

# THE STUDY OF LABOUR ECONOMY AND MARKET

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**Abstract**— Theory of Economic provides powerful, and surprising, insights into individual and social behavior. The insights help us understand the important aspect of our lives hence they are interesting. From the time when humans appeared on earth, we have had to work to secure what we needed to endure or to get better on standard of living, even our most primitive ancestors had to gather, hunt, and farm successfully or die. One of the most complicated task to capture the assortment of the economic activities of those who work and the majority of whom are found in developing countries. The study of the workings and outcomes of the market for labour is termed as Labour economics. More specifically, labour economics is primarily concerned with the behavior of employers and employees in response to the general incentives of remuneration, prices, profits, and no pecuniary aspects of the employment relationship. One of the basic assumptions of positive economics is that people are rational—they have an aim and pursue it in a reasonably reliable fashion.

**Keywords**—Labour, Labour Economics, Labour Market Concept,

## **Introduction:**

Labour economics is the study of the workings and outcome of the market for labour. It is mainly concerned with the behaviour of employers and employees in response to wages, prices, profits and working conditions. Labour economics is the study of a) The relationship between wages and employment opportunities. b) The interaction among wages, income and decision to work. c) The way wages, prices and profits affect occupational choices. d) Incentives for and effects of educational and training investments. e) The effect of unions on wages, productivity and turnover. f) The effect of social policies (minimum wages, labour legislations and safety and health regulations) on wage and employment.

**Labour Market:** Labour market is the place where employer and employees interact with each other. It is also called job market where employees compete to hire the best and employees compete for the best satisfying job. A Labour market in an economy functions with the demand and supply of labour. When the demand and supply of labour in a market is equal, the labour market will be in equilibrium. The labour is one of the most important factor of production. The labour services can't be separated from the labour, therefore the condition under which such services are rented, also plays an important role in the wage determination.

**Labour Market in India** The Indian labour market is characterized by the predominance of informal employment as majority of the labour force work as casual worker and selfemployed. In informal market more than 80 percent of India's workforce work as casual and self-employed. The agriculture sector one of the major employment providers which employs more than 40 percent of the labour force and contributes 17-18 percent of Gross Value Added (GVA) of the economy.

## **Learning Objectives:**

In this chapter we will focus on some basic concepts of labour economics that includes: I. To learn about labour economics. II. To know about the structure of labour markets in developing countries. III. To study the nature, scope and characteristics of labour market.

**LABOUR ECONOMICS:**

Labour economics is the economic analysis of how workers, firms and the government interrelate in determining the outcomes in the labour market, first and foremost employment and earnings.

**STUDY OF LABOUR MARKET:** In an economist's view, labour is primarily an input in the production of goods. As per it they are no more than potatoes in the production of French fries. But there is no paper in Potato Economics. The reason for this is that labour is a special production input. Work has a direct impact on the lives of round about all of us. We pay out a large part of our life working and we draw most of the support for our payment from work. Our socialization patterns, our social identity and happiness affect our work. A variety of social norms engage in recreation a prominent role in influential our activities in the labour market. Governments often intervene in the labour market, not only by enforcing laws and regulations, but also as employers and by redistributing from those who work to those who are without work. A specific analysis is required to be developed to understand how these norms and institutions affect individuals' and firms' choices and conclude the outcomes in the labour market.

**Human Resource:** Like all other resources, human resource is also scarce. Resources should be optimally utilized keeping in mind the economic problems. Unlike other fields of economics like agricultural economics and industrial economics where labour is viewed only as agricultural and industrial labour. In 3 labour economics, labour is considered to be human resource, labour economics seeks for the optimal utilization of human resource.

**I. THE LABOUR MARKET IN DEVELOPING COUNTRIES**

It is a complicated task to capture the assortment of the economic activities of those who work and the majority of whom are found in developing countries. To do so, certain stylized features are highlighted in this chapter. Of these, and as divergent from developed countries, two prominent features are: (1) developing countries are characterized by a prominence in employment in which own-account work, rather than paid employment (wage-earning), is significantly greater; and (2) Somewhat dissimilar to a standard textbook in labour economics, economic activity in developing countries cannot be understood as the "derived demand for labour" – i.e. labour demand derived from product-market demand. A substantial share of own-account work is actually an effort at "demand creation"

**II. CONCEPT OF LABOUR ECONOMICS:** The study of the workings and outcomes of the market for labour is termed as Labour economics. More specifically, labour economics is primarily concerned with the behavior of employers and employees in response to the general incentives of remuneration, prices, profits, and no pecuniary aspects of the employment relationship, for example working conditions. These incentives serve both to encourage and to limit individual preference. The focus in economics is on inducements for behavior that are impersonal and apply to a wide range of people.

**III. POSITIVE ECONOMICS:**

Behavior theory, assumes people to typically respond favorably to benefits and pessimistically to costs. Skinnerian psychology theory closely resembles with positive economics which, views behavior as created by rewards and punishments is termed as Positive economics. The rewards in economic theory are pecuniary and non-pecuniary gains (benefits), while the punishments are forgone opportunity (costs). For example, an individual is motivated to become a surgeon because of the status and the earning a surgeon command and in turn give up the opportunity to become a lawyer, and must be available round the clock for emergency work. Both the benefits and the costs must be considered in making this career choice.

**IV. SCARCITY:** The pervasive assumption underlying economic theory is that of resource scarcity. As per the assumption, society and individuals in a similar way do not have the resources to meet all their wants. Thus, any resource devoted to satisfy one set of needs/requirements could have been used to satisfy another set, it indicates that there is a price to any decision or action. For example, to build a road, the real cost of using labour hired by a government contractor, is the production lost by not devoting this labour to the production of some other good or service. Thus, in popular provisions, "Free Lunch - There is no such thing," and we must always make choices and survive with the rewards and costs of these choices bring us. Moreover, we are always constrained in our choices by the resources available to us.

**V. RATIONALITY:** A second basic assumption of positive economics is that people are rational—they have an aim and pursue it in a reasonably reliable fashion. When considering persons, economists assume that the objective being pursued is utility maximization; with the intention of its, people are assumed to strive toward the goal of making

one selves as happy as they can (given in limited resources). Utility, of course, is generated by both pecuniary and non-pecuniary dimensions of employment.

**VI. MARKETS AND VALUES:** Economic theory, however, reminds us that there is a class of transactions in which there are no losers. Policies or transactions from which all affected parties gain can be said to be Pareto-improving because they promote Pareto efficiency. These policies or transactions can be justified on the grounds that they unambiguously enhance social welfare; therefore, they can be unanimously supported. Policies with this justification are of special interest to economists because economics is largely the study of market behavior—voluntary transactions in the pursuit of self-interest. A transaction can be unanimously supported when:

- a. All parties who are affected by the transaction gain.
- b. Some parties gain and no one else loses.
- c. Some parties gain and some lose from the transaction, but the gainers fully compensate the losers.

**VII. WHAT DOES IT MEAN TO UNDERSTAND BEHAVIOUR?** The purpose of positive economic analysis is to analyze, or understand, the behavior of people as they respond to market incentives. But in a world that is extremely complex, just what does it mean to “understand” behavior? One theoretical physicist put it this way: We can imagine that this complicated array of moving stuff which constitutes “the world” is something like a great chess game being played by the gods, and we can merely be the spectator of the game played. No rules of the game are known to us; all we are allowed to do is to watch the game. Of course, as we watch long enough, we may eventually catch on to a few of the rules. The rules of the game are what we signify by fundamental physics. In case rules, however...what we really can explain is very limited in terms of those rules, because more or less all situations are so enormously complicated that it cannot follow the players of the game using the rules, much less tell what is going to happen next. We must, therefore, limit ourselves to the more fundamental question of the rules of the game. If we know the rules, we consider that we “understand” the world.

**VIII. RELATIONSHIP OF LABOUR SUPPLY TO ECONOMIC AND OTHER INFLUENCES** The aggregate quantity of labour supplied to the market by the inhabitants of a nation or locality, as reflected by the labour force and, to an extent, by hours. Determination of how much of the supply goes to individual firms is not considered, since migration and industrial and occupational mobility is even more complicated matters than the labour force. Also outside its range is group control of labour supply in the form of collective bargaining or other devices. It is impossible to measure the special effects of such activity because of the subtle and complicated combinations of economic and political factors, the variety of union constitutions and practices, and the shortage of statistics. Undeniably, to the extent that unions behave as monopolists and hence fore try to maximize the income of their members, they must take the demand for labour into consideration in determining the supply of labour; thus there cannot be a supply independent of demand. Group control will no doubt be affected by some of the considerations which govern independently acting individuals; during a strike the union will not hold out as long, or for as favorable a agreement, if its members are apprehensive to get back to their normal earnings. But, in the main, the wages and other supplementary benefits it aims for will depend on what it believes to be the demand for labour. Investigating the aggregate behavior of individuals in entering and leaving the labour force, or in working a long or short week, on the supposition that such decisions would not appreciably affect the wage of the individual or his family, and, as a corollary, each individual acts quite apart from others insofar as any intention of manipulating wages is concerned.

**IX. COLLECTIVE BARGAINING AND MINIMUM WAGES IN INDIA** A study by Rani and Belser (2012b) shows that being part of a trade union in India significantly reduces the probability of low pay for both salaried and casual workers. For salaried workers, the probability of low pay for otherwise similar workers falls by 25 per cent in urban areas and by 14 per cent in rural areas. This means that, for workers, being part of a union is the third largest determinant for escaping low pay, next to the education and sex variables. Interestingly, being part of a union or an association that defends the interests of workers is also an important factor in the wages of casual workers, reducing the probability of low pay by 16 per cent in urban areas and also by 11.5 per cent in rural areas. In spite of the challenges, public employment guarantee schemes in India may have contributed to raising the effectiveness of minimum wages (see Rani and Belser, 2012a).

**CONCLUSION:**

The labour market operates by confronting the supply and demand of labour and it works in every country, on a regional and global scale. Any activity that is initiated or exists in society creates the need for labour. The labour market operates on the same mechanism as the market of any goods or services. Being the main component of the market its factors, structures and principles are similar to those of the other components, the natural resources market and capital market. Although there is no opinion widely accepted with respect of the use of one of the two phrases labour market or workforce market, it is necessary to distinguish between work and individual and between what arises from the work process (goods and services) and the individual who possesses the skills and knowledge they provide to produce those goods and services. From the analysis performed, we concluded that the labour market has a high degree of rigidity and inflexibility, the segmentation of this market takes place both at a general level, the segmentation being done on the main sectors of the economy and to a lesser extent from the point of view of the supply of and demand of labour, there is a real need to regulate this market, being both a contractual and participatory market, with a multidimensional character due to its geographic, economic, educational and social scales. The classic, neoclassical, Keynesian, monetarist, unbalanced labour market and the salary efficiency models caused the formation and functioning of the labour market.

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