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Segmentation in Labor Markets and Income Inequality. A Comparative Study of Developed, Transition, and Emerging Economies

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Introduction

This study analyzes the relationship between employment structure, labor informality, and income distribution through a comparative study of economies with different levels of productive development and labor market regulation structures. It is argued that, beyond the traditional determinants of labor income—such as education, experience, or gender—labor market segmentation and the degree of informality have a direct regressive effect on labor income distribution.

The study is based on a comparison of five countries with distinct trajectories in their labor and productive structures:

-Germany and Spain (developed EU economies), with more consolidated labor markets, although differing in terms of flexibility and job precarization.

Germany has a highly regulated labor market, with a strong presence of collective agreements and low informality.

Spain exhibits higher levels of labor market segmentation, with extensive use of

temporary contracts and a relatively higher level of informality.

Poland and Romania (transitioning EU economies), which have undergone profound reforms in their labor institutions following the transition from socialism to capitalism.

Poland has experienced a successful transition to a market economy, with sustained economic growth, industrial diversification, and stronger integration into European value chains.

Romania, while experiencing economic growth, remains more dependent on the agricultural sector and low-productivity services, with lower integration into high-tech industries.

-Argentina (an emerging economy in Latin America), where labor informality has a structural weight, and the labor market exhibits high levels of segmentation.

The analysis focuses on the relationship between the level of productive development, labor regulation mechanisms, and the primary distribution of hourly labor income, based on the composition, degree of integration, and/or segmentation of the labor market. The study starts from the hypothesis that while productive development and labor institutions determine average wage levels, occupational structure and labor informality directly impact labor income distribution inequality in a regressive manner. This effect occurs even independently of traditional labor differentiation factors (skills, age, gender).

To evaluate these mechanisms, a classification model of the sectoral employment structure is applied, based on the ILO (International Labour Organization) and ECLAC (Economic Commission for Latin America and the Caribbean), integrating the legal-institutional approach of New Institutional Economics (NIE), which allows measuring the degree of employment formality-informality in each country. Additionally, key variables related to differentiation in heterogeneous labor markets, such as skill level, age, and gender, are controlled for.

Main objectives

Analyze how the level of productive development, labor market segmentation, and informality affect the distribution of hourly labor income in developed, transitioning, and emerging economies. Within this framework, the following specific objectives will be developed:

- Compare the occupational structure and the degree of informality in Germany, Spain, Poland, Romania, and Argentina.
- Assess the impact of productive development levels and labor regulation

mechanisms on labor remuneration levels in each country.

- Analyze the influence of labor market segmentation on labor income inequality.
- Examine whether labor informality has a regressive impact on labor income distribution, controlling for individual variables such as skill level, age, and gender. Propose public policy strategies to reduce inequality in heterogeneous labor markets.

Method

The study applies a quantitative approach using linear and logistic regression models to identify the causal mechanisms linking productive development, employment regulation, and labor market segmentation to the distribution of hourly labor income. The analysis is based on national and regional survey databases, including:

- The European Union Statistics on Income and Living Conditions (EU-SILC) survey to measure income and segmentation.
- The Permanent Household Survey (EPH-INDEC) for the case of Argentina.

The analysis incorporates a theoretical-methodological model based on the classification of the sectoral employment structure from the ILO and ECLAC, combined with the formal-informal dimension of New Institutional Economics (NIE). Controls for skill level, age, and gender are also applied, allowing for a more precise evaluation of the determinants of labor income inequality.

Results and discussion

The central thesis is that labor market segmentation and informality not only reflect differences in the level of productive development across economies but also act as structural mechanisms that amplify inequality in labor income distribution. Based on this premise, the study is structured around three specific theses that guide the comparative analysis:

- Occupational structure and the degree of labor informality have a regressive impact on labor income distribution, beyond the influence of labor institutions and productive development. In segmented markets, workers in informal or low-skilled sectors face structural barriers that limit their access to better-paid jobs, perpetuating inequality and restricting social mobility.
- Differences in the level of productive development determine the composition

and integration of the labor market, influencing job quality and the ability of institutions to regulate working conditions. While in advanced economies, informality tends to appear in specific niches and as a strategy for tax evasion, in transitioning and emerging economies, it is a structural response to the formal sector's inability to absorb the entire working population.

- Employment formalization policies must consider the structural context of each country, as uniform regulatory or enforcement strategies may generate unintended effects, such as increased unemployment or labor market exclusion. In developed economies, strengthening social security and regulating atypical work can improve job quality, while in emerging and transitioning economies, expanding the formal sector and improving productivity should precede any attempt at forced formalization.

These findings help to understand how different levels of productive development and employment regulation mechanisms shape labor market segmentation and labor income inequality, generating distinct challenges in each type of economy.

Conclusions

This study provides a comparative assessment of the impact of productive development, labor market segmentation, and informality on the distribution of labor income in different types of developed and transitioning economies in Europe, as well as an emerging economy in Latin America.

Using a theoretical-methodological approach based on the ILO, ECLAC, and NIE, the study analyzes how structural differences in employment affect wage inequality and what policies can help reduce labor precarization in heterogeneous contexts.

The central thesis is that labor market segmentation and informality not only reflect differences in the level of productive development across economies but also act as structural mechanisms that amplify inequality in labor income distribution, regardless of individual factors such as skills, age, or gender.

The study provides relevant findings for public policy design, highlighting the importance of differentiated strategies to improve equity in labor income distribution and reduce the negative effects of segmentation and informality in various economic contexts.

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