

Neoclassical and Internal Labour Market Models Compared

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According to Wilkinson (2013), Competition in the labor market refers to the supply and demand for labor in the corporate world. In this scenario, employees are the providers of labor, while the investors or employers are the people who initiate the demand. The labor market is a major component of the economy and is directly tied to the capital, goods, and services market. All three components of the economy are, therefore, reliant on the availability of labor. Different models and theories of the labor market have been brought forth by different scholars trying to bring a clear view of the perfect labor market. This paper shall compare the neoclassical model of perfectly competitive labor markets with the theories of internal labor markets. The paper shall also look at the preferred way of looking at the labor markets while giving reasons for the same.

The Neo-Classical Model Of A Competitive Labour Market

According to the neoclassical model, the term unemployment is considered to be a voluntary issue (Ehrenberg et al. 2016). It is when the person seeking employment is not ready to work for the salary that has been offered or when the employer is offering an amount of money that does not meet the expectations of the employee. In other words, they are not willing to lower their salaries to meet the salary demand for the employee. In both cases, we realize that it is the employee who rejects both scenarios. It is, therefore, up to them to decide whether they are ready to pick up employment or they will stay at home jobless.

To have an equilibrium in the labour market, the neoclassical model has some propositions. First, the model proposes that for unemployment to be eliminated, there is the need to bring into play conditions that shall bring perfect competition. The only way to deal with such a situation is to ensure to bring in the price-salaries mechanism for an equilibrium to be found. Equilibrium, in this case, implies the aspect of the level of supply and demand reaching a balance. In such a situation, the level of demand shall be directly proportionate to the level of supply.

This model also argues that households are the sole providers of labor to the industry. Depending on the economic times and the cost of living, a person will decide whether or not they are willing to work for the amount of money offered by the employer. Before deciding on whether or not they are going to take the job, there are some considerations that they have to make. One of the main considerations is the amount of money they need to sustain their household needs; the other one is the amount of money they want to save, and lastly, the amount of money they need for leisure

activities. As such and depending on the level of output expected of them, they will weigh whether or not the salary is worth working for. For the equilibrium to be realized, there are some considerations that employers need to take note of. First, the employees are the people making the company run, hence enabling them to provide goods and services to the market. The model argues that employees are working to make savings that would enable them to make investments in the future. As a result, they are willing to work more for better pay from the company.

The competition, on the other hand, is crucial in determining the level of labor competition in the market. The more there are producers of goods or services similar to those of a certain organization, the higher the competition for labor. Most of the employees will, therefore, head to the company they feel pays a reasonable amount of salary. As a result, organizations should come together and have a reconciliatory meeting on the level of wage that their employees should be getting for specific services rendered to the company.

The Theories Of Internal Labour Markets

In the theories of the internal labor markets, there is a structured format of job application and recruitment that needs to be followed. These theories are meant to dig into the role of the organization in ensuring that they get the best employees for their company. This is the reason behind the creation of a hierarchical order in the company. There are entry-level jobs requiring little or no experience and high-level jobs that require people who are conversant with the industry and can handle issues of the organization accordingly. Hence, the internal labour is divided into pricing, training, and allocation of tasks for specific individuals.

Pricing refers to the amount of money that an individual playing a particular role in the organization should earn. This is determined by the administration where they have to weigh the amount the complexity of the task at hand and the background checks of the required person regarding experience.

Training, on the other hand, is meant for the new entrants. Like search, the company needs to introduce a program that will enable the new employees to understand the operations of the company and have is required of them as part of the team running the organization. Allocation, on the other hand, is the use of specific employees to implement some tasks that may be compatible with their professional background (Berg and Kalleberg, 2012). The allocation may also refer to an approach where the company realizes that there is a missing amount of labor in either of the departments, hence the need to make a new posting with someone who can be relied upon to fill in the gap.

To ensure that the model is in operation and working according to the needs of the company, the company management needs to have a one-to-one dialogue with the employees. A structured approach to the interior operations of the organisation is used. First, the company has to ensure that

there are procedural promotions and transfers. From this perspective, employees are assured of job security, and their promotions and transfers always come with incentives. This is a good way of ensuring that the existing employees are assured of the continued increase in the amount of money they receive out of the services rendered to the company.

From the above explanation, it is clear that the organization is more concerned about its internal affairs and less worried about the external environment of the job market. This is one of the best ways to stabilize the labor market for the organization. The approach is meant to strengthen the working relationship with the company while also reinforcing the internal labor market. From the above explanation, we can realize that of the three basics, i.e., pricing, training, and allocation, allocation remains the most important of the three. The already existing employees have to be prioritized on promotions and transfers before going for the employees in the external market.

The Preferred Approach

Whenever there is a choice, preference always comes into place. Of the two methods of looking at the labor markets, economists and labor relations scholars have come up with their arguments over which should be the preferred method. It seems that most people are falling for the internal labor relations for various reasons;

Human Resource Investment Becomes More Profitable

The approach of having employees join the workforce at the organization from the lowest level and then have them promoted with time gives the organization long-term advantages. In reference to England (2017), one is that the employees shall be engaging their full potential while working for the company while eyeing the probability of getting that promotion and consequently an increase in the amount of pay they receive for rendering their services to the company. This is a good way of ensuring commitment to their job while also improving their skills and experience while working for the company.

This is in contrast to the neoclassical approach, where the salary levels at the point of entry are to determine the ability of the organization to bring in employees and comfort them. Those who judge their salary at the point of entry are people who will be there for personal gains but not to grow themselves, as they help the company grow, too. Using this approach would, therefore, mean that organizations shall be employing persons who are less concerned about the affairs of the organization but rather about personal interests.

The Effectiveness Of Internal Promotions

Another great advantage is that internal promotions shall mean the continued commitment to better performance by the employees. Internally promoted juniors who move to the senior levels shall be expected to continue with the good work of their predecessors since they are an integral part of the organization. On the other hand, they have been with the company and fully understand the operations. The other advantage of internal promotions is that the company shall be able to align its employees with the goals and objectives effectively. The fact that the employees fully understand the organizational culture makes it easier for the company to pursue its goals and objectives.

This is unlike the neoclassical approach, where the company has to look for specific individuals who meet the qualifications of the job mentioned. New people have their different approaches, and introducing them to the company would lead to the company needing to realign its operations in line with the propositions of the new senior management employee. This would lead to time wastage and loss of focus by the employees who will be against the introduction of a new system to the company.

Less Risk In Internal Promotions

The employer is already aware of the abilities of the employee who is to be promoted; hence, they shall not be basing their choice on paper analysis. The employees have been with the company, and their performance record is with the management already. The management, therefore, is sure of the person they are picking and the value they will add to the company.

This is unlike in other methods where the employee is sorted from outside and has only their testimonials to present without having analyzed their ability to handle the company expectedly. For this reason, the company is outsourcing employees who have not grown with them since the beginning. It is a 50/50 probability that the new entrant will perform to the expectations of the management (Loveridge and Mok 2012).

Improved Employee Turnover

Once the employees realize that they have the potential to grow within the company they are working in, their urge to look for new ventures is reduced. This helps the organization screen its employees and determine their potential. The employees are motivated to keep working for the company while the management is relieved of the stress of having to look for new employees now and then. Loveridge and Mok (2012), argues that it is not the wish of any of the organisations' management to keep having new employees and having to train them. Most employers want to have long-term employees who will grow with the company and create an environment of mutual benefits.

The neoclassical approach, on the other hand, does not guarantee the management that they are

going to be in a position to have high rates of employee retention (Abreu, 2012). This is because they are dealing with the employees according to what the external environment dictates. Once the employees realize that there are better ventures, they will not hesitate to try their luck elsewhere, leaving the company with the problem of having to recruit new employees often.

Conclusion And Recommendation

The labor market is one of the greatest drivers of both the economy and the companies that produce goods and services too. The different approaches available in the market as to how employers view the labor market provide good platforms where the management can choose what best fits their organization. However, there are the advantages and disadvantages that come with the same. Scholars and economists have put great emphasis on the use of the internal labor markets approach for organizations that want to have long-term relationships with their employees and those that will yield the best results.

Depending on the long-term and short-term goals of the company, the management should, therefore, be able to choose the best approach suiting their organization. However, they should also weigh the advantages and disadvantages of all the available options before making a choice. This shall enable them to go for the approach that meets the objectives of their organization. Many organizations have fallen victim to having an outsider lead their management, and in the end, they end up failing. For long-term goals and objectives, the internal labor markets approach is the best.

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