Revaluation of the labor theories and the Central-Eastern-European labor market trends

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Abstract

The author assumes that globalization and its regional and local impacts have an important role in nowadays' economics. Paradoxically, challenges arising from the unification of the world have made the necessity for regional and local answers stronger. The transformation of the labor market calls for the revaluation of the notion of labor; it puts the issue of employment in another perspective. The solution for globally existing lack of employment is more and more frequently sought focusing on sustainability and social inclusion at regional and local levels.

This study consists of three main themes: (1) An overview is given about the main findings of the economic theories associated with employment and labor / paid work; reinterpretation of the concept of labor is also provided, divided into pre-industrial, industrial and post-industrial periods, which the author aligns with the periods of the economic thought. The author interprets globalization as a factor influencing the transition between industrial and post-industrial periods; and she elaborately introduces its economic-social and labor market impacts. Among the potential alternatives of employment of the future, this thesis investigates the atypical forms of employment, public employment. (2) Central-Eastern European countries are analyzed, as the territorial unit of the research, from labor market and employment aspects. Afterwards, the author evaluates the employment situation in this region. (3) Afterwards, the author contributes suggestions to the criteria of creating a more efficient regional employment policy.

The aim of this research was analysed the regional labor market situation by the Central-Eastern European countries and was gave some proposals for a possible, efficient regional employment policy.

Key words: regional disparities, labor market

1. Labor-Paradigm Shifts in Economic Theories

The purpose of the theoretical overview is to draw a complex picture of the development of the employment-related elements of the economic schools of thought, the main ideas and thoughts of the specific schools and their most significant representatives, their core element and factual statements, and, at the same time, the change of the labor concept. (Lipták, 2013)

1.1.Labor concept of the preindustrial societies

In prehistoric times people worked irregularly, 3 to 4 hours a day, necessary for their means of subsistence. Decent work at that time covered the range of useful social activities done voluntarily in and for the community. Ancient philosopher Aristotle posed the question as to what the essence of happiness was and what can be regarded as work. He argued that the essence of happiness was the actual work of man. "The specific work of man is nothing different from the sensible – or at least not insensible – activity of soul" (Aristotle, 1997:19).
In ancient societies social status was not determined by work, that had no value. Goods come from ownership and not from work. Ancient philosophers (Plato and Aristotle) also claimed that citizens did not have to work, there was a distinct social stratus for that purpose. Work gained a double interpretation: on the one hand, classical work was what slaves did and, on the other hand, it was also a work what citizens did as intellectual activity (Aristotle, 1997).

At the same time, one should not forget about the world of medieval guilds: assistants and workers working there also acted in a specific form of paid work Sewell calls this period "corporist world order" that determines the process-technical organization of production as the social organization of work. This world order regards craft as community property that provides employment only to the members of the community (Castel, 1998). In medieval time the value of work was totally insignificant, it was almost classified into the group of obligatory bad; however, at the same time, Calvin put forth another interpretation of labor, at the end of the "dark Middle Age", according to which every form of doing work meant serving God.

1.2.Labor concept of the industrial societies

William Petty (1623-1687), living in the 17th century put forth view different from the mainstream approach of the mercantilist era; he suggested that land and labor are regarded as

the source of wealth. Petty is considered to be the first creator of the labor theory of value; he argued that only specific types of labor can be seen as value creating work, such as that producing precious metal serving as the raw material of money (Mátyás, 1969).

Classical economise Adam Smith (1723-1790) claims that a society's economy depends on two factors: the proportion of population dealing with productive work and the productivity of labor determined by the division of labor. He linked the change of number of population to the amount of wage. He explains in his work (Smith, 1959): "In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labor necessary for acquiring different objects, seems to be the only circumstance which can afford any rule for exchanging them for one another." Somewhere he mentions that agricultural labor creates a larger value than industrial labor.

David Ricardo (1772-1823) lived and worked in the period of the industrial revolution and studied, which made it possible to study the advanced capitalist conditions. He agreed with the Smithian natural order, however individual interest appeared as a class interest in his case. His theoretical system is pervaded by class antagonism that appeared between mainly between industrialists and landowners. He traced the categories of capitalist economy he studied back to the labor theory of value.

Thomas Malthus (1776-1834) agreed with the Smithian labor theory of value, however he claimed that labor cannot be regarded as the accurate and valid measure of the actual exchange value. He made difference between productive and unproductive labor, in his opinion both physiocrats and Smith agreed that productive labor results in wealthiness (Malthus, 1944).

The problem of exchange of same value (refining the Smithian thoughts) was solved by Karl Marx (1818-1883), in his book titled Capital, by making distinction between the concepts 'labor' and 'labor force'. He emphasized the useful nature of labor: “the value of labor force, as that of any other commodity, is determined by the working time necessary for the production, that is also the re-production, of this special commodity... which also means that the value of labor force is the value of means of subsistence necessary to maintain its owner” (Zalai, 1988:41). The Marxian concept of labor placed an emphasis on use-value which did not appeared in the definition of subsequent researchers. Furthermore, he wrote down that the simple moments of labor process is the expedient activity that is the labor itself, the object of labor and the means of labor. The worker worked under the control of the capitalist whom his labor belonged to an the given time. He divided the society into three parts: landowners,

capitalist and worker. According to Marx (1955) labor also becomes commodity in a completely developed capitalist system. That means, the worker markets his or her labor force and working ability the price of which is the wage; in this way same values are exchanged.
Marx, in his letter written to Engels, made relatively new statements:

- he described the dual nature of labor (partly labor appearing in the value of the product and partly labor appearing in use-value) he investigated labor from both qualitative and quantitative perspectives,
- he considered labor force to be a commodity rather than labor,
- he investigated surplus value regardless of its forms of appearance.

Alfred Marshall (1842-1924), among neo-classical economists came to the conclusion that labor creates surplus over wages the worn-out value of work-assisting tools; however, this surplus is not given to the worker, it is taken away from him this is a problem of social distribution (Deane, 1997).

John Maynard Keynes' (1883-1946) approach contrasted Smith's views. The theorems of the neoclassical theory completely overturned due to the global economic crisis of 1919-1933; therefore the development of a new economic paradigm became necessary. Many associate the notion of total employment with Keynes' name, however, this category had appeared in the work of the neoclassical economists as well. In Keynes' work total employment could occur only at the time of the disappearance of involuntary unemployment. Keynes' ideas make state intervention necessary and possible in the labor market so that the level of unemployment can be kept low. "Even Keynes does not suggest that unemployment can totally be eliminated from developing economies. Structural and frictional unemployment are necessary products of healthy restructuring of the economy in Keynes' school as well" (Bánfalvy, 1989:52).

Social attitudes associated with work and the lack of work began changing in the 18th century. Work was interpreted as a way to achieve wealth, whereas the lack of work was seen as the medieval conviction related to the lack of work (that is, idleness is a sin) began to be replaced by the view that the lack of work causes an economic loss to both the individual and the society. Arendt (1958) properly gave a precise account of the development of paid work. "The sudden spectacular upward career of labor, that catapults it from the lowest row, the most disdained position to a precious one, so that it becomes the top-rated human activity, began when Locke discovered the source of all property in labor. Its triumphant advance continued when Adam Smith explicitly made it clear that labor is the source of all wealth. It reached its climax in Marx's system where labor became the source of all productive activity,

moreover the expression of the human nature of man."

1.3.Labor concept of the post-industrial societies

Modern societies are rightly called the "society of paid work", however the term "labor society" also appears frequently in the literature. One can read about the crisis of paid work since the 1960s, its heyday was the first quarter century up until the first oil crisis. The crisis was not only about the change and transformation of the world of work, it was also about the atypical forms of employment becoming increasingly popular. Part of the society was excluded from the world of paid work after the period of industrialization, it can be regarded as nowadays' period as well. The beginning of the crisis of labor paradigm started with Arendt's (1958) statement: "what is ahead of us is a labor society that is running out of work that is from the only activity it is good at. What could be more terrible than that?" He likens paid work to slave work and not to a voluntarily undertaken activity of free man. Gorz suggested that the socially useful activity should be placed at the centre of the society instead of paid work. Beck spoke of civic work done in favour of the community (Csoba, 2010).

In my opinion the *atypical forms of employment* (teleworking, part-time job, temporary employment, fix-term labor contracts) would be a good solution for the post-industrial societies. The multidimensional nature of atypical employment makes it notoriously difficult to define. „Atypical employment can be conceived under very general headings such as: contingent work, alternative work arrangements, flexible working practices, or under less general headings such as independent contractors, on-call workers, temporary help agency workers and workers provided by contract firms." (Fleetwood, 2001:57)

The appearance of atypical forms of employment was also enhanced by the facts that the characteristics of labour changed in the long run, markets became more and more unstable and information technology gradually spread. In the capitalist economy in its traditional sense, traditional employment functioned well, but in the economics with new characters, the formation and spread of employment different from traditional were necessary. Companies need to be able to modify the labour force flexible. To do so, employee does not need to be dismissed, instead, temporary employment can be applied. (Ékes, 2009)

2. The labor market challenges in the Central-Eastern-European (CEE) countries

Open unemployment was unknown in socialism. The employment rate was very high;

workers could feel that their jobs were safe. Instead, an inverse disequilibrium was typical. The socialist economy resulted in chronic shortage, one manifestation of which was – at least in the relatively more developed and industrialized CEE countries – chronic unemployment. No matter how it affected efficiencies, workers enjoyed job safety, but this situation came to a sudden end as shown in Figure 1. The rate of employment considerably decreased and open unemployment appeared. The degree differed from country to country; it was lower than the European average in some countries and higher in others. Unemployment practically traumatized the society. Job safety was lost. This situation happened at a time when life became more uncertain in other dimensions as well.

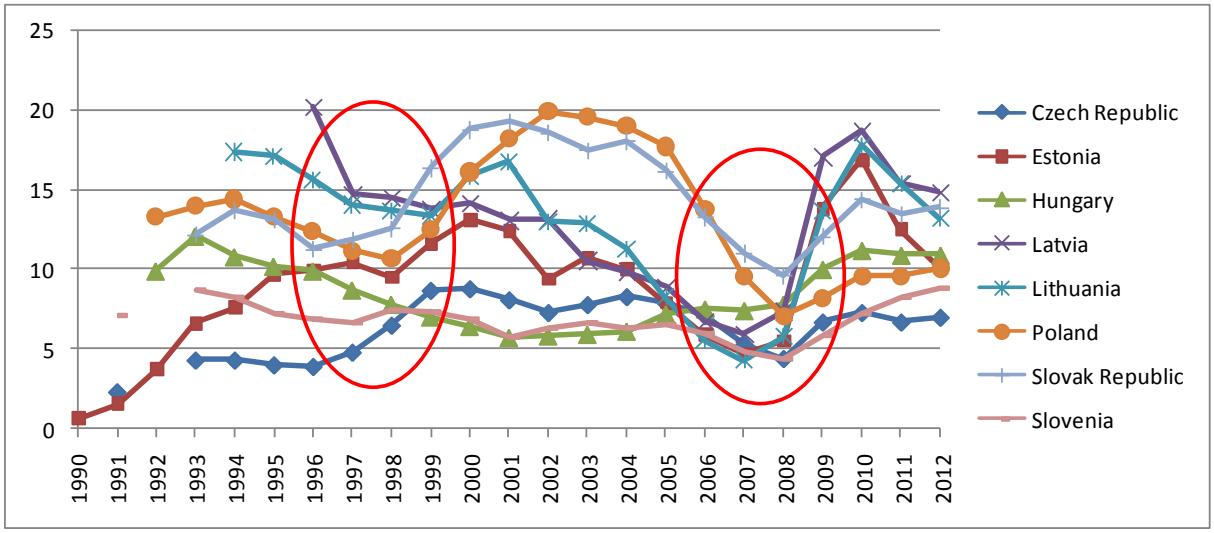

Figure 1. Unemployment rate (% of total labor force), 1990–2012

Source: Own compilation based on World Bank

The evolution of the unemployment rate (Figure 1) illustrates the process of regime change. The most hectic are the Slovakian and Polish curves, which showed a 15% drawback by the year 2008. The unemployment rate data for Hungary, Slovenia, and the Czech Republic moved together in each period, although the opposite effect would have been expected in the light of the GDP figures. Estonia, Latvia, and Lithuania traveled different routes, such that their rates of unemployment continuously decreased after the change of regime; they not only completed the regime change quickly and efficiently but also were able to treat the suddenly appearance of unemployment efficiently. The economic world crisis that commenced in autumn of 2008 was instantly felt in the labor market as well; most of the states were unable to get out of the deep recession, although they introduced significant employment policy measures. For example, in Hungary, public employment programs (e.g., Way to Work Program) became dominant to treat the problem; however, unfortunately, these approaches

did not produce permanent results. As shown in Figure 2, unemployment struck Latvia the most severely. The effect of the global economic crisis also has been perceptible in the CEE. The length of the crisis is characterized by the increase of unemployment rate by quarters. The Baltic countries and Hungary were affected by the crisis for a longer time and to the greatest extent.

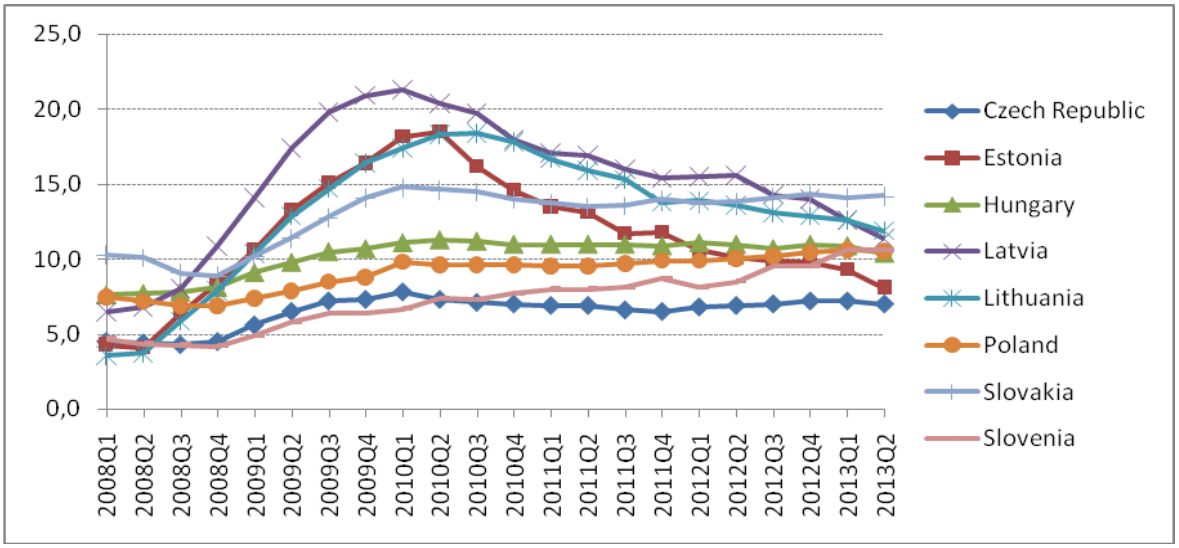

Figure 2. Unemployment rate (% of total labor force), 2008Q1–2013Q2

Source: Own compilation based on Eurostat

The regime changing countries in question can be categorized into two groups in terms of the rate of employment (Figure 3): Poland, Slovakia, and Hungary possessed lower levels of employment, whereas the rest of the countries belong in the higher categories.

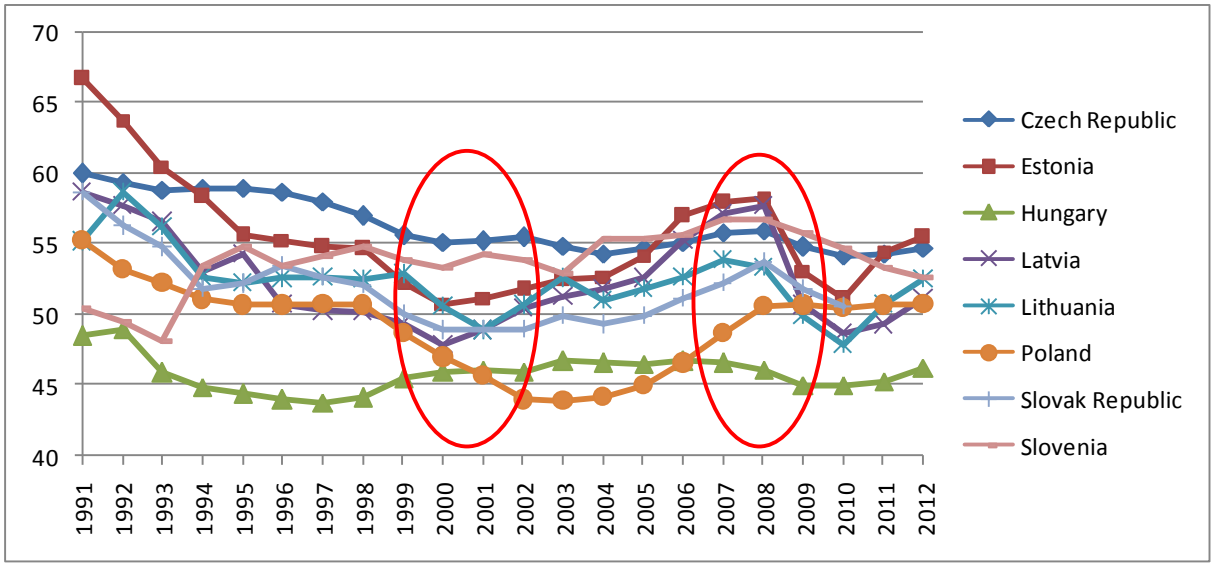

Figure 3. Employment to population ratio (15+) total (%), 1991–2012

Source: Own compilation based on World Bank

Research on the Estonian employment policy could be a separate topic as between 2006 and 2008, that country obtained a relatively high employment level as set out by the Lisbon Strategy; however, the crisis struck Estonia as well and broke the fast growth trend.

3. Atypical forms of employment

Self-employment is probably the least problematical form of atypical employment to measure. Entrepreneurs in person and members of enterprises with no legal person are annually registered in the Labour Force Survey. There is still a considerable number missing however, since those self-employed in agriculture who do not have an entrepreneurial licence are not recorded. The definition of self-employment used in the Labour Force Survey is somewhat different from that used by the ILO, since it does not include members of co-operatives and casual workers who are better described as having an employee-type relationship. Moreover the size and the legal status of the enterprise is not taken into account, but this should not cause any major problems, since the typical form for a self-employed enterprise is the small.

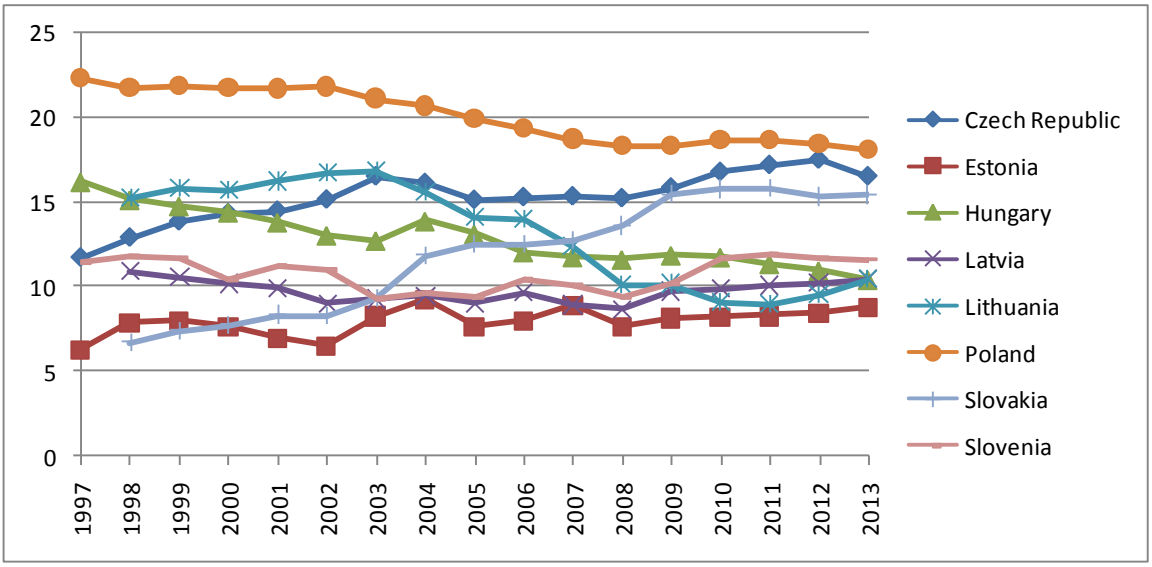

Figure 4. Self-employed in the CEE countries (% of total employment)

Source: Own compilation based on Eurostat

The rate of self-employed persons (Figure 4) has been decreased in most of the CEE countries of interest, except for Slovakia, where labour market measures have improved due to economic reforms. The reason for the decreasing trend is the modified legal regulation. In Poland, the rate of self-employed persons is significantly high, more than 20% in each period. It slowly converges to the values of the more developed European states.

According to the ILO definition *part-time working* is "significantly shorter than the normal working hours". OECD – primarily because of statistical reasons – uses the definition of working hours less than 30 hours weekly. The EU directive about part-time working defines part-time employee as the one who is employed for shorter working hours than full-time employee at the same workplace. The spread of part-time employment reflects the modified employee's behaviour as part-time working makes it mostly possible to harmonize working with other activities like family, further study or voluntary work. From the point of view of employment policy, this is a popular form of employment because it contributes to the increase of employment rate more quickly than full-time employment.

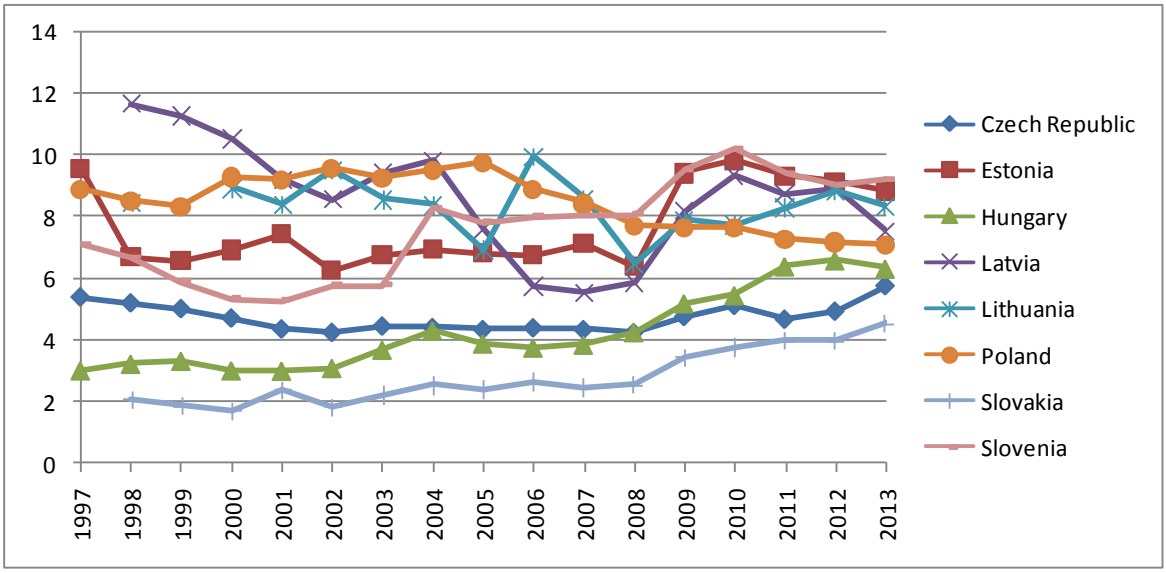

Figure 5. Part-time employed (% of total employment)

Source: Own compilation based on Eurostat

The rate of part-time employed (Figure 5) seems to be more hectic as it could be seen in the case of self-employed people. Increase can be seen in the case of Slovenia and Estonia, but the value for 2009 is also very low, 10.5%. Part-time employment would be a good solution for women and mothers with babies. This rate is even lower in the case of other countries. It is the lowest in Slovakia, where only 2% of the employed people are part-time employed.

Temporary employment is a special form of working established to reduce costs. In this case the employer who signs the labour contract with the employee and the actual employer are not the same. It is important that – because of guarantee reasons – only those employees can be borrowed that were employed especially for this reason. Other employee cannot get into this situation because of the employer's decision. That is why only companies meeting some

specific conditions can deal with temporary employment. In Hungary, for example they have to be registered in order to be able to start working. Temporary employment is an interesting issue on its own. In the recent economic crisis, you can hear about staff work force reductions in the daily news, but temporary employment can hardly be heard. Let us take into consideration that in the crisis, companies first give up borrowed employee. They give him/her a notice or do not extend the fixed-duration contracts. Temporary employment is one of the most widespread atypical forms of employment in Poland, Slovenia and Hungary.

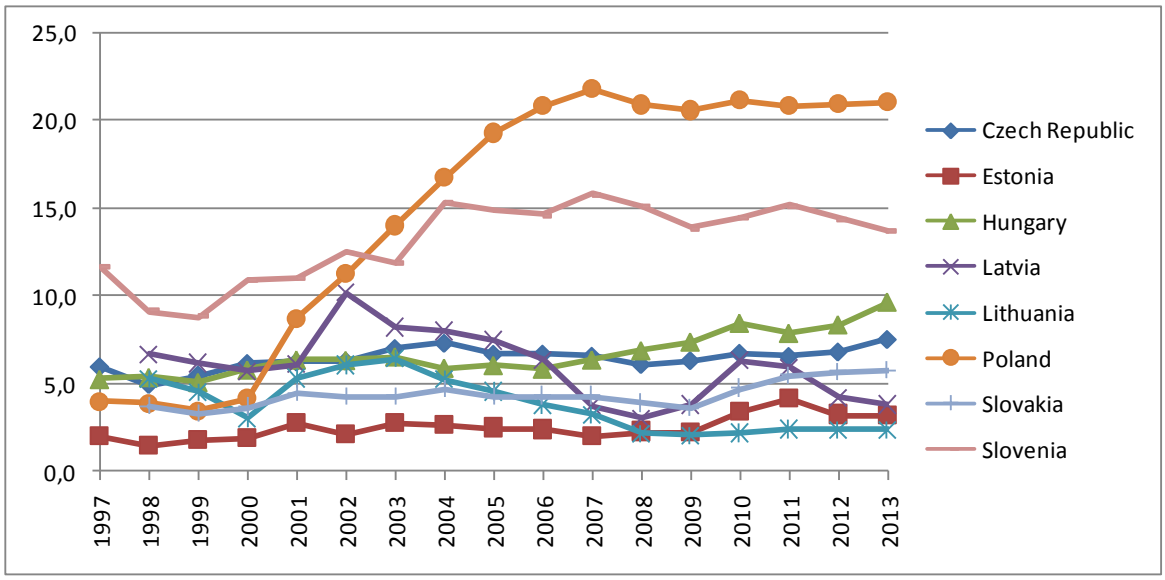

Figure 6. Temporary employment (% of total employment)

Source: Own compilation based on Eurostat

4. Employment policies of Central-Eastern-European countries

I analyzed the priorities of National Reform Programs (NRP) in CEE countries (Figure 7). The employment policy of the European Union significantly determines and sets limits on employment-related objectives and efforts of the nation states. The analyzed NRP documents indicate that most countries view the 75% rate of employment, accepted in the Europe 2020 Strategy, as an expected and attainable criterion. The Czech Republic and Lithuania displayed target values for employment of the elderly, but other countries did not specify it. The rate of unemployment was put forth by Estonia and Slovakia, also with unrealistically low target values (2.5–3%). The priorities mainly include the use of active employment policy tools, although in most cases, the tool to be applied is not specifically named. Most countries see the future development of the labor market as improving the quality of life, developing education, creating new jobs, and supporting mobility. At the same time, neither the amounts of support

nor the programs assigned were mentioned in the documents.

Figure 7. Priorities of employment policies of CEE countries

Source: Own compilation by the NRP (2012) documents

Employment policy aims (National Reform Programs of 2012), at the level of CEEs, clearly follow the main guidelines of the Europe 2020 Strategy; they build upon the peculiarities and labor market demands of the particular countries. Passive tools, among employment policy tools, are dominant in this group of countries, which responded to the economic crisis with the differentiated use of active and passive tools.

5. Recommendations for developing an efficient regional employment policy - conclusions

There is no experience of regionally differentiated employment policy in Central-Eastern-Europe. No examples can be found to this in Europe either, however, the existence of a regional employment policy with be reasonable. The summary of my recommendations for the establishment of a system of criteria to underpin a regional employment policy are listed below:

- *A multi-channel employment policy would be reasonable in the long term that combines the traditional forms of employment and alternative solutions.* A regional level decision is not sufficient for its realization, rather macro-level social-economic conditions have to be ensured, moreover an attitudinal change is essential. An increasing focus is placed on the application of non-traditional forms of employment due to the changing meaning of work-concept and also along with the change in the way of doing work. Future employment policies have to treat traditional and alternative forms of employment together.
- *Regions having similar characteristics and similar labor market features should cooperate and act jointly in the European Union; joint asserting of interests and joint representation would bring significant results.* The basis for the classification of regions into same types can be similar economic-social situation and same labor market conditions.
- *Regional employment policy should give priority to the supporting of human potential by way of, within the active employment policy tools, increasing the amount spent on labor market trainings; it requires taking the demands and emerging needs of employers.*
- *A strategy capitalizing on internal features and naturally taking external processes into account should be formulated instead of continuously eliminating the European Union's employment policy.*
- *Developing an independent regional employment policy that sets up regional objectives and has independent measures and institutional system would be reasonable.* Regional perspective is present in many areas in the European Union and this approach is getting increasingly reasonable in the case of employment and labor market as well. Regional employment policy would require independent system of measures and independent institutional system that would not be identical with the those applied in other regions of the country.

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