

**FUNDAMENTALS OF**

# **LABOUR ECONOMICS**

**Dr. P.M. Kadukar**



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# Fundamentals of Labour Economics

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# PREFACE

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It is indeed a pleasure to write this book on ‘**Fundamentals of Labour Economics**,’ as I had a dream to write on this subject mainly for the benefit of my student community.

Labour is the most valuable resource in the economy and Labour Economics seeks to understand the functioning of labour in the labour market through the interaction of workers and employers. Labour economics is a growing body of knowledge and its scope gets wider with the passage of time. It covers a range of issues that are fundamental to understanding the world of work. In recent years, the topics like the Labour Market, Wage Analysis, Social Security, Labour Policy, Industrial Relations, Role of ILO, Employment and Unemployment, Trade Unionism and the Problems of Working Class have received considerable attention in the academic literature of Labour Economics.

The present book is primarily concerned with fundamental concepts which are necessary to scientific understanding for the students of Labour Economics, and broadly, the learners in the field of labour studies. The book is written in a very simple language to enable the students to learn the basics of the subject. The book has been prepared with a view to cover most of the topics included in the syllabus of Labour Economics at UG and PG level in various universities and colleges in India. Therefore, this book is a valuable source for all those concerned with this subject and the student community will make maximum use of chapters discussed in it and enrich their knowledge for future career growth and development.

There are many who have helped and inspired me. So, I place on record my gratitude to all of them. My beloved wife Mrs. Rajlaxmi, who is a real spirit behind my writing the book and she is the first reader of my writing. Her criticisms and suggestions helped me a lot in improving the quality content of the book.

I express my gratitude to the present Director Shri Shashank Sathe, and the former Directors Dr. Rajan Tungare, Shri Vishram Deshpande of the Institute and all staff members for their constant support and encouragement to write this book. My thanks to Ram Patil, Nikita Dighe, Vaibhavi Phansekar and Utkarsha Patankar for their help and assistance in the completion of the work in time.

I am beholden to my parents and brothers for the love and affection bestowed on me and my sincere thanks to Himalaya Publishing House Pvt. Ltd. for showing interest in my work and its publication. My affectionate thanks to everyone who have helped me directly and indirectly in the completion of the book. Finally, I welcome suggestions for improving the next edition of the book.

**Dr. P.M. Kadukar**



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# AN INTRODUCTION TO LABOUR ECONOMICS

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Labour Economics is one of the important branches of Economics. A study of Labour Economics is rooted through various approaches of classical and neoclassical economists. The theoretical approaches of Labour Economics built by the founding fathers of political economy and the historical approach evolved with the Industrial Revolution where labour as a measure of value has a deep social significance. Labour Economics seeks to understand the functioning of labour in the labour market through the interaction of workers and employers and attempts to understand the resulting pattern of wages, employment, socio-economic conditions, the standard of living, income and effective utilization as human resource.

## LABOUR -- AS A FACTOR OF PRODUCTION

Labour is the most valuable resource in the economy. In fact, in the present context labour is considered as a human resource and backbone of the nation. As a factor of production labour is considered as the most active factor of production as compared to other factors like land and capital.

The term labour, worker, workman, employee are practically synonymous which they work for wages as a source of livelihood. The term labour is used in a very broad sense. It includes all the workforce which includes all the persons who work for expectations of reward. Therefore labour can be defined as 'any work whether manual or mental which is undertaken for a monetary consideration is called Labour in Economics.' In the process of economic activity or production activity, there is no possibility of production without the use of labour even in the age of Automation, Robotics or Artificial Intelligence. Hence it is important to note that labour as a factor of production is manifestly different from other factors of production. Such differentiation makes by following peculiarities.

## PECULIARITIES OF LABOUR

### 1. Labour is inseparable from Labour/Worker

The classical economist Alfred Marshall says that the worker sells his work/services. But he remains his property. He has to go to the place of work or the premises of the shop or factory in which he is employed.

### **2. Labour sells his services only**

The labour sells his work/services only not himself. Therefore the investment in training and development is of utmost importance in the supply of labour.

### **3. Labour is a perishable factor**

Labour services cannot be stored like other commodities. It has no reserve price. If a worker/labour does not work for a specific day then that day would never come back in future.

### **4. Labour has weak bargaining power**

As individual labour has weak bargaining power in the labour market as compared to the employer. Moreover, they have to work on the terms and conditions laid down by the employer.

### **5. Labour mobility is less than capital**

Being a human or living thing there are many differences in geographical locations, languages, habits, customs, traditions, religions etc. Which makes a hindrance to some extent to the mobility of labour from one place to another, one region to another region. On the other side, capital can be easily moved from one place to anywhere.

### **6. Labour is a human factor**

ILO in their guiding principles (Declaration of Philadelphia 1944) adopted that labour is not a commodity, so the handling of labour problems require a human touch. Therefore in modern times, employers are giving much importance to maintaining Human Relations and Human Resources development. The labour problems have many dimensions like economic, social, legal, political, psychological, moral and ethical. Hence it calls for an inter-disciplinary approach to look into the matters of labour problems and a systematic study is needed in the subject of Labour Economics.

## **DEFINITIONS OF LABOUR ECONOMICS**

Economics is a social science that studies the causes and consequences of human choices and how such choices can be rationally and efficiently rendered. In the economy the resources are scarce and human wants are unlimited. So there is an imbalance between wants and resources and how it can be balanced that is the economic problem. Economics helps us in such a situation to derive maximum satisfaction from the limited resources. Labour is one of the scarce productive resources of society and labour economics deals with the study of problems of efficient utilization of labour in the labour market. Labour economics focuses on the behaviour of individual in their roles as a supplier of the labour services (i.e., workers) and demanders of labour services (i.e., employer). In the labour market, the demand for labour and supply of labour jointly determines the number of persons who will be employed and the wages (i.e., the price of labour) they will receive. Labour economics focuses on the study of labour in the economic processes. It analyses and seeks to understand the deep study of labour market situations and the behaviour of labour with a multidimensional approach. Following are some of the definitions given by the experts.

### **Dale Yoder**

“Labour Economics or Manpower Economics is primarily concerned with efficient utilization and conservation of manpower and resources. It studies and seeks to understand the processes by which manpower is applied and utilized in modern society. It is concerned with the allocation, utilization and conservation of manpower.”

**Leiter**

“Labour Economics deals with the characteristics of the labour market with the classification and analysis of labour problems and with the development and the role of trade unions.”

**Prof. K. C. G. Seth**

“Labour Economics studies the utilization of relatively scarce human resources in the social production system.”

**C. N. Vakil**

“Labour Economics studies the conditions of the effective utilization of human resource with other resources in a growing economy with due regard to human welfare.”

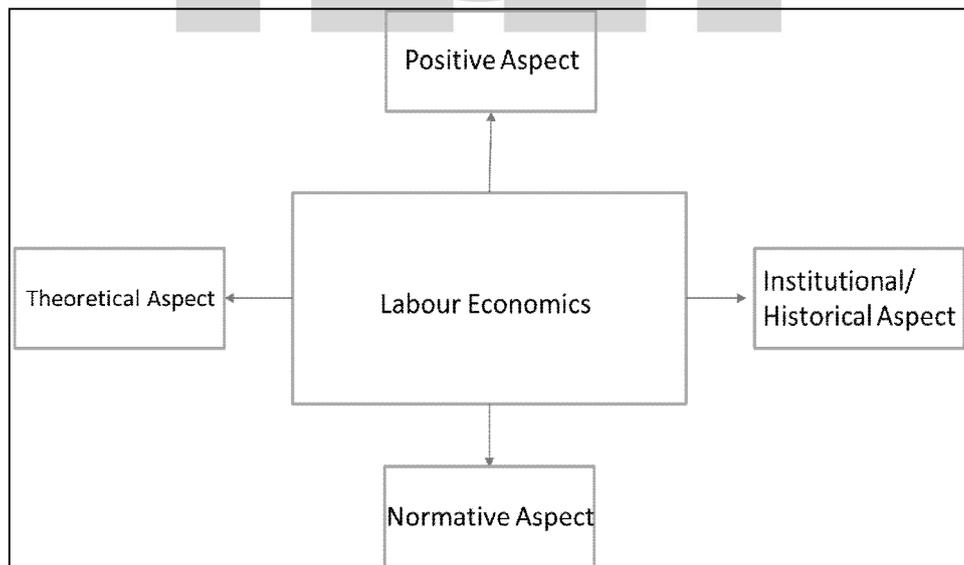
**Prof. Phelps Brown**

“Labour Economics is the study of the organization, wage determination, employment level, social security, labour welfare and labour relations.”

In short Labour Economics is a growing body of knowledge and its scope gets wider over time. The nature, subjects matter and dimensions of the field of labour economics are going to change considerably in the recent modern era of post-globalization.

**NATURE OF LABOUR ECONOMICS**

Labour Economics is mainly concerned with the labour problems, solutions and development of human resources and it requires the inter-disciplinary approach, aspects to understand the nature of Labour Economics.



### Theoretical Aspect

The theoretical aspect is dealt with the various theoretical models of economic behaviour by making different sets of assumptions e.g., theories of wages, theories of the labour market, theories of productivity etc.

### Institutional (Historical) Aspect

The institutional aspect of labour economics is mainly concerned with the studies of labour problems in the institutional framework of the economic system. The nature of labour problems changes with the change in the organizational development of the economic system. E.g., system of wage determination, working methods, social security mechanism should be studied with a larger institutional context. The changes in the institutional mechanisms in the labour market affect the employee-employer relationships and changes in science and technology affect the labour market forces.

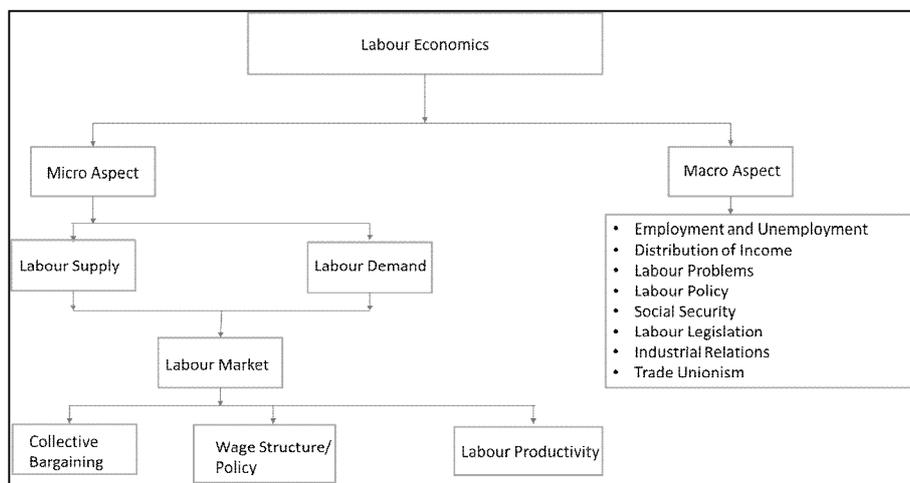
Labour Economics is the empirical branch of economics. Usually it explains what it is. This means it describes the situations with empirical evidence. This aspect also seeks to identify and quantify the effects on measurable variables. e.g., safety legislation reduces the accident rate, labour laws help to improve the working conditions of labour.

### Normative Aspects

This aspect is concerned with the ethical branch of economics. Usually, it explains what ought to be? This means it helps to explain the future judgements e.g., a study of demand forecasting deals with the future judgements. This kind of aspect helps to take corrective actions to improve labour welfare and social welfare as such.

### Scope of Labour Economics

Labour Economics is a sub-branch of social science that is concerned with the study of how individual labour, labour unions, firms, industries and government take decisions relating to the allocation of limited resources to productive uses and it helps to derive maximum satisfaction. The scope of Labour Economics can be classified into two main aspects.



The fundamental difference between the micro and macro aspect lies in the scale of study. Both aspects are complementary to one another. As they both aim at effective use of resources to maximize the level of satisfaction very high.

## **1. Labour Market**

Labour Economics is centred on the study of the labour market. The labour market is the function of demand for labour and supply of labour and wage represents the price of labour. The demand for labour is derived from demand because the demand for labour depends upon the products produced by the firm or industry. The supply of labour is considered to be based on labour force participation rate and other factors like skill, age, willingness to work etc. In the labour market, the workers prefer to work when the wages are high and firms prefer to hire more workers when the wages are low. In the equilibrium position where the supply of potential labour is equal to the demand for labour at a particular wage rate.

## **2. Collective Bargaining**

Collective bargaining is the process of negotiation between employer and group of employees (trade unions) for settling the various issues of both. It is also known as an important tool of industrial democracy. It promotes industrial harmony, co-operation and a sense of partnership between employers and employees. The collective bargaining process signifies an agreement under which the trade unions and employers collectively undertake to resolve their existing and future differences without the assistance of a third party.

## **3. Wage structure/policy**

A study of wage structure/policy occupies an important role in labour economics. Both the sides-- employer and employee is always in a fighting position to determine the wages. Therefore the analysis of wage structure/policy is a crucial area of labour economics. Wage structure in India generally consists of various components and it is a significant aspect of wage rate analysis. Wage structure in a firm, industry or public sector consists of certain grades, scale, levels and range of pay on each scale. The wage structure varies with occupations, industry, profession and different categories of employees. In India, the wage structure for different industries has been set based on wage regulations and bipartite or tripartite negotiations.

## **4. Labour Productivity**

A study of labour productivity is important because it drives economic growth. It brings higher profit and an opportunity for more investment. Labour productivity is an important economic indicator that is directly linked with economic growth, profitability, competitiveness and living standards. It is the ratio of the number of goods and services produced over the amount of labour input used to produce it. The increased productivity can lead to higher wage and better working conditions for the workers. It also leads to reduce the unit cost and results in lower prices of consumer goods and can improve the competitiveness, trade performance and profit level.

## **5. Employment and Unemployment**

The analysis of the employment and unemployment situation is important to measure the economic health on a local, state and national scale. The study of employment and unemployment helps to understand the sector-wise position and which sector is most affected as well as the correlation between the ratio of employment and unemployment. The low rate of unemployment

results in good economic health and the majority of people are working and receiving income which is essential to increase economic growth. India being high populated country employment and unemployment becomes a crucial element of the growth and development process of the economy. The efforts are being made by the government and other stakeholders to tackle the problem of unemployment in India. To reduce the problem of unemployment in India various employment generation schemes have been introduced by the government from time to time.

## **6. Labour Problems**

Labour problems occupy an important role in Labour Economics. Labour problems arise out of the deficiencies in the operation in the processes which go into the allocation of resources. They also arise due to the structural changes in the economic system. In India, the huge workforce is working in the informal sector and they are facing many problems relating to wages, working conditions, health, social security, lack of applicability of labour laws etc.

## **7. Labour Policy**

Labour policy in India evolving over a while to promote the welfare of the workers, maintaining industrial peace and social justice. The study of labour policy in labour economics helps to improve the understanding, the requirements and the situations to suit the overall development of the working class. Labour policy includes the practices and procedures of the government that deals with the labour management relations, employment information and services, social security measures, wage-related matters, occupational health and safety, the welfare of the employees and other significant problems that requires action on the part of government, employers and employees.

## **8. Social Security**

In India, a number of social security measures are provided under various labour laws and schemes to address the social security needs of the different categories of workers. Some of the measures like provident fund, medical benefit, maternity benefit, disablement benefit, pension scheme, food security, employment security etc. India needs to ensure social security for all especially those in the unorganized sector. The Constitution of India provides the spirit of social security to all workers through directive principles of state policy. The Social Security Convention 102 and Recommendation 67 of the ILO emphasized the need for social security to meet the various kinds of insecurities. Social security is important to every individual to enjoy the minimum level of security and it is an essential ingredient in the protection, development and full utilization of human resources.

## **9. Labour Legislations**

Labour legislations are important to provide economic and social justice to the workers. Labour legislations prevent the exploitation of labour, helps to improve the wages, working conditions and maintain industrial peace and harmony. In India, labour is a subject listed in the Concurrent List of the Constitution where both the central and state government are competent to enact the labour legislation on labour matters and administer the same. All labour legislation can be divided into mainly four groups i.e., 1) Wage-related legislation, 2) Industrial relations legislations, 3) Legislation related to occupational health, safety and working conditions and 4) Legislations related to social security and labour welfare.

## 10. Industrial Relations

Industrial relations play an important role in obtaining a balanced approach between employer and employees. Industrial relations ensures the efficient functioning of the company and the satisfaction level of the employees as well. Industrial relations mainly covers the aspects of an employment relationship, collective bargaining, regulatory machinery to resolve industrial disputes, the role of management, union and government, conflict management etc. It is important to establish healthy, peaceful, sound and harmonious relations between employers and employees. Industrial relations helps to secure the high possible level of mutual understanding and goodwill among the employers, employees and government.

## 11. Trade Unionism

Trade unionism plays an important role to represent workers in protecting their interest. Trade unions are a part of society to have to perform important social responsibilities for nation-building also. Trade unionism is an integral part of the labour movement. The growth of trade unionism primarily depends on the desire of the workers and efforts to make unions collectively to the broad social and welfare cause. Trade unionism comprises the efforts of workers through trade unions to improve the conditions of workers.

## IMPORTANCE OF LABOUR ECONOMICS

The subject of Labour Economics covers a range of issues that are fundamental to understanding the world of work. It helps to understand the dynamics of the labour market, wage structure analysis and policy related to wages. The study of Labour Economics helps to provide the data regarding employment, unemployment, labour force, workforce and statistics related to absenteeism, labour turnover, statistics of working hours, wage and earnings, industrial relations, productivity, social security etc. In recent years the topics like human capital, migration and labour market regulations have received considerable attention in the academic literature.

At the same time, the major actors i.e., Government, employer's organization and trade unions have sought to develop policies and programmes that tackle the challenges before the labour sector. In order to formulate the policies, it is important to understand the nature of these challenges and how to overcome them. In India, the significant contribution made by the various experts and some institutions like the Indian Society of Labour Economics may go a long way in making the study of Labour Economics is more important in the country. The other institutes like ILO, V.V. Giri National Labour Institute and State Labour Institutes are important to understand the integrity of various approaches of Labour Economics.

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