

Chapter Eight

Role of Government in the Labor Market

As we have seen in the introduction part, government is one of the three agents in the labor market. Governments have a range of potential roles: regulation of the market, providing information and standards, and financing the provision of various services so as to maintain the smooth functioning of the labor market. Some of the situations which call for government intervention in the labor market are:

- Existence of unequal market power
- Discrimination
- Asymmetric information
- In adequate insurance, and
- Other market mal-practices

Possible areas in which the government takes part are:

8.1. Labor market policy (program)

Policy or program that addresses the problem of labor is called labor market policy or program. There are two types of labor market program; active and passive labor market program.

8.1.1. Passive labor market policies

The so called passive programs, such as unemployment insurance or social transfers mitigate the financial needs of the unemployed but they are not designed to improve their employability in any fundamental sense. It focuses on income support for workers.

8.1.2. Active labor market policies

Active labor market policies have emerged as an important employment policy tool, particularly in developed countries. This policy envelope includes a wide range of activities, intended to increase the quality of labor supply (e.g., retraining); to increase labor demand (e.g., direct job creation); or to improve the matching of workers and jobs (e.g., job search assistance). The objective of these measures is primarily to increase the probability that the unemployed will find jobs or that the underemployed will increase their productivity and earnings. However, more recently the case for active labor market policies has also emphasized the potential social benefits in the form of the inclusion and participation that comes from productive employment. Active programs are meant to directly increase the access of unemployed workers.

As the disincentives and dependencies inherent in passive programs have received more emphasis, active labor market policies have become an attractive option for labor policy-makers.

8.2. Types of Active Labor Market Programs

This section discusses the various active labor market programs in greater detail and raises some issues that policymakers should consider when designing and implementing these programs.

A. Employment services

Employment services serve brokerage functions, matching jobs with job seekers. This assistance comprises many different types of activities: for example, initial interviews at employment offices, in-depth counseling during the unemployment spell, job clubs, etc.

B. Labor Market Training

This includes training where there is some form of public support. That support can come in the form of direct provision of training (e.g., through public training institutes), financial support for trainees (e.g., funding training costs and/or subsidizing trainees), or providing “infrastructure” services (e.g., labor market information, licensing, monitoring and credential services). Most countries focus on three types of training programs:

1. Retraining aimed at the long term-unemployed (e.g., unemployed for more than 12 months)
2. Retraining displaced workers, especially those displaced in masse as a result of enterprise/industrial restructuring; and
3. Training programs aimed at young people, often with special attention to school drop-outs.

C. Job Creation

These programs are intended to support the creation of new jobs or the maintenance of existing ones. Three general types of programs fall under this category. First, there are subsidies to encourage employers to hire new workers or to keep employees who might otherwise have been laid off for business reasons. These can take the form of direct wage subsidies (for either the employer or worker) or social security payment offsets. These types of subsidies are always targeted to a particular category of worker or employer. The second category involves direct job creation in the public or non-profit sector through public works or related programs. Typically, government funds used for these programs cover compensation costs to hire previously unemployed workers, usually on a temporary basis. Third, support is sometimes offered to unemployed workers to start their own enterprises. This can involve offering micro-financing for start-up or operating costs, allowing unemployment benefits to continue where claimants start their own business, offering grants, or providing business support services.

8.3. Employment security

The intervention of the government in the labor market improves employment security. Job security refers to rules of hiring and firing procedures. This includes what kinds of contracts are permitted, any special rule favoring certain group in hiring, occupational standard, the condition under which a worker’s contract can be terminated, requirement for severance, advance notice of termination, etc.

8.4. Labor market regulation

To enable the market function well, there is a need of rules and regulation in the labor market. The purpose of this practice targets at controlling the market failure and remove any kinds of mistreatment of laborers.