"Summary of article by David Marsden: An Alternative Approach to Labor Markets" in Frontier Issues in Economic Thought, Volume 4: The Changing Nature of Work. Island Press: Washington DC, 1998. pp. 53-56

"Summary of article by David Marsden: An Alternative Approach to Labor Markets"

This paper distinguishes between three main types of labor markets: markets for unskilled or casual labor; internal markets, in which firms allocate jobs among workers with non-transferrable skills; and occupational labor markets, which match up jobs with workers who possess readily transferable skills. The latter are taken as the norm of conventional economic theory, which assumes competitive conditions in the long run. By contrast, the position of this book is that occupational labor markets possess a number of the characteristics of 'public goods'; they are difficult to maintain and susceptible to breakdown in the long-run unless supported by some institutional framework. If this is true, then

> at any time the number of occupational markets will be limited, remaining skill requirements being met usually by internal labour markets, and ... firms will usually fall back on their own internal markets if occupational markets fail or are not available. Consequently the scope for competitive pressures within the labour market is greatly reduced.[231]

OCCUPATIONAL LABOR MARKETS AND TRANSFERRABLE SKILLS AS PUBLIC GOODS

Occupational labor markets (OLMs) are institutional creations that are fairly unstable unless they have a high degree of institutional support. This becomes clear if occupational labor markets and the transferable skills they distribute are recognized as public goods.

A public good has two defining characteristics: first, once it is produced and supplied to anyone, it is not feasible to exclude others from using it; and second, use of the good by one person does not diminish its availability to others. Occupational labor markets and transferable skills have both of these characteristics.

In occupational labor markets skills are highly transferable because of skill mix standards and training levels, along with standardized job training and standardized job descriptions across firms. Once these features are established, employers draw from this pool and workers seek training to gain access to it. These traits enable employers to treat skilled labor as a variable rather than as a fixed cost: they can lay off such workers without losing essential firm capital.

Thus, OLMs function much like public goods. "In an economy in which labor has the right to change employers freely, the standardization of skills means that firms cannot easily be deprived of access to the market. Moreover, once the system of standardized skills is established, in the long run its use by other employers may even enhance it, spreading some of the fixed costs of regulation more widely."[235]

DIFFICULTIES OF ESTABLISHING AND MAINTAINING STABLE OLMs

Conventional theory states that, under competitive conditions, workers learning transferable skills will bear the whole cost of training. This is exemplified when trainees accept a special trainee rate below the value of their output. However, in reality skilled employees often possess enough power to force employers to accept most or all of such training costs. The skilled workers may, for example, insist on a good deal of institutional supervision of trainees, thus raising the cost to the employer.

To obtain an adequate pool of skilled labor in an OLM, workers must invest in standardized training and employers must design jobs that match such training. When establishing OLMs, many firms develop their own in-house training programs to supplement outside training. The first firms who participate in an OLM therefore face a danger of "poaching" by other firms who lack in-house training. The same logic can be applied to technological change within firms: as workers are trained to use a new technology they become attractive to competitors adopting the same technology. These dangers create incentives for firms to reduce turnover through the design of internal labor markets. Though there are also costs associated with the latter, once firms turn their training investment in this direction the possibility of establishing standardized skills is reduced, as is the firm's motivation to return to the more open OLM form.

Other factors that could cause firms to move to internal labor markets are: (1) free riders -- firms who dilute training standards; (2) the fear of losing flexibility when accepting standardized skill norms (e.g., in the face of rapid technological change); (3) cyclical skills shortages, when firms are in danger of losing their workers unless the latter are tied in to internal labor markets; and (4) the fear that workers with more transferrable skills will gain bargaining power.

Public funding for training is a logical solution to this public good problem, but "often fails to provide the work experience (often itself transferable) which has to be gained in the firm, and which is nevertheless costly to provide."[238] Skilled workers, who may play a necessary part in the training, will resist assisting in this process if they see it as leading to a reduction of their own job security.

Institutional regulation can help alleviate these problems. By overseeing the quality of training and maintaining uniform standards, institutions can reduce the use of trainees as cheap labor and ease the free rider problem. In such a framework, training costs could be shared among employers or with trainees. In addition, regulation can increase trust among firms and workers and increase the acceptability of low trainee wages, reflecting their actual marginal product.

We have seen, here, two types of solutions to the inherent instability of OLMs: internal markets, and institutional regulation. It should be noted that neither of these solutions supports the mainstream economic expectation of a reassertion of unregulated competitive markets.

CONCLUSION: IMPLICATIONS FOR LABOR MARKET THEORY

The foregoing discussion reveals that occupational labor markets operate much like public goods in that it is often difficult to exclude those who are not prepared to contribute to their funding. The implications that can be derived from this study of labor markets include the following:

(1) Occupational labor markets will be limited in number.

(2) Because of limited numbers of OLMs, firms will have to provide internal labor markets for other needed skills.

(3) The public good analogy implies that employers will be prevented from passing training costs to workers and will therefore have additional motivation to develop internal labor markets. This further implies that the Hicks-Marshall long-run competitive equilibrium may not be achieved.

(4) As institutional regulation of OLMs break down, competitive markets are not re-established. In fact, the use of internal labor markets may increase.

(5) OLMs will be confined to higher paid groups, especially if the workers have to bear some portion of the cost.

(6) The market power of workers in OLMs will be greater than that of their fellow workers in internal labor markets. This "contributes to frequent higher pay of workers on occupational markets; and it suggests that there is a strong incentive for groups on such markets to use their organization to exploit their bargaining advantage."[249]

(7) The reduced elasticity of demand for workers in occupational markets creates an opportunity for monopolistic bargaining. Employers may respond by adopting policies to counter job mobility, e.g., by giving rewards to seniority.

(8) OLMs require institutional support to regulate standards and adapt them to a changing environment.

(9) When institutions are given a more central role in labor markets, more weight can be given to questions of comparability and fairness of wage comparisons.

(10) "As many firms will have recruited only a limited number of their workers from occupational markets, with the remainder on internal markets or recruited from unskilled markets, competitive pressures from their local labour markets will be limited."[250] In contrast to what conventional theory would argue, mobility of transferrable skills is only a potential; job tenure can be high and turnover low even where there are significant wage differences for comparable jobs among firms in the same region. Similarly, it cannot be expected that labor market pressures alone will reduce inter-country differences in internal pay and grading structures.

Framed in this manner, it is evident that the economic analysis of labor markets could benefit from collaborations with members of other disciplines as well as from cross-country comparisons.