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## LABOR ECONOMICS AND ITS SCOPE

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### LABOR ECONOMICS - DEFINITION AND REVIEW:

#### **Definition:**

The study of the relationship between the number of employees needed and the number available, and how this affects rates of pay, efficiency, working conditions, etc.

#### **Review :**

Study of the labour force as an element in the process of production. The labour force comprises all those who work for gain, whether as employees, employers, or as self-employed, and it includes the unemployed who are seeking work. Labour economics involves the study of the factors affecting the efficiency of these workers, their deployment between different industries and occupations, and the determination of their pay. In developing models for the study of these factors, this section deals with the labour force of contemporary industrialized economies.

The economist cannot study the capabilities, jobs, and earnings of men and women without taking account of psychology, social structures, cultures, and the activities of government. Indeed, these forces often play a more conspicuous part in the field of labour than do the market forces with which economic theory is mainly concerned. The most important reason for this arises from the peculiar nature of labour as a commodity. The act of hiring labour, unlike that of hiring a machine, is necessary but not sufficient for the completion of work. Employees have to be motivated to work to an acceptable standard, and the employment contract is, in effect, open-ended. This may be no problem when employees are weak and easily replaced, but the more skilled, organized, and indispensable

they are, the more the care that must be given to creating an institutional setting that will win their compliance and meet their notions of fairness.

A second major reason for looking beyond straightforward labour market forces is the often highly imperfect nature of the industrialized labour market. The majority of jobs are occupied by the same employees for many years, and only a small minority of employees quits their jobs in order to move to a comparable job that is better paid. Studies in a number of countries have all revealed substantial variation in the level of pay offered for the same job by different firms in the same local labour market. This sluggishness of labour market response is particularly notable for more skilled labour and for labour employed by firms in strong product market positions. The main thrust of competition in many instances comes not through the labour market but through the product market, with an employee's pay being determined less by what the job is than by who the employer is.

In discussing market and nonmarket forces in labour economics, the following discussion poses them not as alternatives but as complementary explanations. The difference in pay between, for example, a craftsman and the labourer who works alongside him may be fixed by custom, an arbitrator, a job evaluation system, or a bargain with a trade union. In their different ways these are far from being merely passive agents through which market forces are transmitted into human behaviour. They may, for instance, shape the market by defining its categories of labour. Also, they may differ greatly in their speed and extent of response.

The comparative study of wage movements in different periods and countries does show many similarities and regularities that are more marked than the variety of their settings would lead one to expect. This evidence of the influence of persistent forces working within an equilibrating system is one justification for the economist's speaking of a labour market. But there is much in labour that can be understood only with the aid of the psychologist, the sociologist, the historian, the labour lawyer, or the political scientist. Depending upon both the circumstances and the purpose for which the explanation is required, it is an empirical question how far the forces that these scientists study

might interact with the market forces that are the special province of the economist.

### **SCOPE IN LABOR ECONOMICS:**

The field of labour economics covers a range of issues that are fundamental to understanding the world of work, such as the relationship between employment and growth, wage formation, the importance of human capital, migration and labour market regulations, to name a few. These topics have received considerable attention in the academic literature in recent decades, with a number of issues generating long-running debates, notably in the context of the impact of labour market institutions, such as those on employment protection legislation and minimum wages.

At the same time, it is now well recognized that the labour market plays a central role in the development process: having access to stable and protected employment is the most sustainable path to exiting poverty and promoting inclusion. However, in most developing countries, labour markets continue to be characterized by persistent informality, low levels of productivity and pay, and insufficient access to social security and employment benefits, along with inequalities in outcomes for women, youth and specific groups in society. Overall, the labour market in such economies has too often failed to help individuals and their families escape poverty.

As a consequence, governments – along with social partners, the trade unions and employers' organizations – have sought to develop policies and programmes that tackle these labour market challenges. In order to formulate and implement effective interventions in these areas, it is crucial to understand the nature of these challenges and how to match them with appropriate policy and institutional responses.

However, the majority of the academic literature on both labour and development economics is too technical for most policy-makers to access given their limited time and competing demands. For this reason, Perspectives on labour economics for development is both timely and highly relevant to the needs

of governments and other partners around the world. The volume has been put together by a group of leading ILO and non-ILO experts seeking to provide non-technical, but up-to-date and robust, insights into key topics in labour economics that are relevant to developing countries.

It is our hope that this book will become an important reference for policy-makers, trade unions, employers' organizations, teachers and students, helping to provide clarity on some of the most fundamental labour market issues facing developing countries.

#### **MACRO-ECONOMIC ANALYSIS OF LABOR ECONOMICS:**

*The labour force is defined as the number of people of working age, who are either employed or actively looking for work.* The participation rate is the number of people in the labour force divided by the size of the adult civilian noninstitutional population (or by the population of working age that is not institutionalized). The non-labour force includes those who are not looking for work, those who are institutionalised such as in prisons or psychiatric wards, stay-at home spouses, children, and those serving in the military. The unemployment level is defined as the labour force minus the number of people currently employed. The unemployment rate is defined as the level of unemployment divided by the labour force. The employment rate is defined as the number of people currently employed divided by the adult population (or by the population of working age). In these statistics, self-employed people are counted as employed.

Variables like employment level, unemployment level, labour force, and unfilled vacancies are called stock variables because they measure a quantity at a point in time. They can be contrasted with flow variables which measure a quantity over a duration of time. Changes in the labour force are due to flow variables such as natural population growth, net immigration, new entrants, and retirements from the labour force. Changes in unemployment depend on inflows made up of non-employed people starting to look for jobs and of employed people who lose their jobs and look for new ones, and outflows of people who find new employment and of people who stop looking for employment. When looking at the

overall macroeconomy, several types of unemployment have been identified, including:

**Frictional unemployment** – This reflects the fact that it takes time for people to find and settle into new jobs. Technological advancement often reduces frictional unemployment; for example, internet search engines have reduced the cost and time associated with locating employment.

**Structural unemployment** – This reflects a mismatch between the skills and other attributes of the labour force and those demanded by employers. Rapid industry changes of a technical and/or economic nature will usually increase levels of structural unemployment; for example, widespread implementation of new machinery or software will require future employees to be trained in this area before seeking employment. The process of globalization has contributed to structural changes in labour markets.

**Natural rate of unemployment** – This is the summation of frictional and structural unemployment, that excludes cyclical contributions of unemployment (e.g. recessions). It is the lowest rate of unemployment that a stable economy can expect to achieve, given that some frictional and structural unemployment is inevitable. Economists do not agree on the level of the natural rate, with estimates ranging from 1% to 5%, or on its meaning – some associate it with "non-accelerating inflation". The estimated rate varies from country to country and from time to time.

#### **THEORETICAL BACKGROUND AND EMPIRICAL CONTEXT:**

The mainstream approaches towards labour economics is micro-economically founded and based on the concept of labour marginal productivity which in equilibrium is equal to labour compensation, i.e., to the wage. Following this approach involuntary unemployment does not exist and labour market is always cleared by wages and prices flexibility. Only labour supply side policies such as labour flexibility, elimination of labour rigidities, employment centers and agencies etc, should be implemented in order to improve the matching between demand and supply of labour. On the contrary, the Keynesian approach admits unemployment positions when, at macro-economic level, the aggregate

demand is insufficient. Demand side policies able to boost demand and a higher income activity level should be strongly supported. Further neo-Keynesian and post-Keynesian development includes efficiency wages theories, NAIRU and other similar approaches which however justify disequilibria in the labour market. In this context institutional approaches and evolutionary theories can easily find space for additional theoretical development and policies suggestions.

The labour market – which has to be considered as a social institution in order to be deeply understood - seems to be one of the most important factors for economic growth since the latter is mainly determined by labour productivity. In turn, labour productivity growth has to be explained. Recently, the mainstream recipe to foster labour productivity growth has been labour flexibility: “putting the right workers in the right place and the wrong workers out of wrong place”. However, in the European Union, where in the last decade the labour market was subject to radical reforms which increased labour flexibility, one can still observe in many countries high unemployment rates. At the same time, higher levels of flexibility and other supply side policies in the labour market were neither able to increase labour productivity.

#### **POSSIBLE FIELDS OF RESEARCH:**

Both theoretical and empirical works are welcomed. These may include:

- 1) Macroeconomics of labour market
- 2) Wages, microeconomics of compensation and labour supply
- 3) Structural change and labour market
- 4) Migration
- 5) Labour market institutions
- 6) Economics of public labour
- 7) Human capital, innovation and labour market
- 8) Passive and active labour market policies
- 9) Participation and work in cooperative firms
- 10) Unemployment
- 11) Labour productivity and growth

- 12) Flexibility, flexicurity, European and national employment strategies
- 13) Gender employment, gender gap and labour segmentation
- 14) Job satisfaction, employability, and job search theories
- 15) Comparative labour markets and variety of capitalism
- 16) Welfare states and pension systems
- 17) Informal labour markets
- 18) Industrial relations
- 19) Financial crisis and labour markets

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