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LABOUR MARKET SEGMENTATION THEORIES: ANALYSIS OF INSTITUTIONAL AND DUAL APPROACHES

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Annotation: This article examines labour market segmentation theories with particular emphasis on institutional and dual labour market approaches. The study analyses the theoretical foundations of labour market segmentation, explores the role of institutions in shaping employment opportunities, and evaluates the implications of labour market dualism for economic efficiency and social equity. Drawing upon international empirical evidence and recent developments in developing economies, the paper demonstrates that labour markets are characterised by structural heterogeneity rather than perfect competition. The findings indicate that institutional arrangements, labour regulations, educational systems and organizational practices significantly influence workers' mobility between labour market segments.

Keywords: labour market segmentation, institutional economics, dual labour market theory, employment, labour mobility, labour market institutions, inequality, workforce development.

The labour market occupies a central position in the functioning of modern economies. Traditional neoclassical economic theory assumes that labour markets operate efficiently through the interaction of labour supply and demand, resulting in wage equilibrium and optimal resource allocation. However, empirical evidence from both developed and developing countries suggests that labour markets are not homogeneous systems. Instead, they are divided into distinct segments characterized by varying levels of wages, job security, career opportunities and working conditions.

Labour market segmentation theory emerged as a response to the limitations of neoclassical explanations regarding persistent wage differentials and employment inequalities. Scholars observed that workers with similar qualifications often received different wages and experienced unequal employment prospects depending on the sector in which they were employed. Consequently, segmentation theories sought to explain these disparities through structural and institutional factors.

Among the various segmentation approaches, institutional theory and dual labour market theory have become particularly influential. Both perspectives challenge the assumption of perfect labour mobility and emphasize the importance of social, economic and institutional structures in shaping labour market outcomes.

Labour market segmentation theory developed during the 1960s and 1970s through the works of Doeringer, Piore and other institutional economists. The theory argues that labour markets consist of multiple interconnected but distinct segments. Workers encounter barriers that prevent free movement between these segments, leading to persistent inequalities.

Unlike neoclassical models, segmentation theory assumes that wages are not determined solely by productivity. Instead, institutional arrangements, social norms, labour regulations and employer strategies play important roles in wage formation.

Segmentation theorists identify several mechanisms that create labour market divisions. These include educational credentials, occupational licensing, labour unions, recruitment practices, organizational hierarchies and social networks. Together, these mechanisms contribute to the emergence of relatively stable labour market structures.

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The institutional approach emphasizes the role of formal and informal institutions in shaping employment relationships. Institutions include labour laws, educational systems, collective bargaining arrangements, employment protection legislation and organizational practices.

According to institutional economists, labour markets are embedded within broader social and political systems. Employment decisions are influenced not only by economic considerations but also by legal frameworks, cultural expectations and historical developments.

Institutional segmentation occurs when access to employment opportunities depends upon specific institutional requirements. Educational qualifications provide a clear example. Individuals possessing credentials from prestigious institutions often gain access to better employment opportunities, while equally capable individuals without such credentials may face barriers to entry.

Recent research on digital labour platforms has demonstrated the persistence of institutional segmentation in online environments. Workers' access to higher-paying tasks frequently depends on platform reputation systems, algorithmic rankings and previous work histories. As a result, institutional barriers continue to influence labour market outcomes even within technologically advanced labour markets.

Dual labour market theory provides another influential explanation of labour market segmentation. The theory divides employment into two primary sectors: the primary labour market and the secondary labour market.

The primary labour market is characterized by stable employment relationships, higher wages, career advancement opportunities, training investments and favourable working conditions. Employers in this segment often invest in workforce development because they expect long-term employment relationships.

In contrast, the secondary labour market consists of low-wage jobs, limited career opportunities, high turnover rates and relatively unstable employment conditions. Workers in this segment frequently experience temporary contracts, limited social protection and restricted opportunities for skill development.

Table 1. Characteristics of Primary and Secondary Labour Markets

Indicator	**Primary Segment**	**Secondary Segment**
Wage Level	High	Low
Job Security	Strong	Weak
Career Advancement	Extensive	Limited
Training Opportunities	Frequent	Rare
Employment Stability	High	Low
Social Protection	Comprehensive	Restricted

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Dual labour market theory suggests that movement between these segments is limited. Workers employed in secondary sectors often struggle to access primary-sector employment even when they acquire additional qualifications.

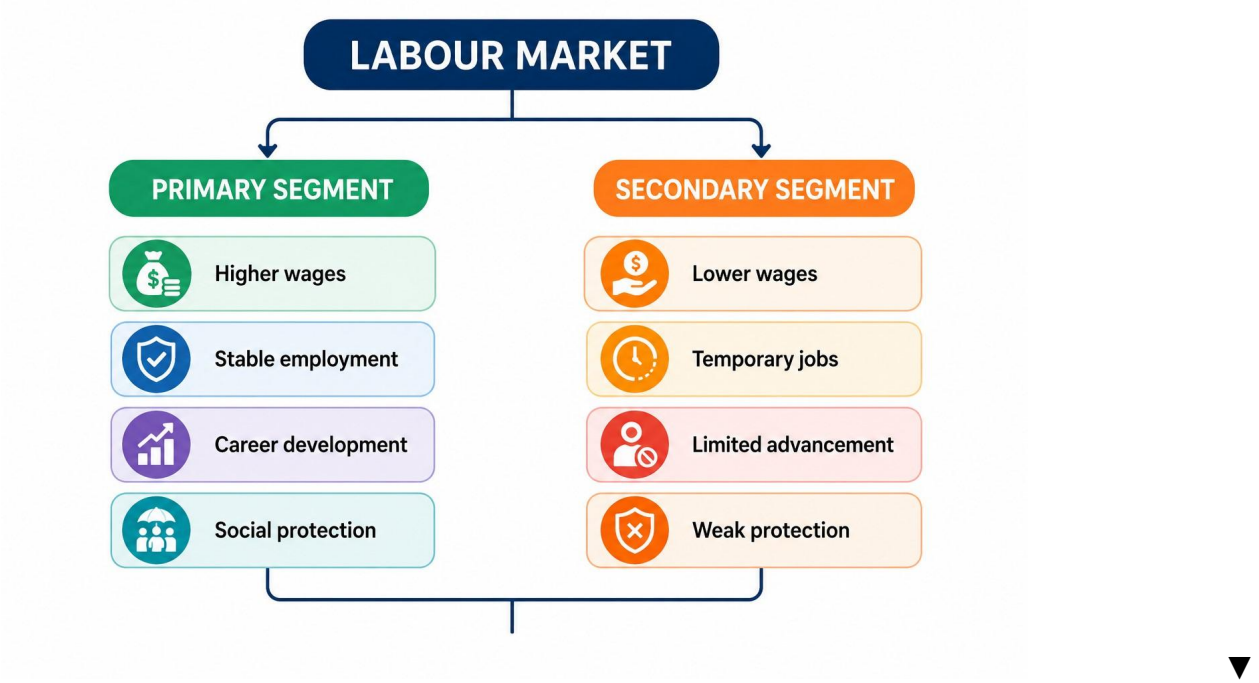
Empirical studies from different regions confirm the existence of labour market segmentation.

Research conducted in South Korea found that labour market dualism contributes significantly to youth unemployment and income inequality. Young workers entering temporary employment positions often remain trapped within secondary labour market segments for extended periods.

Studies from West Africa have identified substantial wage disparities between formal and informal sectors. Workers in informal employment typically earn significantly lower incomes despite performing comparable tasks.

Similarly, labour market analyses in Latin American countries indicate that a considerable proportion of young workers are concentrated in temporary and informal employment arrangements characterized by limited social protection and low earnings.

Scientific Diagram 1. Structure of Dual Labour Markets



Both institutional and dual labour market theories provide valuable insights into labour market functioning. While institutional theory emphasizes the importance of social rules and organizational structures, dual labour market theory focuses on structural divisions between employment sectors.

Contemporary labour markets increasingly exhibit characteristics explained by both approaches. Technological change, globalization and platform-based employment have generated new forms of segmentation. Highly skilled workers often benefit from expanded opportunities, whereas less-skilled workers face growing employment insecurity.

The integration of institutional and dual perspectives provides a more comprehensive understanding of labour market dynamics. Policymakers seeking to reduce labour market inequalities must address both institutional barriers and structural segmentation simultaneously.

Labour market segmentation remains a fundamental feature of modern economies. Institutional and dual labour market theories offer complementary explanations for persistent employment

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inequalities. Evidence from both developed and developing countries demonstrates that labour markets are characterized by structural divisions that limit worker mobility and contribute to unequal outcomes.

Future labour market policies should focus on strengthening educational access, improving workforce training systems, reducing institutional barriers and enhancing labour mobility. Such measures can contribute to more inclusive and efficient labour market development.

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