



## **STUDY MATERIAL FOR LABOUR ECONOMICS**

### **UNIT – I**

**Mrs. M. HEMALATHA,  
ASSISTANT PROFESSOR,  
DEPARTMENT OF ECONOMICS  
CARDAMOM PLANTERS' ASSOCIATION COLLEGE  
BODINAYAKANUR-625513.**

## LABOUR ECONOMICS

### NOTES FOR UNIT-I

#### **Labour - Meaning:**

Labour includes both physical and mental work undertaken for some monetary reward. In this way, workers working in factories, services of doctors, advocates, ministers, officers and teachers are all included in labour.

#### **Definition:**

According to **S.E. Thomas**, “Labour connotes all human efforts of body or mind which are undertaken in the expectation of reward.”

According to **Prof. Jevons** – “Labour is any exertion of mind or body undertaken partly or wholly with a view to some good other than the pleasure derived directly from the work.”

#### **Characteristics/Features of Labour:**

Labour has the following characteristics which are explained as under:

##### **1. Labour is Perishable:**

Labour is more perishable than other factors of production. It means labour cannot be stored. The labour of an unemployed worker is lost forever for that day when he does not work. Labour can neither be postponed nor accumulated for the next day. It will perish. Once time is lost, it is lost forever.

##### **2. Labour cannot be separated from the Labourer:**

Land and capital can be separated from their owner, but labour cannot be separated from a labourer. Labour and labourer are indispensable for each other. For example, it is not possible to bring the ability of a teacher to teach in the school, leaving the teacher at home. The labour of a teacher can work only if he himself is present in the class. Therefore, labour and labourer cannot be separated from each other.

### **3. Less Mobility of Labour:**

As compared to capital and other goods, labour is less mobile. Capital can be easily transported from one place to other, but labour cannot be transported easily from its present place to other places. A labourer is not ready to go too far off places leaving his native place. Therefore, labour has less mobility.

### **4. Weak Bargaining Power of Labour:**

The ability of the buyer to purchase goods at the lowest price and the ability of the seller to sell his goods at the highest possible price is called the bargaining power. A labourer sells his labour for wages and an employer purchases labour by paying wages. Labourers have a very weak bargaining power, because their labour cannot be stored and they are poor, ignorant and less organised.

Moreover, labour as a class does not have reserves to fall back upon when either there is no work or the wage rate is so low that it is not worth working. Poor labourers have to work for their subsistence. Therefore, the labourers have a weak bargaining power as compared to the employers.

### **5. Inelastic Supply of labour:**

The supply of labour is inelastic in a country at a particular time. It means their supply can neither be increased nor decreased if the need demands so. For example, if a country has a scarcity of a particular type of workers, their supply cannot be increased within a day, month or year.

The supply of labour can be increased to a limited extent by importing labour from other countries in the short period. The supply of labour depends upon the size of population. Population cannot be increased or decreased quickly. Therefore, the supply of labour is inelastic to a great extent.

## **6. Labourer is a Human being and not a Machine:**

Every labourer has his own tastes, habits and feelings. Therefore, labourers cannot be made to work like machines. Labourers cannot work round the clock like machines. After continuous work for a few hours, leisure is essential for them.

## **7. A Labourer sells his Labour and not Himself:**

A labourer sells his labour for wages and not himself. 'The worker sells work but he himself remains his own property'. For example, when we purchase an animal, we become owners of the services as well as the body of that animal. But we cannot become the owner of a labourer in this sense.

## **8. Increase in Wages may reduce the Supply of Labour:**

The supply of goods increases, when their prices increase, but the supply of labourers decreases, when their wages are increased. For example, when wages are low, all men, women and children in a labourer's family have to work to earn their livelihood. But when wage rates are increased, the labourer may work alone and his wife and children may stop working. In this way, the increase in wage rates decreases the supply of labourers.

## **9. Labour is both the Beginning and the End of Production:**

The presence of land and capital alone cannot make production. Production can be started only with the help of labour. It means labour is the beginning of production. Goods are produced to satisfy human wants. When we consume them, production comes to an end. Therefore, labour is both the beginning and the end of production.

## **10. Differences in the Efficiency of Labour:**

Labourer differs in efficiency. Some labourers are more efficient due to their ability, training and skill, whereas others are less efficient on account of their illiteracy, ignorance, etc.

### **11. Indirect Demand for Labour:**

The consumer goods like bread, vegetables, fruit, milk, etc. have direct demand as they satisfy our wants directly. But the demand for labourers is not direct, it is indirect. They are demanded so as to produce other goods, which satisfy our wants. So the demand for labourers depends upon the demand for goods which they help to produce. Therefore, the demand for labourers arises because of their productive capacity to produce other goods.

### **12. Difficult to find out the Cost of Production of Labour:**

We can easily calculate the cost of production of a machine. But it is not easy to calculate the cost of production of a labourer i.e., of an advocate, teacher, doctor, etc. Therefore, it is difficult to calculate the cost of production of a labourer.

### **13. Labour creates Capital:**

Capital, which is considered as a separate factor of production is, in fact, the result of the reward for labour. Labour earns wealth by way of production. We know that capital is that portion of wealth which is used to earn income. Therefore, capital is formulated and accumulated by labour. It is evident that labour is more important in the process of production than capital because capital is the result of the working of labour.

### **14. Labour is an Active Factor of Production:**

Land and capital are considered as the passive factors of production, because they alone cannot start the production process. Production from land and capital starts only when a man makes efforts. Production begins with the active participation of man. Therefore, labour is an active factor of production.

Thus, these are the characteristics of labour.

---

## **Concept of Labour Economics**

- ✚ Labour economics is the economic analysis of how workers, firms and the government interact in shaping the outcomes in the labour market, primarily employment and earnings.
- ✚ “Labour economics looks at the suppliers of labour services (workers), the demand as of labour services (employers) and attempts to understand the functioning of labour markets and the resulting pattern of wages, employment and income”.
- ✚ There is micro and macro dimensions in labour economics. In macro the focus is on inflation, aggregated unemployment debate. Vice versa, micro focuses on role of individuals and firms in the labour market.
- ✚ Labour includes both physical and mental work undertaken for some monetary reward.
- ✚ Labour is primarily an input in the production of goods and services.
- ✚ Labour too has demand, supply, cost & utility.
- ✚ **Actors in the Labour Market**
  1. Firms, Households and Government
- ✚ **Role of Government in Labour life and work**
  1. Setting laws and regulations, but also as employers and by redistributing from those who work to those who are without work.
- ✚ Labour is a peculiar commodity
- ✚ **Quantity and Quality of Labour**
  1. The quality of labour depends on education, training, physique and health.

## **Labour Economics – Definition:**

Labour economics is a branch of economics that studies, its problem and principles regarding organization, institution and behaviour of the labour market in an industrializing or industrialized economy

According to **Prof. Phelps Brown**, ‘Labour economics is the study of organization, wage determination, employment level, social security, Labour welfare and labour relations. Thus, labour economics follow a systematic and specialized approach to the study the labour in its dynamics aspects.

In the words of **Dole Yoder**, Labour Economics is basically concerned with efficient utilization and also conservation of manpower and resources. It studies and seeks to realize or understand the processes by which manpower is applied and also utilized in modern society. Thus, it is concerned with natural resources of the land.

According to **Prof. Marshall** – “Any exertion of mind or body undergone partly or wholly with a view to earning some good other than the pleasure derived directly from the work.”

Labour economics is the study of the labour force as an element in the process of production. The labour force comprises all those who work for gain within the labour market, whether as employees, employers, or as self-employed, but also the unemployed, who are seeking work. Labour economics involves the study of all that affects these workers before, during, and after their working lives, for example, childcare, education, pay and incentives, fertility, discrimination, their non-work time, and pension reforms.

Labour markets function through the interaction of workers and employers and can be bounded geographically within countries or regions, or be global. Labour economics also concerns itself with the mobility of workers within and across such markets and within and across their employers.

## **Importance and Scope of Labour Economics:**

The study of labour economics is important for the following reasons.

- ✚ It helps economists to understand labour related problems e.g. Issues on fair wage or salaries workers, welfare of workers, labour productivity, workers safety, gender related matters, job security and Job satisfaction.
- ✚ It provides data for economic planning and policy e.g. it helps economists to know the contribution of labour services to people's income (wages and salaries). There is evidence that in most economy, labour input is the most of economic resources.
- ✚ The study of labour economics helps us to understand the nature of the market in which labour services are bought and sold.

Labour Economics has to deal with manpower planning, labour organization, labour relations and public policy, wage and employment theory, collective bargaining theory and practice of social security, welfare and so on. According to the works of Dr. G.P. Sinha, following areas of study are included under labour economics:

- ✚ Institutional framework of particular economic system.
- ✚ Size as well as composition of the labour force and labour market.
- ✚ Labour as a factor of production – productivity as well as efficiency condition of work, industrial relation, standard of living.
- ✚ Labour risk as well as problems.
- ✚ Labour Legislation.
- ✚ Principle and practice of labour welfare.
- ✚ Theory and practice of trade union management.
- ✚ Labour Laws.
- ✚ Principles of personnel management and job evaluation.
- ✚ Advance theory of labour economics.
- ✚ Trade union movement. Thus, these are the scope of Labour Economics.