

1 Introduction

As you know in other economics courses, labour is of the most important factors of production. Hence manpower Economics deals with the study of the workings and outcomes of the labour market. Manpower economics is one of the most relevant and interesting parts of economics courses. A good grasp of manpower economics is vital for designing and understanding manpower policies and for manpower planning and more generally for appreciating how a modern economy functions.

1.1 Definition and Nature of Labour economics

Labour economics is simply defined as the study of the workings and outcomes of the labour market.

Labour markets or *job markets* are defined as function through the interaction of workers and employers.

Labour economics looks at the suppliers of labour services (workers) and the demanders of labour services (employers), and attempts to understand the resulting pattern of wages, employment, and income.

In economics, *labour* is a measure of the work done by human beings. It is conventionally contrasted with such other factors of production as land and capital. There are theories which have developed a concept called *human capital* (referring to the skills that workers possess, not necessarily their actual work).

Three *agents* can be identified in the labour market as **workers**, **firms** and the **government**. All these actors of the labour market follow their own objectives. With the objective of achieving utility maximization, workers need to decide whether to work or not, how many hours to work, which skills to acquire, which occupation to enter, whether to join a labour union or not, how much effort to allocate to the job and when to quit a job. Each of these decisions of all the workers in the economy constitutes the quantity and quality of labour supplied in the economy - labour supply curve.

Pursuing the motive of profit maximization, firms need to decide how many and which types of workers to hire and fire, how much the working hours to be, how much capital to employ, and whether to offer safe working conditions. Each of these decisions of all the firms in the economy generates the demand for labour in aggregate - labour demand curve. However, the motives of workers and firms are conflicting in the sense that, when the incentives change, the two agents react differently for such a change. When the wage rate is high, for instance, workers respond by supplying more of their services while the willingness of firms to demand labour declines, and vice versa. But such a conflict of interests is resolved when the labour market reaches an equilibrium point, at which the demand for labour by firms is exactly equal to the supply of labour by workers.

In reality, however, the labour markets are not left to work by their own. It is widely believed that economic transactions in the labour market are both *voluntary* and *mandatory*: When both parties gain out of the transaction, the labour market will facilitate the mutually beneficial transaction. Under such a case the transaction will be undertaken voluntarily. Although some transactions take place accordingly, still some other may cause one or more parties to lose and entail the redistribution of income from the gainers to the losers. The third agent, the government enters into the labour market so that the re-distributional transaction will be mandatory. In facilitating the mandatory transactions, the government can exercise a wide range of policies that include imposing taxes on workers' earnings, subsidizing the training of workers, setting minimum wage legislating levying profit tax on firms and encouraging or restricting immigration. In brief when the economic transactions are mutually advantageous, both parties participate in the labour market voluntarily. But when the labour market fails to facilitate mutually beneficial transactions, the compensation of losers must take place through the intervention of the government.

1.2 Labour and its peculiarities as factor

Some of the most important characteristics of labour are as follows:

Labour is different from the other factors of production. Unlike the other factors, it is a living thing. As such, it has its own characteristics. They are given by Marshall as follows:

1. Labour means Human Exertion: Labour means only human exertion and not the exertion of the cattle or machine. Labour always involves the mental or physical pain and sacrifice. For example, when a man works and is busy for a few hours, s/he becomes tired and so s/he needs rest.

2. A Man's Labour is part of himself: This means the labour cannot be separated from the labourer. When the labourer sells her/his labour s/he has to deliver it in person and he cannot sell his labour like land and capital.

3. Labour Power and Labour Co-exist: The labour power exists as long as the labourer exists. It becomes invalid or disappears when the labourer retires or expires.

4. Labour is Perishable: The labour power withheld once is lost forever and cannot be stored. It cannot be regained. A day without work is gone irrevocably. As there is no stock, the labourer has to sell his labour immediately irrespective of the price. Labour is a flow of service of labourer.

5. Labour has low Bargaining Power: Usually labourers have no reserve and are compelled to accept low wages. But the development of the trade unions has considerably improved the bargaining power of the labour in recent times.

6. Labour has Intelligence and Judgment: Labour is something more than mere toil and exertion, for labourers being human beings, have intelligence and judgement and further the toil and exertion can be more easily undertaken by machines rather than by men. Thus the distinguishing mark of labour as factor of production is the exercise of intelligence and judgment.

7. Labour restricted by Social Factors: The labour as human beings have much attachment to the language, custom, religion, place, culture etc., and consequently they do not move out so easily.

8. Both a Means and an End: A labourer is both a means of production and an end of it.

9. Efficiency of the Labour can be Increased: The efficiency of labour can be raised through training, education and experiences.

10. Labour has Decision Power: A labour can make rational decisions regarding his job. Capital and land do not possess greater decision making capacity.

1.3 Characteristics of the Labour Market

The neoclassical model of supply and demand suggests we can study labour markets just like we study the market for other commodities. If so, why have a separate field for labour economics? Because the labour market has a number of characteristics that differentiate it from many other markets and cause it to function differently from a spot market

1. Stakeholders with a variety of goals

Labour: non-union and union labour; different types of unions (i.e. industrial or professional).

Management: stockholders, chief executive officers, middle management.

Government: federal, provincial and local levels; differences in the units that make and enforce the law and operate government programs.

2. Sociological constraints

Family and community ties affect labour mobility and the role of women in the labour market. Social norms influencing what is considered an appropriate wage and who should do certain jobs

- Institutional constraints (unions):
- Legislative constraints: employment standards laws; human rights and antidiscrimination legislation; laws on health and safety and workers' compensation, etc.
- Market imperfections: imperfect information, asymmetric information, transactions costs, uncertainty and risk

3. Complex price

It reflects a variety of factors: returns to investments in education, training, mobility; compensation for risk or undesirable working conditions; a rent from a union or an

industrial wage premium; discrimination. Perform a variety of functions: allocates labour efficiently across industries, occupations, regions; encourages optimal investments in human capital; provides incentives for performance, work effort, productivity; should provide an adequate standard of living and alleviate poverty and discrimination.

4. Strong moral overtone

Labour services and the labourer are not separable - dignity, perceptions of self-worth, prestige, and well-being are tied to wage. A job is an important aspect of "who you are".

Alternative Perspectives of the Labour Market

The labour market has a number of features that distinguish it from other markets. The traditional neoclassical model: oversimplification unable to account for many labour market phenomena.

Alternative perspectives:

- I. **Institutionalism**: emphasis on the descriptive realism and the roles of institutions, customs, and socio-political factors.
- II. **Dualism**: based on segmented labour market tradition – primary and secondary.
- III. **Radicalism**: emphasis on the class conflicts as the main determinant of the labour market outcomes.