Modern Labour Economics: The Neoclassical Paradigm with Institutional Theories

doc. Ing. Dagmar Brozova, CSc.
University of Economics Prague, Czech Republic

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Abstract

The growing role of institutions and their influence on the labour market outcomes, i.e. wage rates and labour allocation, has been among the most significant characteristic features of labour markets in recent decades. Labour market economics built its paradigm on the principles of marginalism, which brought suitable instruments for analysis of market agents´ individual decisions capable of achieving effective solutions. Smith´s "invisible hand" has gradually been limited by institutional interventions – by governments, corporations and trade unions with government legislation, corporate personnel policies and collective bargaining. The expanding regulatory interventions into the labour market and the effort to explain the reality leads inevitably to the fact that modern labour market economics incorporates more and more institutional theories.

The contribution outlines the gradual invasion of neoinstitutional topics and theories into the neoclassical labour market paradigm and it analyses the differences in the neoclassical and neoinstitutional interpretation of labour markets' functioning. The recent discussion on the consequences for labour market economics theory is presented. A conclusion about the gradual direction towards a changed paradigm of labour market economics is presented.

Keywords: modern labour economics, neoclassical theory, institutional theory, dual markets, efficiency wages, labour market institutions

Introduction

The most significant characteristic features of labour markets in recent decades are the growing role of institutions, public policies and governmental regulations and their influence on the outputs of the labour markets – the wage rates and labour allocation. Labour market economics built its paradigm on marginalist principles, which brought suitable instruments for analysing decisions of particular subjects on competitive

markets, able to reach effective solutions. There are rational subjects acting on these markets, maximizing utilities, profits and rents according to their preferences. Smith's "invisible hand" has been curtailed by institutional interventions – the government, corporations and trade unions with governmental legislation, corporate personal politics and collective bargaining. These extra-market mechanisms shape the reality of contemporary labour markets. This is projected onto the constant press for change in the field of the theoretical labour market mainstream itself, which has, so far, featured neoclassical characteristics. The expanding regulatory interventions into the labour market and the effort to explain reality leads inevitably to the fact that modern labour market economics includes more and more institutional theories. The aim of the contribution is to outline the gradual invasion of neoinstitutional topics and theories into the neoclassical labour market paradigm and to point out the differences between neoclassical and institutional interpretations of labour market functioning and the recent debate on the consequences of these changes for labour market economic theory.

The article uses methods of verbal and comparative analysis, generalisation and logical deduction when drawing conclusions.

1. The neoclassical paradigm and market forces

The neoclassical paradigm, which grew from the principles and approaches of marginalism, laid the principles of economic theory itself into the basis of labour market economics. The model of Marshall's partial competitive labour market with market supply and market demand derived from descending marginal labour product (*Principles of Economics,* 1890) was described in more exact detail by Nobel Prize winner John R. Hicks. Smith's "invisible hand" effectively distributes work tasks based on the values of their marginal products and cleans labour markets to the last sweep. This original version of neoclassical economics – "*market theory" or "price theory"* focuses on formation of prices, seeks the rules and principles of behaviour of the subjects on the market and describes it analytically. The other factors, such as legal institutions and rules of entrepreneurship, rules of property distribution or social infrastructure are not examined, because they are treated as given.

The Hicks' *The Theory of Wages* (1932)[20] is a work from the branch of

[20] Two years later, in 1934, the same-named book *The Theory of Wages* by Paul Douglas differently from Hicks combined the theoretical approach with real problems and the aid of public policies on the labour market. He emphasised the importance of labour market imperfections and the role of unions and themes associated with the institutional school. Included, for example, are chapters on the situation of women and children on the labour

labour market economics, which corresponds to the structure of the book. It develops fundamental theoretical concepts of labour supply and demand for labour and marginal productivity theory, it analyses the competitive market and the undesirable effects of governmental regulations. Hicks' analysis of labour supply was influenced by an article by L. Robbins (*On a Certain Ambiguity in the Conception of Stationary Equilibrium*, 1930), which set the conditions for positive and negative slopes of individual labour supply, and mentioned for the first time that the individual labour supply curve can be backward-bending. After implementation of indifference curves and the ordinalist approach, the explanation of consumers' decision making gets easier. The shape of individual labour supply was explained by the significance of substitution and income effect in the wage rate increase.

In the following years, another shift took place, and it was towards a greater openness and a broadening of the scope of neoclassical labour market theory. The methodology and the research topics changed. G. Becker no longer examines the functioning of markets "per se", but creates a model of rational economic behaviour and decision making in favour of the welfare of the subject, applied to all aspects of human life (*The Economic Approach to Human Behaviour, 1976).* This modern version of neoclassical theory, the *choice theory*, expects a rational economic entity, which maximises its advantages with the resources that it has at its disposal based on its preferences. Markets are designed to be competitive; they determine stable equilibrium and provide efficient allocation of labour.

He contributed to the development of modern labour market economics with three fundamental contributions. In 1957, he published *The Economics of Discrimination*, where he analysed discrimination economically and related decision making based on the discrimination preferences of the discriminating subject itself. The preferences were measured by the discrimination coefficient. Together with T. Schultz, he brought to the world of economic science the topic of human capital (*Human Capital*, 1964), while education and job preparation is understood as a form of investment: people and companies decide according to cost and expected profits about the extent of this investment. The human capital theory also included migration theory; geographic labour mobility, which seeks greater evaluation of human capital on the labour market, bears all the attributes of an investment.

The third contribution of G. Becker to labour market economics was *the theory of household production;* where people decide between housework, work on the labour market and leisure time (*A Theory of the Allocation of*

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market, immigration, poverty, trade unions, education, labour laws, and the improvement of living conditions.

Time, 1965). The theory of household production was then elaborated by Becker, including various aspects of family decisions in *A Treatise on the Family* (1981). An analysis of women's participation on the labour market and their deciding between housework and work on the labour market was brought to the fore by J. Mincer in 1962 (*Labour Force Participation of Married Women)*. Married women's participation rate in the labour market is, according to Mincer, in negative relation to the income of the whole family (the income effect) and in positive relation to their own wage rate (in the case of a constant income, the substitution effect). The line of women's participation in labour market research in all possible connections and consequences, including the gender wage gap, was later developed by other authors, e.g. F. Blau, L. Kahn (1996), C. Goldin (1992), Hoffman, Averett (2010).

The confrontation of neoclassical theory with the reality of the labour market in the 1960s, with persisting unemployment, gave rise to new theories. These theories already took into consideration that the labour market is less competitive and there are market imperfections, rigid wages and imperfect and asymmetric information. *The theory of job search* (G. Stigler, 1961) shows getting information as a costly activity of job searching. One therefore minimises opportunity costs, when staying unemployed as a rational choice and continues to search if the first employment offer is not optimal. A. Alchian (1970) described this unemployment, which is a voluntary feature of market equilibrium, as *self-employment in information collection,* D. Mortensen (1970) called it *search unemployment* and characterised it as a result of voluntary conduct on both sides of the labour market. It was shown that in the decline of demand on the labour market, the wages do not decline as is predicted by neoclassical theory, which would clean the markets, but people are dismissed from employment. The absence of the market cleaning wage was explained by C. Azariadis (1975) by *the theory of the implicit wages*, according to which risk averse employees prefer a lower and secure wage paid in a long period over a higher wage but within more uncertainty. Companies therefore offer implicit long-term contracts, granting long-term income security. This is the reason why wages cannot decrease.

2. Neoclassical labour market process with neoinstitutional theories

In Smith's competitive market, the wage rate changes in response to changes in supply or demand, and workers move from markets with excess supply to those where demand prevails. The boundaries of this natural market are based on the limits of competition, the flow of information, transferability of skills and workers' willingness to commute to work. Institutions implement rules, standards, directives and regulations, which

artificially define the dimensions of the labour market. These rules are either formal (written) or informal (habitual). They determine, for example, who is competent to carry out a certain profession or hold a certain work position, and they relate to the issuance of licences and certificates and create barriers for entry into professions. They determine who will be given priority during the creation of a working collective. These rules have the form of corporate HR policies, union contracts and government legislation.

According to neoclassical theory, employees with the same skills and in positions with the same characteristics should earn the same wage. If it is not the case, employees with a lower wage rate will migrate to better paid positions, which will bring wage rates closer together. Here will be, although imperfectly, enforced the rule of the one price law. The wage differences should correspond to the different characteristics of employees (on the supply side), e. g. differences in their human capital (the wages would include different human capital return) or the non-financial characteristics of the position (demand side), such as working conditions, risk extent (wages would include different amounts for compensation) and not the sector or the possibilities of individual companies to pay their employees. The real labour markets produce persisting wage differences between sectors or companies hiring similar employees in similar positions and decide according to their own rules. Institutions fragment the labour market into a large number of segmented, mutually divided markets. Institutions implement structures, artificial boundaries and barriers, which cause rigidity in the labour market.

Dual markets theory

Dual labour market theory is connected with the names of P. Doeringer and M. Piore and their book *Internal Labor Market and Manpower Analysis* from 1971 (2nd ed. in 1985). They had a wide range of predecessors who examined real labour markets and analysed according to which the companies, the tenant of labour, decide and how they choose their employees, how these markets work and which relationships are among them.

By the 1950s, L. Reynolds (1951), on the basis of his labour markets analysis, states that every company employing labour is an independent, divided labour market. This explains a significant dispersion of wages among companies. Reynolds found in his research that other factors, extra-wage conditions and offered benefits at the particular positions deepen these differences and not diminish them. C. Kerr (1954) in his article on the "balkanisation" of labour markets develops a concept of "institutional" labour markets, which are directed by formal and informal rules much more so than by market processes and magnitudes as presupposed by neoclassical economics. These institutional labour markets are in fact divided and not

mutually competing. The defined systems of rules which regulate the behaviour and decision making of firms, built barriers between firms' labour markets and clearly define "*the points of entrance*". The employees on such a market are not in direct competition with those standing outside the market. They are protected from the competition and it is more difficult for employees standing outside to get into such markets.

The term *internal labour markets* was used by J. Dunlop in 1966. He states[21] that employers in their companies create and develop a set of rules that determine the promotion of employees, their movements inside the company, temporary dismissal, retirement of different groups of workers, etc. Decision making by employers according to their own rules significantly influences the labour market, which no longer functions according to neoclassical market principles.

Doeringer and Piore (1971) defined an internal labour market as an "administrative unit ... where the pricing and allocation of labour are managed by a set of administrative rules and procedures." The internal labour market is so different from the external labour market, where "decisions on pricing and allocation of labour and professional training of the employees is directly controlled by economic variables."[22] The migration of employees between the two markets is only possible through the created "*ports of entry and exit.*" Vacancies on the internal markets are filled by promotions or transfer of employees who have already gained access to these markets. The positions in these markets are thus protected from direct exposure to market forces in external markets. Doeringer and Piore also examined the implications of such functioning of labour markets. One of them is that the labour market is segmented into primary and secondary markets.[23] Positions in the primary sector are characterised by relatively high wages, good working conditions, employment stability, and numerous opportunities for promotion and career development. On the other hand, positions in the secondary markets are low-paid, and are characterised by high fluctuation, poor working conditions and little chance for promotion.[24] The employees with insufficient or inadequate skills or poor professional CVs are limited to secondary markets work. They are the ones who are hired in last and are the first to be dismissed by the companies. They never get into the primary sector, which is associated with internal labour markets.

The literature on dual labour markets and internal markets is relatively rich. Further analysis was conducted in the 1970s by L. Thurow (1975), Edwards, Reich and Gordon (1975), P. Osterman (1975, 1984) and others.

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[21] Dunlop ,J., 1966, p. 32.
[22] Doeringer, P., Piore, M., 1971, pp. 2-3.
[23] See also Piore, M.,1969
[24] Doeringer,P., Piore, M.,1971, p. 166.

They examine specific business practices of hiring and rewarding employees, the reasons for the existence of internal labour markets, as well as their consequences for the different evaluations of similar positions and similar employees as well as for the distribution of earnings. Brown and Ashenfelter (1986) write on various designs of internal compensation structures.

The theory by L. Thurow, the job competition model, can be seen as an institutional alternative to the traditional neoclassical approach, under which people enter the labour market equipped with certain skills and abilities, and in competition with other employees, they compete for current vacancies. They choose them according to the wage rates, which compensate them for their second best opportunity to bring the highest rent (wage competition model). According to Thurow's theory (1975), people compete for positions according to the amount of costs that companies will have to spend on their professional training for the position. So the decision about who will perform such work is made by the company according to the costs of preparation required for the execution of work tasks for individual candidates.

According to this perspective, the company ranges the candidates in an imaginary line. Highly paid appointments are given to the candidates possessing the most demanded skills and abilities, and thus minimise costs for companies to perform this job. The characteristics that determine the position of the employee in the imaginary order of candidates for the position are among others: education, innate abilities, personality traits, physical condition, age, and more. Different employers attribute to the different characteristics of employees a different meaning. Therefore, employees with similar characteristics may reach different wage rates and may occupy different places in imaginary lines at different employers.

Theory of efficiency wages

The wage which is higher than equilibrium one increases the productivity of employees through motivating their greater work effort and higher performance while minimising the propensity for leaving a job. People who are well paid, are powerful and the employer "buys" their effort, responsibility and loyalty. Well-paid workers do not depart from their jobs, the company will reduce fluctuation and costs of the selection and training of new employees, while output and profits increase. Companies that pay wages of efficiency also have better, more qualified workers, as they have candidates with a higher reservation wage.

Higher wages perform a motivational role also in cases where it is impossible or very costly for the company to regularly check the output of the employee. People in such positions have considerable independence and responsibility. They could succumb to moral hazard and engage in activities that enhance their own benefit but not benefit the company they work for and

who hires them (principal-agent relationship). At this point they would be unproductive for the company.

The theory of efficiency wages (J. Yellen, 1984, G. Akerlof, 1986) supposes[25] that the volume of output produced depends not only on the number of employed workers *(N)* and the amount of real wages (w_1), but also on efforts performed (e): $Q = F(e, w_1, N)$. If the employee receives a wage higher than the equilibrium $w_1 > w^*$, he or she has the advantage $(w_1 - w^*)$, is well paid and therefore will increase their work effort $(e = F(w_1 - w^*))$ and will want to keep the position. On perfectly competitive markets, where the equilibrium wage is paid, an employee, when leaving one position, finds a similar one with the same wage. It is supposed that workers can easily monitored, they therefore cannot avoid work in the working hours. At a higher wage rate (higher than the equilibrium) employment decreases $(w = MRP_L)$ and unemployment is rising. The higher the salary is, the higher is the unemployment. Excess of supply over demand produces at the same time pressure on wages to fall down and they return to its equilibrium level.

The efficiency wage, even if it is higher than equilibrium, is a wage maximising the profit of the company. The productivity of the employee rises more than the costs on him or her. The company therefore has no reason to reduce the wage, because the productivity of the employees would decline. If the company reduced the wage, the savings on costs would be lower than the loss from the reduced productivity and the profit of the company would decrease (Akerlof, Yellen, 1986).

Shapiro and Stiglitz (1984), in their version with the "*no-shirking supply curve*", assume that the efficiency of staff $e = F(w^*, w_1, u)$ depends on the amount of wage that prevails in the market (w^*), the amount of efficiency wage (w_1) and unemployment rate (u). It will be greater, the greater the difference $w_1 - w^*$ and the higher the unemployment rate (i.e. the more difficult it will be to find another position). The high wages make it expensive to avoid work, so people tend to work hard. The authors point out that it is unemployment that leads workers to work hard and diverts them from moral hazard. When unemployment is high, workers will want to keep their jobs, since it would be difficult to get a new one, and they will therefore be willing not to shirk work at relatively low wages. However, if unemployment is very low, companies must offer relatively high wages to attract and motivate employees.

The wage tends to be high in regions where the unemployment rate is low and tends to be low in regions where unemployment is high. Therefore, companies that are located in regions with high unemployment may not offer high wages to prevent their workers from avoiding work. High

[25] Yellen, J., 1984, s. 200.

unemployment forces them to work properly, even at low wages. Conversely, companies that are located in a region with low unemployment, must pay relatively high wages to prevent workers from avoiding work. In a competitive labour market high wages are conversely associated with high unemployment, which puts pressure on wages to decline.

The contemporary version of efficiency wage theory, the "*fair wage - effort hypothesis"* (Akerlof, Yellen, 1990), explains that workers will intentionally limit their work efforts, if they are paid lower wages than a wage they find honest and fair. According to this hypothesis, workers create the idea of fair wages and their effort depends on the relationship between a fair wage and the actual wage. If the actual wage is lower, the supply of the employee's effort will correspond only to normal effort. If e is offered effort, w current wage w * fair wage, the fair wage - effort hypothesis states that $e = min (w / w * 1)$, where the effort is measured in units, where *1* represents a normal effort.[26] This hypothesis explains the existence of unemployment, if a fair wage exceeds the equilibrium $(w^* > w)$. It can also be an explanation of why skills and unemployment are negatively correlated, and why there are wage differences between market segments.

Akerlof and Yellen (1990) pointed to yet another connection: the payment of fair wages for certain groups of workers generally increases the wage scale, including salaries for other workers in the company who could consider fair wages for other workers unearned.[27] Due to the fact that in different companies the employees present different efforts, the companies have different functions of the total products, depending on wages, the different companies choose different levels of efficiency wages. This leads to the fact that comparable workers with similar abilities can be paid differently in different companies and in different industries. The relationship between wages and productivity is more important in some sectors than in others. Whereby the efficiency wage is often used.

The theory of efficiency wages[28] provides an explanation of intersectoral (between sectors where the efficiency wage is used and where it is not) and intrasectoral (between companies with different amounts of efficiency wages) wage differentiation. Wage differentiation in various fields is closely connected with the theory of dual labour markets (Doeringer, Piore, 1971).

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[26] Akerlof, G.,Yellen, J.,1990, p. 255.
[27] Akerlof, G.,Yellen, J.,1990, p. 265.
[28] Some authors have doubts about the validity of the efficiency wage model for the situation in large corporations, where the qualified employees have a good job and get well paid. They are not convinced that the motivation of employees is important for the companies, but they say that they prefer other motivation instruments for the higher wages, e.g. contributions to pension systems, which are demanded from the employees and cheaper for the companies (Polachek,S.W., Siebert,W.S., 1993).

The use of efficiency wages in some branches (sectors) divides labour markets and creates a segment with efficiency wage and a segment without them. There are studies supporting the hypothesis that the characteristics of positions in highly paid sectors (with efficiency wages) resemble the characteristics that we would expect in the primary sector, and characteristics of positions paid with wages cleaning the market resemble those in the secondary sector (Yellen 1984, Bulow and Summers, 1986, Krueger A.B., Summers, L.H., 1988). In the competitive market model the differences between segments would be reduced while the workers would move from low-wage markets to markets with higher wages. The efficiency wage hinders this equalisation process, as companies that pay high wages would suffer losses if wages declined because it would decrease the productivity of their workforce and total output.

The efficiency wage also spoils the application of the traditional neoclassical model of employee motivation through *delayed-compensation contract*, it does not allow employers to create an optimal wage profile of the employee. It can be said about this profile, that the worker is, at the beginning of his career, normally paid with wages lower than his marginal product. The worker is a creditor of the firm; it owes him a debt that is repaid gradually in later years, when his salary increases and the end of his career begins to exceed the marginal product. Hence, older workers are "overpaid". Total paid wages should compensate the total worked product, obviously the firm is not willing to pay more. The employees are so motivated for quality work for one employer, it increases their effort and productivity. They do not want to lose the employment because they want to get the “due amount” back. This earnings profile encourages workers not to shirk at all and reduces employee fluctuation, as well as company costs of employing labour (Carmichael, 1990)[29]. The firms also do not want to pay workers when they reach retirement age. They even have an interest in early retirement, because even if the workers are motivated, it is a cheaper solution for them than if they had to pay the worker up to normal retirement.[30]

3. Neoclassic versus neoinstitutionalism or a systhesis of both? The recent debate

The neoinstitutionalists focus on the study of everyday problems on the labour market in order to determine how labour markets actually work. They point out that the elegant neoclassical optimisation models of human behaviour, pursuing their own preference on competitive markets, which leads to a balance, are not real. On the labour markets, the decisive role is

[29] This critique is known as a "bonding critique".
[30] See e.g. Hutchens, R.M., 1986, Delayed Payment Contracts and a Firm´s Propensity to Hire Older Workers, Lazear E.P.,1979, Why is There Mandatory Retirement?

possessed by great corporations, trade unions, and according to their own (extra-market) rules and regulations, there is persisting market imperfection, limited information and unequal opportunities. To all of this the neoinstitutionalists ascribe greater importance in shaping market outcomes (employment and wage rates) than neoclassicists do.

The neoclassicists emphasise the competitive nature of labour markets and the primacy of market forces in the determination of equilibrium wages and employment, neoinstitutionalists emphasise the role of institutional forces - large companies, trade unions and governments. While neoclassicists criticise interventions into labour markets, such as union demands for wages, minimum wages or affirmative action, neoinstitutionalists find these interventions in labour markets useful and beneficial. They do not believe that market forces could act as strongly and effectively as it is claimed by the neoclassicists. Greater weight is attributed to market imperfections, such as rigidity of wages, persistent unemployment and discrimination, barriers to mobility and limited information. In their theories, they give space to non-market institutions such as corporate policies, practice of human resources managements, or habits.

The neoclassical authors point to the need to adapt the theory of price formation on the labour market to the specific conditions that determine the established rules and standards of behaviour and decisions of individual companies when hiring labour, deciding on wage rates, on career progression, etc. Boyer and Smith (2001) resemble neoclassical economics labour market to the dry bones, i.e. the fundament of modern analysis, while the neoinstitutional practical empiricism - the green tree of life, shows another way of scientific research. "If the new areas of inquiry within neoclassical labour economics are in fact driven by the imperatives of science, then the neoinstitutionalist interests may permanently fuse with the neoclassical approach."[31]

The neoinstitutionalists point out that human motivations are often characterised not only by individual interests, but also by altruism, which itself gives satisfaction. People may not directly "maximise" but achieve only a certain sufficient level of satisfaction. One does not have to work hard just because he or she expects high wages, but also for the feeling of a job well done, which is called the "*intrinsic motivation*". People's choices are, according to the neoinstitutionalists, less rational and less consistent than it is predicted by neoclassical models of rational choice. The human brain has its limits and is clouded by emotions, which makes it hard to make the optimal choices; people decide with limited rationality[32]. People's

[31] Boyer, G.R., Smith, R.S., 2001, p. 219.

[32] Kaufman, B.E., Hotchkiss, J.L., 2006, p.33, Kaufman, B.E.,1999, Emotional Arousal as Source of Bounded Rationality.

preferences are not independent and, according to neoinstitutionalists, they are mutually interdependent, therefore, people and groups affect others by their behaviour. They emphasise the "fairness" of human behaviour. Preferences are not exogenous, given as the neoclassicists work with them, but they change with the development of society and with the economic system.

The neoinstitutionalists advocate and apply a broader interdisciplinary approach and import useful concepts and theories from other disciplines to economics. Their theory must be realistic, hence they prefer inductive methods. They stand against abstractions and generalisations that do not address specific situations. Also marginalist rules of neoclassical theory interpret the decision making process of economic actors unrealistically according to them; in fact it is decided rather by the average variables than the marginal ones, on which the information is missing.

Kaufman and Hotchkiss (2006) ask the question: is the modern economics of labour markets a pragmatic blend of neoclassicism and neoinstitutionalism?[33] A prevailing conviction among economists is that the boundaries between the worlds of neoclassical and neoinstitutional labour economics are becoming blurred in time and will be erased, and they see this way as inspiring and usable. Examples include the neoclassical acceptance of interdependent preferences, decision making under conditions of limited information and recognition of the role of extra-market practices of institutions. Neoinstitutionalists again cross the dividing line by the adoption and acceptance of neoclassical methods, techniques and tools (optimisation from limited resources, marginal analysis, etc.).

Kaufman and Hotchkiss (2006) believe that modern labour market economics is less explicitly neoclassical or less explicitly institutional and it is theoretically more mixed, with emphasis on the understanding of reality in all its forms, including the use of the abstract model and empirical testing of hypotheses. They are inclined to conclude that current modern labour economics is more neoclassical in form and more institutional in content. “Their possible synthesis and reconciliation in what is today often called “modern labour economics” is then considered.”[34]

Also Cahuc, Carcillo and Zylberger included chapters dedicated to public policy analysis and decisions of politicians and firms about measures intervening into labour markets in the second edition of their book Labor Economics (2014). The new chapters are devoted also to wage inequalities, income redistribution and protection of employees against risk on the labour market.

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[33] Kaufman, B.E., Hotchkiss, R.S., 2006, p. 34.
[34] Kaufman, B.E., Hotchkiss, R.S., 2006, p. 27.

The discussion takes place at the level of theory about the extent to which markets are still capable of self-regulation and delivering effective solutions, and to what extent this ability has been reduced and replaced by decision-making of institutions. It also raises questions that go beyond the scope of this contribution, for example, to what extent is this expanding process of the weakening of market forces beneficial to society? Or, does society achieve greater economic welfare with intervention and regulation, or without them? At the level of methodology, it is about a debate on plurality and multidisciplinarity of methods that would be acceptable for neoclassicists, originally insisting on a strong tie to unidisciplinarity.

Conclusion:

The literature on segmented labour markets documenting the differences between outputs of the real labour markets and neoclassical predictions proves that the agents on the market make decisions with respect to the formal rules of individual employers and generally accepted informal rules of the functioning of markets. Neoclassical "*homo economicus*", who is independent and focused on himself, is now more insistently aware of how his effort to maximise his own welfare is influenced and deformed by the institutional environment, the mutual individual and institutional dependency, and formal procedures that lead to different results than those based on the principle of competition. The different institutional context and interdependence of participants in the transactions create different occasions for similar individuals, set different wage rates and allow other career paths for them. Additionally, it is a call for further expansion of neoclassical economics in the analysis of the determinants of wages, which is designed by a set of rules created by individual employers, and the related conversion of a neoclassical type of market agent with respect to the broader social context.

Whether we are moderate followers only of content changes respectively, content expansion and methodological innovations of labour market economics in the frame of the original neoclassical paradigm, or the reality of the labour market leads us to think about a new great synthesis, this time of neoclassical economics and neoinstitutionalism, we are witnessing and are active participants in the direction towards a modified, if not a new economic paradigm of labour market economics.

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