d’économie politique”. Sector unemployed are to learn other skills and find other jobs.

Some J.B. Say’s contemporaries considered his theory “too good to be true”. Thus, Thomas Malthus presented a pessimistic theory concerning the population, which was contradicted in its turn by David Ricardo, bringing forward the arguments included in the classic theory regarding the rent.

Later, Karl Marx predicted a relative general super-production, aimed at leading finally to the fall of capitalism, as the result of sub-consumption which would paralyze the production capacities.

We underline that only after the 1929-1933 crisis the official economic science accepted the possibility of a general super-production. Thus, leaving aside Karl Marx’s theory, starting only with Keynes it was understood that generally there could be a higher supply than the demand. According to this theory, this unbalance has its origin in the relations between consumption, investments and taxes within the frame of the national revenue.
According to the deductive method, a salary increase leads to the replacement of labor with other production factors. Additionally, higher salaries determine higher prices and as such, sales decrease and the occupation is reduced. It can be easily perceived that both factors operate in the same direction and the conclusion seems logical.

However, at the same time, as a result of higher salaries, the workers have a greater buying power and as such, they can demand more products. The action of this factor is opposed to the conjugated action of the first two, and from a logical point of view, the correlation is correct. Which will be then the effect of the three factors over occupation? It all depends on the proportion of effects belonging to the factors analyzed above, manifested in their dynamic within the frame of the economy at macroeconomic level.

The deductive method does not say anything about the magnitude of the three effects and less so about their final result.

Then there remains the question: a salary increase will lead to an increase or a decrease of occupation?

At macroeconomic level there manifests frequently such multiple relations. In their analysis, the deductive method is not sufficient; it must be supplemented with statistic techniques, calling in also the induction method.

For the prosperity of a community it is important that the required goods be produced, the entrepreneurs take into consideration the wishes of the consumers, manifested in the market. Even the relation between the public and private sectors gets to the second place since prosperity is influenced more by the magnitude of the national revenue than the form of ownership.

At the same time, other macroeconomic phenomena like inflation, deflation, balance of payments, taxes, economic increase as such are more important that what was produced or whether to little or too much was produced of any product whatever.

Historic experience shows that labor productivity has a decisive and immediate effect over wellbeing, while capital super-production barely has any direct effect.

The criteria of productivity, macroeconomic or for a product are really healthy when they will be obtained by a concerted increase of offer of goods and demand for labor. In this case, the labor revenue per product (salary cost) will not be a diminishing factor for the aggregate demand.

We could imagine that at a given moment, in order to increase productivity over the whole economy, we reduce the denominator (occupation) down to a certain level of demands for maximum efficiency.

The labor force thus released, either would not have revenue any more and the aggregate, solvable demand would be somewhat suppressed, or it would be necessary to produce rapidly something else, for which there are yet no technical resources, no financial ones, nor infrastructures, etc. At least for a period of time, the economic and social balance, including the one between markets, would suffer.

A lot of economic theories are only partially true – either at macro level, or only at macro level – in all cases it is required that we look into both sides of economy.

In the classic theory the price system of the automatic regulator which provides the appropriate proportions between full occupation and maximum national revenue. The classic theory does not leave room for a compensation policy and, furthermore, the promoters of this theory reached a false conclusion with regard to unemployment causes, claiming that such causes were due to too high salaries, induced by the interference of trade unions in the labor market. They thought that a salary decrease was the most appropriate means of overcoming a depression.

This reasoning is wrong or at most it represents half of the truth, because it is forgotten the fact that lower salaries can determine a lower consumption and as such, the economy decreases even more.

Keynes asserts that in many cases, the entrepreneurs will not invest more even though the savings increase, since it is demonstrated once again that in a healthy economy it is not the savings that lead to investments but the other way around, investments will generate the increase of revenue and profit. Savings and saving, as a result of investments, can constitute a means of combating inflation and deficits of all sorts.

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d J. Rueff, La nouvelle discussion sur le chomage, les salaires et les prix, "Revue d'Economie Politique", Septembre-Octobre 1951
Many economists claimed that continuous supra-population will keep salaries decreased at subsistence level. A. Smith is the first economist to argument that the increase of production would lead to the increase of prosperity even under the conditions of population increase.

Later, J.B. Say showed that salaries are determined by labor productivity. Productivity increase would lead in the long run to salary increase. However, the condition is that for a time, productivity increase should be accepted without salary increases. Otherwise, this “axiom” cannot be verified and turned into account in practice.

The salary-earners do not consume in the long run, they consume everyday; negotiations between administrators and salary-earners should not be solved only by the economic theory or only by one side.

According to the **marginal productivity theory**, so long as the marginal product of labor is greater than the salary, it is profitable for the firm to employ new laborers until the two quantities equalize under the conditions of a perfect competition-prone market.

A question emerges: does the marginal product determine the salary?

It could be possible that under imperfect competition conditions, the salaries would not be as much the result of competition between entrepreneurs, but more the result of the agreement between entrepreneurs and trade unions. In this case, the entrepreneurs adjust at this level the quantity of labor which they can use with profit and as such, the salaries determine the level of marginal productivity.

Or course, a certain correlation exists between salaries and productivity, but it is not formed on the basis of marginal productivity, but on the basis of power and the target pursued by the unions. As such, the issue of salaries does not exist anymore in the marginal productivity theory although the salaries influence the formation of prices and thus, the value of money.

2. Labor market flexibility – recent concept of policy based on economies de-regulation

Although it occupies a place within the frame of the other markets, **labor market**, although is one of the most important, is however a market derived from the others. It suffers the influence of the other markets and at the same time, produces effects we find in other economic sectors.

Taking into account the human factor, we can say that, as a result of cultural, traditional, institutional aspects, this is a sui generis market or we can say it is imperfect from the economic point of view. Sometimes the legislative and institutional framework required for the operation of this market forms along several generations and the theories which attempt to explain its mode of operation change themselves.

At present there are mainly two ways of approaching it:
- considering labor resources as a production factor and, from here, attempting to formulate balance conditions similar to those of the production factors, underlying the necessity of certain adjustments based mainly on price;
- at the other end we come across the humanist approach, so to say, which connects occupation and flexibility with human development.

Romanian researchers are inclined by tradition to use the second approach, but gradually the “employers”-type approach, which attributes to labor flexibility the property of ensuring a normal operation of this market makes its way.

**Flexibility** made its way especially in the developed countries at the beginning of the 8th decade as a result of the deepening of the economic crisis and the impossibility to balance this market by interventionist-type methods.

Thus it is considered that reduction of certain norms and juridical rules aimed at increasing the degree of freedom of the economic agents is of the nature to reduce the labor market disproportions.

It is worth mentioning that while in these developed countries there produces from a decade and a half a process of juridical and institutional de-regulation, in Romania it is attempted to establish a new legislative and institutional framework, coherent with the competition-prone operation of the other markets. It is therefore important to avoid automatic copying the existing mechanisms from developed countries but, at the same time, to avoid also inclusion of rigid elements in the system which would be made flexible later.

The authors of a study regarding this subject consider that **flexibility and making flexible** must be made for the sake of occupying the labor force. Adjustments can be made, the authors assert, without compulsorily going through
unemployment. For this alternative to become real it is considered that economic reform must have in view as priority objectives, occupation, formation, development and use of human resources and not treat them as a secondary product. These imply passage from passive policies to the active ones, based on economic solutions and partnership.

In time, in the labor market there strengthened certain natural or acquired rigidities. Flexibility imposes itself mainly in the period of crisis of the regulation system, of the Keynesian type.

**Flexibility** involves an increased and rapid capacity of reaction of the labor market to the signals received from the economic environment, favoring the modality and fluidity of the offer to the variations of demand of labor force. It is clear that flexibility overpasses the flexibility of salary and salary cost, including labor relations, labor organization and labor time. It is flexible that market in which labor force elasticity to the variations of demand is high and prompt. Flexibility is required more so as here takes place a process of internationalization of economies and markets, at the same time with the acceleration of the technical and managerial progress.

Occupation structures require permanently corrections by promoting a new content of qualifying various formulas of arrangement of the work time, of new remuneration systems, etc. According to the incidences induced by this type of variations, some economists considering that labor flexibility tends to take the place of buffer stocks of raw materials, materials.

Labor productivity dynamics change permanently the relation between labor and capital, the elastic character of substitution of labor by capital, professional formation becoming the main device of functional flexibility of the labor market.

The **rigidity of direct salary cost** and indirect costs at deduction, invoked as argument of first magnitude in support of the flexibility, leads to the outsourcing of certain activities and replacement of the collective labor contract with a commercial contract, situation in which salary costs, falling in the responsibility of the subcontracting party, are driven outside the company, offering other conditions for production profitability, sharing of the profit between investments and salaries, of sustained, durable increase.

Flexibility must be conceived within the limits of efficiency, competitiveness, without sacrificing collective and individual labor safety, as also Roy Marchal, former American secretary of labor, showed in the foreword of Philip Martin’s book titled “Mobility of the labor force and public policy”.

It must be integrated into a global strategy of management of labor resources. Flexibility is a means, a solution, among many others, and not the only remedy.

Thus, “…Rendering flexible the production systems, making labor force only a simple element of the cost price can prove a victory a la Phyrus; setting up a too great liberty for employment and firing is a double-edged saber… Identification of the laborer with company’s fate is the only thing which can make it progress… In this respect it is necessary a certain stability of the occupation, a convenient social security and personnel informed with regard to the projects of company’s management.”

Favoring promotion of non-typical forms of occupation, flexibility bears in itself the germs of occupation non-security, durable increase of unemployment, exclusion, weakening of the labor revenue security, economic self-protection, respectively, either by a lower level, or by incertitude in its achievement. And at a mass of salaries and a smaller individual salary, these will be diminished accordingly.

Some people consider that the price of labor, by its rigidity against decrease, proved to be a blocking element of the labor market, impelling unemployment increase. Not by chance it is thought that an uncontrolled increase of salaries and salary costs of today gives the dimension of tomorrow’s unemployment and day after tomorrow’s inflation.

But in the short run, the efficiency of salary costs flexibility measures, meaning moderation of salary increases, salary rigor and austerity, have no significant effect over occupation, unemployment and inflation. Although the salary continues to be approached as the main regulation mechanism of the labor demand and supply, their rigidity to diminution being appreciated as a trigger and supporter of unemployment, the evolutions from the last quarter of century seem to indicate that the ratio between demand and supply and the offer of labor force tends to become automatic to grow apart from the evolution of salaries.

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Salaries would decrease severely to have a favorable effect over labor force occupation and decrease of unemployment.

In reality, in certain periods and countries we find that nominal salaries increase together with mass and durable unemployment and galloping inflation, defying some economic theories.

**Unemployment and inflation** are also influenced by other factors which operate in other markets:
- increase of material costs;
- industrial production decline;
- restructuring difficulties;
- national currency devaluation;
- increase of monetary issuing and monetary mass under conditions in which the national offer of goods and services remains low, and the solvable demand is restricted (by fiscal, budgetary, interest rate, salary, etc., measures).

In relation with this, in a study made for the International Bureau of Labor, Robert Boyer – known specialist in matters of labor market operation – mentioned: “It would be inefficient economically – and dangerous from the social point of view to make the salary-earners “pay” for the unbalances arrived from other parts, for instance, from the international monetary system.”

**Rendering flexible the labor market** can turn to account its value only in correlation with other mechanisms and devices of re-launching and supporting economic increase in a non-inflationist environment.

In the period of transition to market economy, flexibility intertwines with labor market regulation and not with de-regulation phenomena and processes if a too regulated market by laws or collective national, regional, sector, company agreements.

**Numeric flexibility** refers to the adaptation of the labor force number to the oscillations of labor demand, manifesting under the form of external and internal quantitative flexibility at the beginning of the ‘80s.

External quantitative flexibility pursues mainly replacement of undetermined duration labor contracts, strongly attached to the concept and practice of full occupation, with determined duration labor contracts, temporary work, etc., being specific to companies present in a weak or very stratified labor market.

Supported by the employers, this form of flexibility is efficient in the short run, because it allows a rapid adaptation of the labor force offer, although certain juridical regulations protect occupation restricting licensing.

Relaxation of these regulations does not equal in any case the disappearance of any form of protection of salary-earners in licensing circumstances.

**Internal quantitative flexibility** pursues modeling of work time without modifying the number of work places. It can be had in view the year of work often accompanied by salary nullifying, giving up or very strict regulation of the overtime regime.

This way massive firing in weak circumstances periods is avoided, occupation is protected, if not in full, at least for an important part of the labor force, the labor force costs are reduced, the expenses with firing/re-employment induced by frequent reference to the external labor market are maintained under control.

**Salary flexibility** is the model of flexibility which triggered and continues to trigger the amplest debates, is a way by which is transferred the circumstantial influences over salaries in the evolution of the turnover and posts.

It involves elasticity, including for the decrease of labor force costs, as a result of the oscillation of activity volumes and economic and financial results of the company.

After 1980, the developed countries applied an ever greater stress on **adjustment, flexibility and freeing policies**, moving away from a long Keynesian and dirigist tradition, promoted for a time also after the Second World War. According to this tradition, macroeconomic policy put a stress on economic growth, assurance of work places and necessity of certain orientations of private investments.

**References**


