# Labour Market Intermediation

## The problem of unemployment during a shift to a low-intensity economy and a proposal for a solution.

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Green policies mean switching to a low-intensity economy. In this context, a primary task is to reengineer a substantial part of society's production facilities and infrastructures, so that they come into line with this goal.

Such a shift will have substantial effects on labour markets by interrupting the demand for labour both in the short-term and presumably also more permanently, if compared to a situation where the current resource-intense socio-economic structures are retained.

The short-term effect of a green shift will be jobs losses in the industries being reengineered under conditions where many of the lost jobs might not immediately be replaced by jobs in new and greener industries. The permanent effect will be that a greener society will have lower resource intensities, which will translate into lower demand for many types of work. In other words, some of the reduced demand for labour that will occur during the transition might never return.

At present, a fear of the impact on jobs and incomes is reducing support for green policies among workers and making many of them susceptible to the obfuscation of the climate change deniers. Consequently, devising solutions that can remove, or at least substantially mitigate, the fear of unemployment must be a key component of comprehensive green strategies.

Labour, the human resources that workers as individuals inject into the economy, is in today's economies predominantly structured by markets relations established directly between market participants. Under such conditions, labour becomes a product—a product (or a commodity as Marx called it) with some peculiar characteristics but a product nonetheless. Along with other products, it is traded among property owners in open markets. Workers supply the labour they "own", while firms demand and buy it under various contractual exchange forms.

Viewing labour as a product among all others is, however, problematic. Primarily, it ignores the fact that work is also a social relation. Moreover, this very important social relation—wage-labour—is predominantly employed in discrete one-off relations. That means that the typical worker either is employed, earning a full wage; or he or she is unemployed, earning no wage at all.

Thus, the social relation embedded in work is interrupted by unemployment. The loss of wages during unemployment is in developed economies compensated for by government benefits, but these are often inadequate. Unemployment over any length of time will therefore economically devastate the affected families. What adds to the problem is that unemployment carries with it a feeling of being socially stigmatized, which can engender severe social and psychological consequences.

Maintaining low unemployment compensation is often justified by social Darwinism, i.e. transferring he argument of the survival of the fittest to the workplace. The purported logic becomes: why should the fit subsidize the unfit over their tax bills. In fact, such views are never far from the surface in modern economics with libertarian streaks. The rationale is that unemployment compensation must be low in order to keep workers to the fire. In the words of one social Darwinist: "Unemployment insurance has a significant moral hazard cost in terms of subsidizing unproductive leisure."

The economic logic that such views claim is, however, disproved by conditions in countries rejecting it in favour of progressive labour market models. For instance, the Danish flexicurity model has through active labour market policies produced very low unemployment rates, a noteworthy feat considering the country's high minimum wages as well as having probably the world's most generous unemployment benefits. The flexicurity model has proven to create positive cumulative-causative effects, for instance through higher motivation and workplace cohesion, but also a better ability to direct human resources towards job positions that matches skills.

A green transition under a system of direct labour contracting—as we have it now— will under the assumption of maximizing agents compel affected industry owners to reduce their demand for labour and lay-off workers during the transition. Under the current system, this means that some workers would be severely punished for working in industries undergoing adjustments to low-intensity production, while everyone else would only be marginally affected, if at all. A green shift must therefore include avoidance strategies for that peril. One approach would be to develop institutions that intermediate the structural incongruities between demand and supply in labour market.

Intermediation is an institutional device that contains several functional aspects: It can concentrate information, transform risks, and transform the level of discreteness of economic factors. When intermediating is inserted between factor users and suppliers, it has a potential to enhance allocative efficiencies, reduce risk volatilities, and narrow the variations in factor incomes.

A well-known example of intermediation is the traditional story of banking, which intermediates the streams of saving supply from households and turn them into larger streams of investments, demanded by firms. At the same time, the intermediating function protects the households from the credit risk of individual firms defaulting on their loans. This means that bank intermediating changes both the discreteness of savings and the nature of risks that households would face if they were to lend their savings directly to firms.

While intermediation is not unknown in labour markets, it mostly is restricted to the information function provided by labour agencies and job placement firms that match open jobs with unemployed workers. However, an interesting exception is temps agencies that sometimes act as the entity that hire the workers, whereupon they 'rent' them to labour using companies. In reality, in many cases this institutional device is mainly used to help firms avoid paying benefits and being bound by termination regulations. The perception of the temps agencies is therefore that they, as an institutional tool, mostly have been used to further curb workers rights and added to the precariousness of the current labour market.

In conclusion, if workers are not to bear an unduly heavy burden under the implementation of a green shift in our economy, a minimum requirement must be to put programs resembling the flexicurity model in place, i.e. job agencies with high levels of efficiencies in transmitting information, and match jobs and skills. However, flexicurity doesn't represent a true intermediating model and hasn't solved the social aspect of wage employment's predominant existence in one-off discrete situations where either a wage is earned or not. Thus, it doesn’t touch the core structural problems of current labour markets.

To attack these deeper problems, a true intermediating system must be developed. Compared to flexicurity, it would have to take one step further and transform work into a form that ceases to be an individualized economic function. Instead of employment in discrete one-off situations, work should be spread out over larger social groups. This will tackle the problem that downturns arbitrarily single out some workers to bear the burden.

Conceivably, this could be achieved by broadening the institutional scope of information intermediating by combining it with a work-contracting function, similar to the one employed by temps agencies. In this model, people would as a first step contract with an agency and thereupon be dispatched to work in companies demanding labour. It would be a three-way contracting process between the employees, the agencies and the firms.

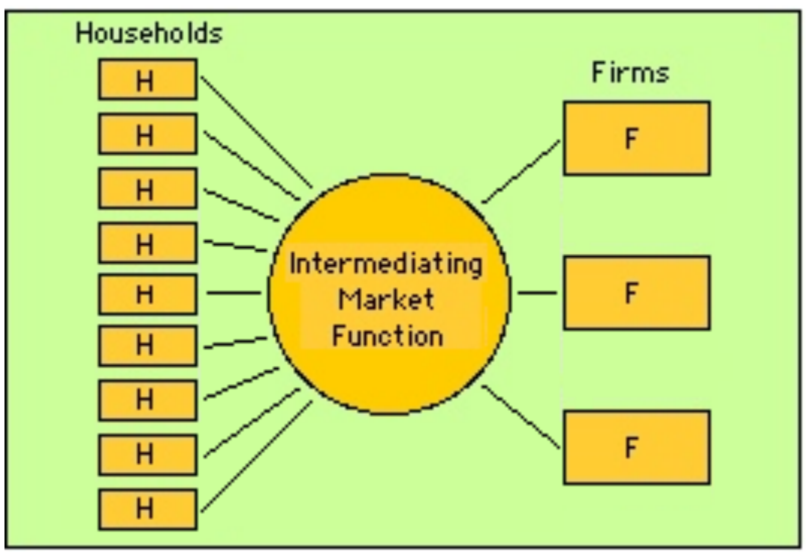


Figure 1. Schematic representation of an intermediated labour market.

Such a new structure of labour markets would insert a true intermediating function between the supply and the demand functions for work. Furthermore, active intermediating agencies would assure that rights and market power would be more equally distributed than at present. It would thus counteract much of the arbitrariness inherent in the existing system that concentrate too much agency and market power on the demand side (the firms). The current structures, among other things, opens the door for distributing jobs and wage levels in discriminatory manners grounded in non-work related perceptions held by managers;44444444 say personal dislikes, or even LGBT and racially motivated discrimination.

In an intermediated system, people in the active labour force would have a right to contract with an intermediating agency and be guaranteed a reservation wage. When in employment, this would be augmented by a work activation bonus. People with handicaps would receive the same activation bonus, but the firms only required to pay the agency in proportion to their abilities to work, with the government compensating the agencies for the difference.

In general, structural dynamics could be assured by allowing the labour-using firms to incorporate various performance related discretionary bonus systems. Conceivably, some agencies might specialize in specific areas of labour intermediation, and the model would also be open for competition among the agencies.

During economic downturns, the agencies would attempt to spread the lessened demand for work across all of their members; either through work time reductions, transfer of more workers to skills enhancement programs, or engendering transfers between firms affected in different degrees by the downturn. Under such a generalized scheme, government unemployment assistance would not consist of individual transfers, but of bloc transfers to the agencies in support of the agencies' reservation wages if a lesser demand for work reduces their inflows from firms. Furthermore in the case of the US labour market, healthcare insurance could be moved from the individual firms to the agencies, a measure that probably would trigger substantial systemic cost-savings and level the playing field between upstarts and older companies.

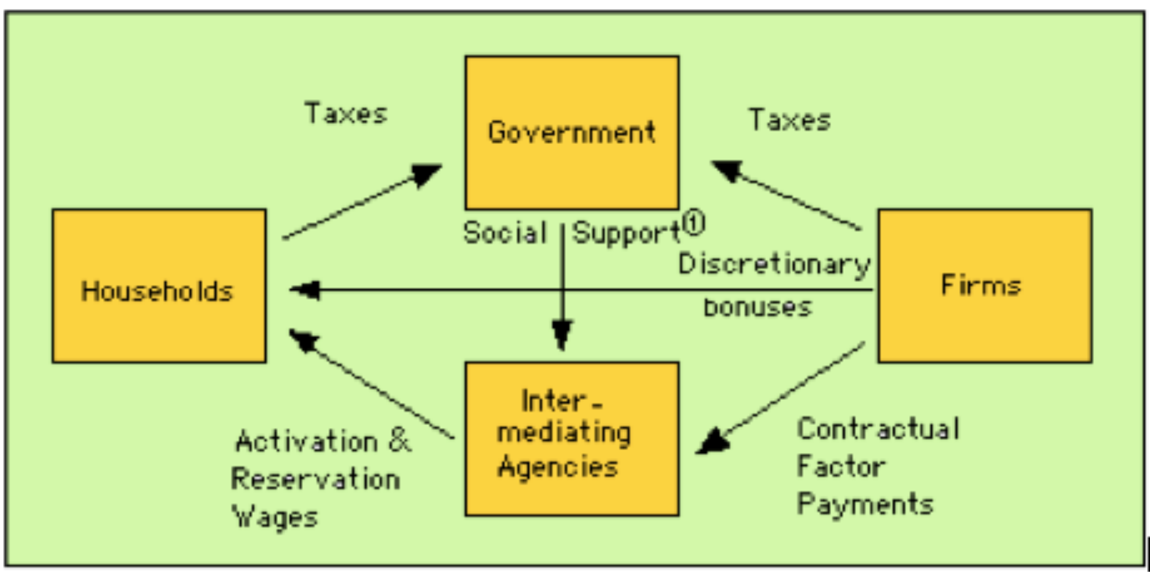


Figure 2. Cash flows in an intermediated labour market.

1) Support for wages to handicapped and, under downturns, for reservation wages.

With a comprehensive system for the intermediation of work in place, the perception of work would no longer be seen primarily as an economic function tied to individual agents, but more properly as a comprehensive social function. A power-sharing, or power-leveling, function could also be inserted into the system by according representatives of workers and the agencies seats on the firms' boards of directors; a step that furthermore could bring CEO remunerations down to earth from the current stratosphere.

Programs for education, skills development, and retraining would be matched to the practical requirements of the labour market on a regional basis, as presently in the flexicurity model, with the intermediating agencies playing the central coordinating role.

Another feature that could be borrowed from the flexicurity organizational model is to have the agencies governed by tripartite public-employer-union partnerships. Such cross-societal structured agencies, besides the coordination function of skills-related education, could also develop their own roster of educational activities on topics related to workplace conditions, for instance, safety questions, the psychology of group interaction, conflict management, communication skills, etc. Currently, workplace-related seminars tend to be restricted to management levels, and even when they are more broad-based, they typically are biased to deal with the questions exclusively seen from the side of firms and capital owners.

Finally, an intermediated labour market along these lines would provide governments with a new dynamic macroeconomic stabilization tool by the ability to adjust support for reservation wages and job skills programs during recessions. Compared with the current tool of simply extending unemployment benefits, the demand effect would be achieved by seamlessly enhancing funding for the programs that upgrade job skills.

The chorus of usual suspects of naysayers might object that an intermediating system as proposed here will curtail the capital owners sacrosanct right to contract and employ labour at their own full discretion. That might be so, but so was the eight-hour workweek criticized a hundred years ago. In the end, it became a crucial element in the Fordist wave of reforms that created a new middle class of workers with power to consume, which proved to be a win-win outcome for all stakeholders in the economy.

The current institutional organization of labour markets is clearly out of touch with the requirement of a modern dynamic society. And to the point, a fully intermediated labour market would, like the eight-hour workweek, quickly engender win-win results. First of all, it would curtail much of the efficiency-lowering arbitrariness of the current system. It would be of a particular benefit for high-tech firms, which would gain from the system's better skills matching, its locally coordinated programs for skills upgrading, and the general effects of integrated programs attacking inefficiencies in workplace interactions. Failure of workplace communication and personality conflicts are causes for major inefficiencies in many workplaces, which an intermediated labour market along the model outlined here could build up institutional features to deal with.

A transformation of the structural risk of unemployment through a comprehensive system of intermediation would therefore not only change the macroeconomic transmission effects of upheavals in labour markets, but also bring them more into line with the other democratic and humanistic ideals that otherwise infuse our societies.

Without such as a transformation, it will be very difficult—if not impossible—to make the transition to a smart and sustainable society. Some of the ideas presented here might seem far-fetched, but unless we are able to make some great leaps of imagination that can lead to out-of-the-box results, the transformation to a sustainable future could prove to be out of reach.