**POPULATION AND LABOUR ECONOMICS**

**POPULATION ECONOMICS**

**Population** refers to the number of people living in a given area during a specified period of time. In establishing the population of a given area, a population census is carried.

**Population census** is the physical counting of people in the country after a given period of time. In Uganda, population census is normally carried out after every 10 years.

**REASONS FOR CARRYING OUT A POPULATION CENSUS**

1. **To determine the total population size and its distribution in the country.** This is important for national planning purposes.
2. **To determine the population growth rate of the country overtime.** This helps to put in place control measures to regulate the rate of population growth rate.
3. **To find out the standard of living among the people.** Population figures are used in the circulation of per capita income.
4. **To determine the population structure and composition** in terms of age, sex, level of education, etc.
5. **To determine the rate of internal and external migration.** This enables the government to come up with measures to control migration of people.
6. **To find out birth rates, death rates and life expectancy** to find the correct size of people and relate it to the available resources.
7. Etc.

**TERMS USED IN POPULATION**

1. **Democracy**

This is the study of the population structure and its composition in terms of age, sex, education levels etc.

1. **Population explosion**

This refers to the rapid increase in the population of a given area relative to the available resources. Population explosion leads to over population in the long run.

1. **Migration**

This refers to the movement of people from one area to another in a given time.

1. **Immigration**

This refers to the movement of people which involves entering and settling into the country.

1. **Emigration**

This refers to the movement of people which involves moving out of the country to settle in other countries.

**Factors which influence migration of people**

* Imbalances in resource distribution among regions and countries.
* Differences in levels of development between regions and countries.
* Difference in incomes and wages between regions.
* Political instabilities like wars and change of regimes.
* Educational requirements where people are forced to go to other countries to acquire education.
* Differences in climatic conditions which may be favourable or unfavourable.
* Diseases which may affect certain regions thereby pushing people to other countries.

1. **Birth rate (crude birth rate)**

This refers to the number of children born alive in a year per thousand of the population. It is expressed as a percentage.

1. **Death rate (Crude Birth Rate)**

This refers to the number of deaths in a year per thousand of the population. It is expressed as a percentage.

1. **Population growth rate**

Population growth rate refers to the annual percentage increase in the number of people living in area overtime.

**OR**

Is the rate at which the number of people growing in area increases overtime.

Population grows in two ways;

1. **Natural population growth rate (NPGR)**

This is the difference between crude birth rates and crude death rates.

1. **Artificial population growth rate (APGR)**

This is the population growth rate resulting from net international migration. It is the difference between immigration and emigration.

**Determinants of population growth rate**

* Birth rates
* Death rates
* The net international migration

1. **Dependence ratio/ burden**

The dependence burden refers to the proportion of the total population of the country falling in the age of 0 – 15 and above 64 which is economically unproductive and therefore not counted as part of the labour force.

The dependence ratio is the ratio of the dependants to the total population.

**Example**

Given that the working population in a country is 12,000,000, the young

population is 14,000,000 and the elderly population is 4,000,000, calculate the country’s dependency ratio.

Solution

= 3:5 or 60%

**Negative effects of a high dependence burden**

* Low savings
* Underutilization of resources
* Heavy burden on government to provide social services
* Low productivity in the economy
* Low labour supply

**THE STRCUTURE OF UGANDA’S POPULATION**

1. It is dominated by the young who constitute about 40% of the population.
2. The population is mainly rural based. That is approximately 80% of the population lives in rural areas.
3. Majority of the population is semi-skilled and unskilled.
4. The productive force of the population is mainly engaged in primary production.
5. The population growth rate is high. Uganda is one of the countries with the highest population growth rate in the world. It is about 3.4% per annum.
6. A big proportion of the population lives below the international poverty line. (About 35%).
7. There are high illiteracy levels among the population. About 32% of the population is illiterates.
8. There are more females than males in the population. That is 51% females and 49% males.
9. The population is unevenly distributed. For example Kampala has 7360 people / km2 while Moroto has 20 people / km2.

**ECONOMIC IMPLICATIONS OF UGANDA’S POPULATION STRUCTURE**

**POSITIVE IMPLICATIONS**

1. **High market potential.** A large population provides market for goods and services. This promotes establishment and growth of firms leading to creation of more employment opportunities.
2. **High potential for labour force.** Uganda’s large population size provides a source of cheap labour especially in labour intensive industries and on agricultural estates. This increases output.
3. **Potential for massive future investment.** Population growth creates a large pool of potential innovators and therefore a large stock of ideas and innovations that can be put to economic use.
4. **High tax potential.** The government is able to get much tax revenue in case the big percentage of the population is productive.
5. **It initiates efforts to work harder** to sustain the pre-dominantly dependent population.
6. **The government is awakened to its responsibilities** of providing necessary infrastructure and this leads to increase in output.
7. **The young are usually innovative** and thus it provides room for potential investors.
8. **High potential for increased resource utilization.** The increase in population is a stimulus to development by providing a challenge to the investors and the government.
9. **Reduction in per capita social overhead costs.**

**NEGATIVE IMPLICATIOS**

1. **Low labour productivity.** This is due to low levels of education and poor health conditions. This leads to low levels of resource exploitation hence retarded economic growth and development.
2. **High dependence burden/ low savings.** The population structure depicts a high dependence burden due to a small working population as compared to the young and old dependants. This causes a reduction in private savings, investment and hence capital accumulation.
3. **Unemployment and underemployment.** Uganda is capital scarce meaning that the expanding labour supply due to a large population size cannot be adequately absorbed into the labour market. As a result, an increase in population leads to mass unemployment and underemployment which may in turn lead to creation of idle reserve force which can be detrimental to development.
4. **Limited domestic market/ low effective demand.** The structure reflects low per capita incomes and standards of living. Low effective demand for goods and services reduces the level of investments in the economy hence unemployment in the long run.
5. **External resource dependence** for example on foreign man-power……..
6. **Balance of payments problems.** This is due to high import requirements to supplement domestic supply.
7. **Effective planning for the population becomes difficult.**
8. **High government expenditure on provision of services.** High population growth rates require massive investments in social and economic infrastructure like in education, health, transport and housing. This results into budgetary deficits and declining quality of service delivery.
9. **Environmental destruction.** High population growth rates have devastating effects on the environment. For Uganda’s case, a high population size has caused over use of land, forests, hillsides and swamps especially in city centres like Kampala, Jinja, Mukono and other areas. There are also high social costs in form of pollution and congestion.
10. **It results into brain drain.** This is because the educated and highly skilled labour force leaves the country in search for “greener pastures” in foreign countries due to high levels of unemployment and underemployment in the country.
11. **High rates of rural – urban migration with its negative consequences** like open-urban unemployment, development of slums, increased crime rate etc.
12. **Quick depletion of resources** due to over exploitation.
13. **Perpetuates income inequality.** In Uganda, the middle income group owns the means of production and distribution whose demand continues to grow with increasing population. Consequently, the middle income group continues achieving rising standard of living whereas the majority of population does not.

**UNDER POPULATION**

Under population is the population size that supplies inadequate labour force relative to the existing co-operant factors leading to low average product per worker.

**OVER POPULATION**

Over population is the population size where the output per worker decreases as the population increases.

**OPTIMUM POPULATION**

Optimum population is the right size of the population (ideal population size) that provides labour force which when combined with other factors of production yields maximum output per worker.

**Illustration**

ACEITEKA MARKING GUIDE

**UNDER POPULATION**

**DISADVANTAGES OF UNDER POPULATION**

* Limited/ small market size
* Limited labour supply
* Low output hence low economic growth rate.
* Low tax revenue
* Low level of innovations and inventions
* Underutilization of natural resources.
* High average cost of providing social infrastructure
* Low levels of investment.

**DECLINING/ DECREASING/ SHRINKING POPULATION**

This refers to the population characterized by a continuous population growth fall. It is common in developed counties where the birth rate is very low e.g. Britain, France, Germany, etc.

**ECONOMIC CONSEQUENCES OF A SHRINKING POPULATION**

**NEGATIVE CONSEQUENCES**

1. **Reduction in the size of the labour force.** A shrinking population is usually characterized by a high percentage of the elderly and the old. This age group is largely unproductive in the economy. Therefore a shrinking population may lead to a reduction in the size of the labour force and consequently a reduction in the productive potential of that population.
2. **Huge expenditures on the old people.** A shrinking population is characterized by a large percentage of the old people and thus a lot of money and other resources are spent in form of pensions to the old, social health conditions and providing health care.
3. **A fall in output per capita.** Unless there is technological advancement to take up the jobs that are being done by labour, output per capita is likely to fall.
4. **It leads to a fall in aggregate demand for goods and services in the economy.** This reduces the level of investments in the economy hence unemployment in the long run.
5. **It reduces the government tax revenue derived from taxes imposed on incomes of the people.**
6. **It reduces competition among the workers.** This leads to inefficiency in production.
7. **It discourages geographical labour mobility.** This is because workers are not pressure to look for employment in other areas.

**POSITIVE CONSEQUENCES**

1. **It reduces pressure on land and other natural resources.** This minimizes the diminishing returns associated with land and environmental degradation.
2. **It strengthens the ability of the government to provide its people with most of the essential services.** This is so because the government is not overstrained.
3. **It reduces the dependence burden on the working group.** This improves the standard of living and capital accumulation in the country.
4. **It helps the country to acquire the optimum level of resource allocation.** This is true in case the economy is over populated.
5. **It reduces on the problem of unemployment in the economy.** This is because labour supply reduces as the population declines and therefore the remaining labour force is n position to get employment.
6. **It encourages savings due to reduced dependence burden.** This helps to break the vicious cycle of poverty as a result of increased investments and incomes.
7. **It encourages proper planning in the economy.** The government is in position to match the population of the country with the available resources.
8. **It reduces congestion and rural – urban migration.** This helps to control open – urban unemployment in the economy.
9. **It reduces on the social and political unrests in the economy.**
10. **It helps to check on inflationary tendencies and shortage of goods and services in the economy.** This is because of reduced aggregate demand due to declining population.

**INCREASING POPULATION**

This is the population which is characterized by high population growth rates due to high birth rates as compared to low death rates. The increasing population may result into population explosion.

**ECONOMIC IMPLICATIONS OF AN INCREASING POPULATION**

**POSITIVE IMPLICATIONS**

1. **High market potential.** An increasing population may lead to an expansion in the market because of the ever increasing demand.
2. **High potential for labour force.** An increasing population may lead to the supply of cheap labour which is necessary for the growth and development of the country.
3. **Potential for massive future investment.** An increasing population may lead to increased level of investment and this is mainly due to increased consumer demand.
4. **High tax potential.** The increasing population tends to increase the government revenue because of the increased investment, labour force and consumer demand.
5. **Government is awakened to its responsibilities of providing the necessary infrastructure.** This leads to increase in the level of output.
6. **The young population is usually innovative and creative.** This is due to increase in the level of competition which results into more discoveries. This leads to development of the country.
7. **Initiates efforts to work harder to sustain the predominantly dependent (young) population.** This is because the working population strives to meet the demands of the dependants.
8. **High potential for increased resource utilization.** An increasing population may lead to more exploitation of resources which leads to increased level of output hence economic growth.
9. **Reduces per capita social overhead costs.** An increasing population tends to reduce the government expenditure on social capita per individual since individuals are very many.
10. **High mobility of labour due to increased pressure.** An increasing population may lead to labour mobility both geographical and occupational and hence the advantages of mobility

**NEGATIVE EFFECTS**

1. **Increases dependence burden.** This is due to the large number of young people that depend on the working population.
2. **Increase in unemployment and underemployment results.** The increasing population may lead to unemployment and this is especially when the population is growing faster than the rate at which employment opportunities are created.
3. **Reduces effective demand/ leads to limited domestic market.** This is due to increased level of unemployment resulting into low incomes.
4. **Leads to external resource dependence e.**g. on foreign man-power.
5. **Worsens B.O.P problems.** As the population of the country increases, the exports of the country tend to reduce while the imports tend to increase and this may result into balance of payment problems.
6. **Strains the available infrastructure** like schools and hospitals.
7. **Increases government expenditure.** An increasing population tends to increase government expenditure on social services and infrastructure where the government has to provide more schools, hospitals, roads, etc.
8. **An increasing population increases social costs in form of pollution, accidents, congestion and sanitary problems** and this may lead to poor planning.
9. **Increases brain drain.**
10. **An increasing population may also lead to rural – urban migration with all its associated evils** like increased crime rates such as prostitution, theft, robbery, etc.
11. **Worsens income inequality.** This is due to the increase in poverty levels especially in rural areas.
12. **Leads to quick depletion of some resources** due to their over exploitation to meet the rising demand of the population.
13. **Increases pressure on land.**
14. **Makes planning for the increasing population difficult.**
15. **The increasing population may result into increased demand for goods and services** and this may result into demand pull inflation.
16. **Leads to low labour productivity.**
17. **Leads to low income per capita.** This is especially true if the population grows faster than the growth in national income and this may reduce the standard of living.
18. **Leads to low capital accumulation** due to low savings.
19. **The increasing population tends to affect the level of investment negatively** especially when investment is consumption driven.
20. **Leads to political unrest and social tension.** As the population of the country increases, the expanding population may expect the government to provide social services and if the government fails to provide them, it may lead to political instability.

**AGING POPULATION**

This refers to the population characterized by a big proportion of people in the old age group i.e. people above 65 years.

An aging population is due to;

* A fall in birth rate due to improved medical services.
* Improved nutrition and balanced diet
* Improvement in tech nology.
* Low death rates.

**ECONOMIC CONSEQUENCES OF AN AGING POPULATION**

1. **It reduces the labour force of the economy.** This is a threat on the future man-power requirements necessary to run the economy due to limited number of young people in the economy.
2. **It increases government expenditure** in terms of pensions and other retirement benefits to the old plus increased costs of providing medical care for treating diseases associated with old age e.g. high blood pressure.
3. **High levels of conservatism.** There arise in the population a large number of people who find it difficult to learn new industrial techniques arising out of technological progress.
4. **It increases occupational and geographical immobility of labour.** This is because old people find it hard to adapt to new changes and they are reluctant to move to new places.
5. **It increases the dependence burden on the active group and the government in general** in form of feeding, health care, clothing, shelter, etc.
6. **There is loss of efficiency and retardation in technological development.** This is because old people are not very innovative like the young people.
7. **It leads to a reduction in per capita income.** This is due to the limited contribution of the old people to GNP hence low standard of living.
8. **It leads to structural unemployment** due to the change in demand in favour of production of goods and services for the old.

**POPULATION THEORIES**

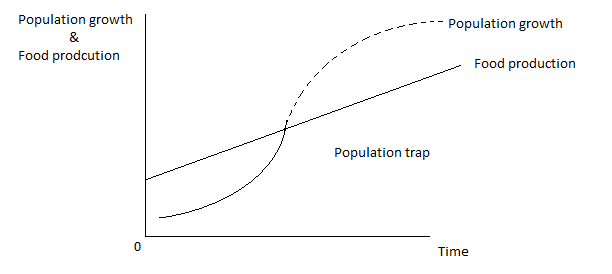
**THE MALTHUSIAN POPULATION THEORY**

The theory was advanced by a British economist known as Rev. Robert Thomas Malthus in the 18th century and it explains the relationship between population growth and food production.

Malthusian population theory states that whereas population grows at a geometric rate, food production tended to grow at an arithmetic rate.

Malthus stated that due to the above trend; population growth after a time would equal food production (population trap) and further outstrip it, and after such a time, there was need to control population growth through preventive (negative) checks like moral restraint, celibacy among others, otherwise positive checks like pestilence, wars, diseases among others would serve to reduce the population.

Illustration



NOTE

* The population trap is the point in time according to Malthusian theory at which population growth is equal to food supply/ growth.
* Positive checks are those which reduce the birth rates by increasing death rates e.g. famine, diseases, earth quakes, floods, wars, malnutrition etc.
* Negative (preventive) checks are those which reduce the population growth rate by reducing birth rates e.g. late marriages, family planning, discouraging polygamy, celibacy etc.

**ASSUMPTIONS OF THE THEORY**

**RELEVANCE/ APPLICABILITY OF THE THEORY TO DEVELOPING COUTRIES**

To a smaller extent, the Malthusian population theory is relevant/ applicable to developing countries in the following ways.

1. Land supply being fixed and subject to the law of diminishing returns is what is being experienced and Malthus predicted this situation.
2. Natural family planning methods (control measures) like celibacy are being used. These control measures are his initiation.
3. The positive checks on population as predicted by Malthus exist in LDCs today e.g. wars, epidemics etc.
4. Land problems/ disputes are common issues in LDCs.
5. Some areas of LDCs are facing food shortage/ famine e.g. Karamoja region 2012, Teso 2009 in Uganda.
6. Existence of a subsistence sector which is still large.

**LIMITATIONS OF THE THEORY**

To a greater extent, the Malthusian population theory is irrelevant to developing economies reasons being that;

1. It assumes constant technology which is unrealistic since technology is ever changing.
2. It assumes a closed economy yet economies of most LDCs are open economies/ it ignores the role of international trade.
3. Agricultural modernization is not foreseen by the theory yet this is taking place in most LDCs.
4. It did not foresee labour mobility to reduce pressure on land.
5. Population does not depend on food alone.
6. The theory is based on the subsistence economy yet LDCs’ economies are not predominantly subsistence any longer.
7. The theory did not foresee great improvement in transport i.e. transportation of food from areas of plenty to areas of scarcity.
8. It did not foresee the possibility of getting foreign aid/ resources from other countries.
9. There is no mathematical relation as regards growth in food and population.
10. The theory ignored the deliberate and scientific methods of birth control (modern family planning methods) e.g. use of pills, condoms, etc.
11. The theory did not realize that rising living standards can cause a fall in birth rates and population.
12. It ignored the possibility of emigration to ease pressure on resources.
13. Malthus was influenced by the law of diminishing returns which is not always true.

**POPULATION PROBLEMS IN DEVELOPING COUNTRIES (UGANDA)**

**LABOUR ECONOMIES**

**WAGES**

**TERMINOLOGIES**

1. **Minimum wage**

A minimum wage is a wage set by the government above the equilibrium wage and it becomes illegal to employ and pay workers below it.

1. **Maximum wage**

A maximum wage is a wage set by the government below the equilibrium wage and it becomes illegal to employ and pay workers above it.

1. **Living wage**

This is a wage which is high enough to enable workers afford material needs such as a variety of goods like education, shelter, clothing and leisure as well as social and spiritual needs.

1. **Reserve wage**

This is a wage below which a worker is not willing to work.

1. **Nominal wage**

Is a wage expressed in monetary terms e.g. 50,000/= per day.

1. **Real wage**

A real wage is the quantity of goods and services that a nominal wage can purchase. In other words, it is the purchasing power of a nominal wage.

1. **Wage drift**

Is an upward movement/ adjustment in wage rates above the negotiated wage rates and it takes place outside the formal system of wage determination in the labour market.

1. **Wage freeze**

Is a government policy of legally holding wages at their current rates mainly to control inflation.

1. **Wage restraint**

Is a government policy of appealing to employers and trade unions/ employees to exercise restraint in their wage demands/ increase.

**FACTORS THAT INFLUENCE THE LEVEL OF WAGES IN AN ECONOMY**

1. **The quantity of output produced.**
2. **The duration/ time spent at work.**
3. **The ability and willingness of the employer to pay**
4. **The ability of the individual employee to bargain**
5. **The level of education and skills.**
6. **The level of talents and natural/ physical ability.**
7. **The strength of the trade union**
8. **The cost of living.**
9. **Discrimination in the labour market on the basis of tribe, religion, race nepotism, etc.**
10. **The (elasticity of) labour supply.**
11. **Degree of substitutability of labour.**
12. **The (elasticity of) demand for products of labour/ labour.**
13. **The government policy of wages.**
14. **The level of risks/ the nature of occupation.**
15. **The degree of seniority, responsibility and/ or experience.**

**WAGE DIFFERENTIALS**

This is where different workers earn different wages in the labour market. That is some workers earn more than others.

**FORMS OF WAGE DIFFERENTIALS**

1. **Individual wage differentials**

These are differentials among different individuals based on sex, age, expertise, level of skills, etc.

1. **Occupational wage differentials**

These are differentials between people belonging to different occupations e.g. teachers versus engineers.

1. **Regional wage differentials**

These are differentials between people living in different areas of the economy e.g. urban wages and rural wages.

1. **Sectoral wage differentials**

These are differentials between people employed in different sectors of the economy e.g. the industrial sector versus the agricultural sector.

1. **Intra – sectoral wage differentials**

This is where within the same sector, some people earn more than others. E.g. within the agricultural sector, commercial agriculturalists earn more than subsistence farmers.

**CAUSES OF WAGE DIFFERENTIALS**

1. **Difference in people’s ability to do work in case of piece rate wage payment.**
2. **Differences in the number of hours worked in case of time rate wage payment.**
3. **Differences in employer’s ability and willingness to pay workers.**
4. **Differences in bargaining strength of individuals.**
5. **Differences in levels of skills (Education and training)**
6. **Differences in talents and natural ability.**
7. **Differences in strength of trade unions and professional associations**
8. **Differences in the cost of living**
9. **Discrimination in the labour markets based on age, sex, religion and race.**
10. **Differences in elasticity of supply of labour**
11. **Government policy on income, wages which tend to be non-matching.**
12. **Differences in the nature of jobs.**
13. **Differences in experience, expertise or responsibility in that senior workers tend to earn more.**

**METHODS/ MODES OF WAGE PAYMENT**

1. **Piece rate method.**

Is a method of wage payment where workers are paid according to the amount of work done.

**Merits of the piece rate method**

1. Promotes team spirit among workers.
2. Faster workers earn more wages.
3. It encourages lazy workers to work harder.
4. Encourages innovativeness among workers.
5. There is easy calculation of wages because output is measurable.
6. It eliminates the need for close supervision.
7. It helps employers in identification of suitable employees.
8. It saves time/ tasks are completed faster.
9. It minimizes industrial unrests because it limits disagreement over payment.
10. Protects employers from falsified payments since wages are directly related to output.
11. Higher output is realized.
12. Employers easily forecast output.

**Demerits**

1. Workers may over work in a bid to earn higher wages.
2. It is difficult to negotiate for a national wage by trade unions.
3. Variations in piece rates from one place to another undermine trade unions solidarity.
4. Trade unions may lose control over supply of labour.
5. There is production of poor quality output due to hurrying.
6. Slow but careful workers lose for producing quality work in a long time.
7. When a work falls sick/ genuinely misses work, he is not paid for the days missed.
8. High risks of accidents because of hurrying to finish.
9. Over production due to higher output thus wastage.
10. Hard working people are resented/ it causes income inequality.
11. **Time rate method**

This is a method of wage payment where workers are paid according to the time spent at work e.g. per hour, day, week, month, etc.

**Merits of the time rate method**

1. It is easy to understand and calculate by both parties i.e. the employer and the employee.
2. A worker is assured of a regular and defined payment even in case of absence from duty. This enables the worker to plan effectively.
3. It can be applied where output can’t be easily measured quantitatively e.g. the services of a doctor, teacher.
4. It leads to high quality work. This is because employees are motivated by the regular payment.
5. It reduces income inequalities among the workers
6. Gj
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8. G

**THEORIES OF WAGE DETERMINATION**

1. **Subsistence theory of wages (the iron’s law of wages)**

The theory states that workers should be paid wages which correspond with the subsistence/ basic level of living at which people could just maintain the existing population.

**The theory is criticized on the following grounds;**

* Subsistence level varies from one individual worker to another and from one place to another.
* Some items considered to be luxurious may become necessities after some time.
* The theory ignores differences in wages in different professions.
* A rise in wages does not necessarily lead to population growth.
* The theory approaches the problem of wages from the supply side and it ignores the demand for labour.

1. **Wage fund theory of wages.**

The theory advocates that employers put aside a fund from which wages must be paid and this money must not be used for any other purpose other than paying wages.

The wage fund is accumulated from profits realized from production.

The bigger the fund, the higher the wages paid to the workers and the smaller the fund the lower the wages paid.

**Limitations of the theory include;**

* Employers do not usually create wage funds in order to pay workers.
* Wages are not necessarily determined by the wage fund but by labour demand and productivity.
* It considers the wage fund first and the wage rate later yet wage rate is considered first and the wage fund later.
* It assumes that wage rate is calculated by dividing the total amount of money by the number of workers.
* The theory does not provide an explanation to changes in wage rates apart from changes in labour supply.

1. **Residual theory.**

According to this theory, wages are residuals (leftovers) after other factors of production have been rewarded. The more the leftovers, the higher the wages and vice versa.

1. **Bargaining theory of wages.**

This theory states that wages are determined by the relative strength of the trade union and employers’ association concerned. Arriving at a given wage involves negotiations between management and the trade union representatives.

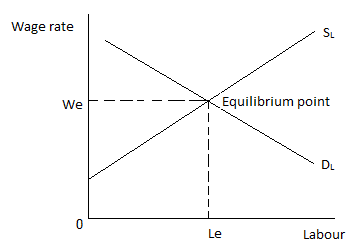
1. **The market theory of wages (modern)**

According to this theory, the wage is determined at the point of intersection of the market forces of demand and supply for labour.

Since the wage rate is the price of labour, the wage rate in the market is determined by job seekers (labour supply) ad employers (labour demand) and this gives a realistic wage level in the market.

If there exists excessive supply of labour in the market, wages fall and if there is excessive demand for labour, wages increase.

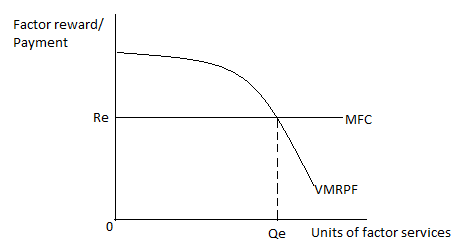
Illustration

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1. **The marginal productivity theory of distribution**

The theory states that a factor of production should be paid a reward which is equal to the monetary value of its marginal (physical) product.

It is illustrated below;



MFC = Marginal factor cost

VMRPF = Value of marginal revenue product of a factor.

Assumptions of the theory are;

* It assumes that all units of factors of production are homogeneous.
* Output, can be quantified into measurable units.
* It assumes that the marginal product of a factor of production can be calculated.
* It assumes fair and perfect mobility of factors of production.
* It assumes full employment of factors of production.
* It assumes perfect knowledge in the factor market.
* It assumes no government intervention in determination of factor rewards
* It assumes operation of the law of diminishing returns.
* It assumes perfect competition in the factor market.
* It assumes equal bargaining power among workerf
* It assumes a long run situation.
* The theory assumes that firms aim at profit maximization.

**APPLICABILITY OF THE THEORY**

To a minor extent, the theory can be applicable to LDCs due to the following;

* The payment to a factor according to the value of its marginal product can be used where output can be quantified.
* “ Factor input in LDCs have tended to homogeneous for example unskilled labour, firm land and money capital.
* Technology in many developing countries has tended to be constantly rudimentary/ primitive hence making the theory applicable.
* In liberalized economy and private sector operations, government has limited or no control in determining rewards to factors of production but other factors are used for example forces of demand and supply of a factor, productivity of a factor and bargaining strength.

**LIMITATIONS/ CRITICISMS OF THE THEORY**

* Government legislation of factor prices is not taken into account by the theory.
* The theory ignores the role of trade unions and individual bargaining power in the determination of factor rewards for example the wage rate for labour.
* All units of factor inputs are not homogeneous as the theory assumes. For example fertility of land differs from one place to another; likewise efficiency of labour differs from one worker to worker.
* The factors of production are not perfectly mobile between different employments and places for example labour tends to be immobile both geographically and occupationally due to limited skills and ignorance, land is also geographically immobile.
* It assumes the law of diminishing returns which is unrealistic since there may be increasing returns.
* It ignores other determinants of factor rewards for example historical factors like inherited salary structures.
* It ignores the use of other factors to reward factors of production other than their marginal (physical) product for example skills and experience.
* It is difficult to measure the marginal product of a factor of production in some occupations for example services offered by teachers, doctors.
* Production is not a result of one factor alone and hence it’s difficult to determine the contribution of each factor to marginal product.
* Perfect market conditions do not exist in true market situation. What is in existence is imperfect competition. This leads to exploitation of factors by being paid much lower than their marginal productivity.
* The factors of production are not fully employed as the theory assumes. Full employment does not exist in LDCs as there are high levels of unemployment and underemployment and in such cases, factor inputs will offer their services even at a price less than their marginal product.
* Profit motive is not the main aim of production always. There are other factors that motivate entrepreneurs besides profits.
* The theory assumes a long run situation yet firms are mainly concerned with short run situations.
* Employers at times use the subsistence theory of wages which is at times below or above the value of marginal product.
* The value of marginal product is not necessarily equal to the value of factor inputs used in producing it but determined by other factors for example forces of demand and supply.

ASSIGMENT

1. Explain the marginal productivity theory of wages
2. To what extent is the marginal productivity theory of wages applicable to developing countries?

**TRADE UNIONS**

A trade union is an association of/ organization formed by workers with the primary objective of advocating for increased wages and improved conditions of work for its members.

Examples of trade unions in Uganda include

* UMWA
* UNATU
* ULS
* Etc

**Features of trade unions in LDCS**

* Amorphous i.e. lack permanent membership.
* Financially weak.
* Attract small membership.
* Have weak leadership.
* High levels of corruption.
* They tend to be politically motivated.
* Characterized by unity for example on religious or tribal basis.
* There is political interference.

**Objectives of trade unions**

* To bargain for better wages collectively
* To demand for better working conditions
* To advise government on issues pertaining to manpower planning (Labour, wages, employment policies)
* To protect members against unfair treatment by employers for example abrupt dismissal.
* To improve the skills of their members
* To improve their members’ productivity
* To create unity among workers
* To advocate for the human rights of the workers.

**Types of trade unions**

1. **Open shop**

An open shop refers to a trade union whose membership is not tied on any condition i.e. membership is free and open regardless of the industry or qualification e.g. National Organization of Trade unions (UNATU)

1. **Closed shop**

A closed shop refers to a trade union in which membership is restricted to a particular group of workers with particular skills e.g. Uganda Law Society (ULS), Uganda National Teachers Union (UNATU) and Uganda Medical Workers Association (UMWA), MUASA, U.L.A, UWEA.

**Conditions when workers/ employees are justified to demand for wage increase**

* When the cost of living increases/ In case of inflation hence need for more pay to maintain their standard of living.
* When there is increased profitability of the firm due to increase in prices of products produced by labour.
* When there has been increased labour productivity.
* When the wages being offered are below the government set minimum wage.
* If higher wages are offered to workers with similar jobs in other industries.
* In case of increased demand for the products produced by labour.
* When supply of labour becomes more inelastic hence becoming difficult to substitute workers.
* In case the employers fail to effect the agreed upon [periodical wage increases.
* In case of improvement in working skills via training.
* When workers feel that the wage being paid is lower compared to the services they render.
* In case of increased risks at the job.
* If the workload or number of hours worked are increased.

**Methods used by trade unions to achieve their objectives**

1. **Collective bargaining**

These are round table negotiations between employers’ association officials and trade union officials regarding wages and other terms and conditions of workers.

1. **Mediation/ industrial arbitration**

This is an intervention in an industrial dispute by an independent and impartial third party which examines the arguments of both sides and makes recommendation for resolving the dispute.

1. **Court action**

This is where both parties present their arguments to the courts of law where the judge compares the arguments and provides a final resolution.

1. **Sabotage (media wars/ boycott, de-campaigning)**

The union members may shun the consumption of the products of the industry (primary boycott) or they may decide to convince the public not to buy the products of the industry (secondary boycott)

1. **Go slow method**

In this case, workers report for work but work at a slow pace. They may decide either to work for less hours or do less amount of work.

1. **Sit down strike**

Here, workers report to work but do nothing. They lay down their tools.

1. **Picketing**

This is where trade union members prevent their fellow members from working. It is done by deploying members of the union to punish those who want to work.

1. **Demonstration**

\*This involves March protesting by union members. It normally involves walking in a mass march formation meeting at a designated end point to hear speakers.

1. **Go on strike/ the destructive method/ industrial action/ violent strikes**

This involves putting down tools, destruction of buildings and machines so as to compel employees to accept the demands of the workers.

1. **Abduction of key members of management**

The union members carry off illegally and by force the key members of employers’ officials so as to compel the employers to accept the demands of the workers.

1. **Closed shop – Supply highly restricted.**

**Factors that influence the strength of trade unions**

1. **Degree of unity of members of the trade union.**
2. **Level of leadership ability**

A trade union with leaders who have the necessary training and skills to manage the union and present the workers’ aspirations are stronger compared one with leaders with poor or inadequate leadership skills.

1. **Level of political interference**

Political stability motivates workers to form unions due to relative peace unlike in situations when the country is politically unstable.

1. **Availability of funds to finance union activities**

The stronger the financial state of the union, the stronger the union and the weaker the financial state, the weaker the union.

1. **Level of skills of members**
2. **Level of employment**

The higher the level of unemployment in the country the weaker the trade union and the lower the level of unemployment the stronger the trade union

1. **Size of membership of trade union**

The bigger the number of workers in the trade union, the stronger the union and the smaller the number, the weaker the union

1. **Level of demand for products produced by the member of the trade union**

The higher the demand for the products, the stronger the trade union and the lower the demand, the weaker the trade union

1. **Economic performance/ profitability of firms**

The higher the productivity of workers, the stronger the trade union and the lower the productivity of workers, the weaker the trade union

1. **Level of demand for labour/ elasticity of supply of labour**

Labour with inelastic demand for example skilled labour is likely to form a stronger trade union than labour with elastic demand (unskilled labour)

1. **Level of infrastructural development especially roads and communication facilities**

Well developed infrastructure facilitates formation of strong trade unions unlike poor infrastructure in form of bad roads and poor communication networks.

1. **Degree of awareness of members about their rights**
2. **Level of accountability of trade union members**
3. **Availability of strike funds**
4. **Proportion of the wage bill to total costs of production**
5. **Level of labour mobility of union members**
6. **Substitutability of labour**
7. **Economic conditions prevailing**

**FACTORS THAT LIMIT THE ABILITY OF TRADE UNIONS TO RAISE WAGES IN LDCs/ PROBLEMS FACING TRADE UNIONS IN DEVELOPING COUNTRIES**

1. **High levels of corruption and embezzlement of union funds by the leaders.**

This discourages the members hence weakening the unions.

1. **Poor transport and communication facilities.**

This makes it hard for the workers to be properly coordinated and organized in fulfilling the activities and objectives of trade unions.

1. **Financial problems.**

This is a result of high levels of poverty among the workers due to little payment. Therefore such members cannot sustain the activities of trade unions.

1. **Disunity of members.**

Disunity is mainly due to tribal, political, religious and regional differences among workers. This makes the organization and leadership of trade unions difficult.

1. **Rampant unemployment problem.**

There are high levels of unemployment in developing countries which makes trade unions weak. Workers fear to go on strike for fear of losing their jobs.

1. **Ignorance of workers about trade union activities.**

Most members are illiterate and they it difficult to understand how trade unions work

1. **Political instability.**
2. **Weak union leadership.**

There is limited supply of well qualified and experienced leaders to put forward the workers’ problems and aspirations. Such leaders fail to present the grievances of workers to the management.

1. **Limited interest by the workers.**

Many workers have limited interest in the activities of trade unions. This makes trade unions to be in weak bargaining position.

1. **Presence of target workers.**

Majority of the labour force is composed of target workers. Such workers are mobile which reduces the bargaining power of trade unions. It is also difficult to indoctrinate unstable labour force.

1. **Government interference in the activities of trade unions.**

Strikes are made illegal, government workers lose their jobs or are put in prison once they stage strikes.

**THE ROLE OF TRADE UNIONS IN THE DEVELOPMENT OF AN ECONOMY**

**POSITIVE ROLE**

1. They may be used as an agent of development because high wages may imply greater purchasing power which is an incentive to development and economic growth.
2. High wages may be an incentive to greater work hence increased productivity which leads to increased output hence growth of the economy.
3. They usually promote social welfare of the population because they not only agitate for increased wages but also for improved conditions like feeding, transport, proper accommodation, etc.
4. Trade unions are very instrumental in providing expert advice to the government in matters regarding labour laws e.g. when legislating wages, determining pensions, length of working hours, etc.
5. They improve the skills of their members through organizing workshops and seminars hence improving the productivity of the workers.

**NEGATIVE ROLE**

1. High level of wages due to trade union activities may raise the costs of production. This may scare investors. It may also lead to increased consumer prices hence discouraging demand.
2. Trade union activities like strikes and go slow methods have a negative effect on national output. This is because many hours of work are lost during strikes and as a result, output reduces.
3. Trade union activities like strikes cause delays in completion of government projects. This leads to increased government expenditure and wastage of resources.
4. Trade union activities may worsen the unemployment problem.
5. Trade unions may be responsible for unfair distribution of income because they tend to be active and strong in some sectors and inactive and weak in others.
6. Trade unions can instigate political instability. Some politicians use the trade unions against the government in power.
7. Trade union activities may fuel and create inflation e.g. wage push inflation.
8. Trade union activities like strikes destroy property and life. This is especially true when the violent strikes are used to achieve the union objectives.
9. Trade unions may be responsible for increased urban migrations. This is because their activities are strong industries that are urban based and in inactive and weak in the agricultural sector and so people move to urban areas in search for better working conditions.
10. They may lead to employers’ exploitation leading to reduced profitability which discourages investment.

**ASSIGMENT**

To what extent have trade unions in your country achieved their objectives?