Evaluate the microeconomic and macroeconomic effects of labour shortages in the UK, or a developed economy of your choice

Labour shortages, wherein demand for labour outstrips supply, can cause inflation. When firms struggle recruiting labour, workers are in a bargaining positoin to negotiate higher wages. Most likely, firms oblige to ease the labour shortage, leading to wage inflatoin. If wages rise, firms in efforts to cut costs, will past increased costs onto consumers, through price increases. Moreover, as wages - so do - workers disposable income - leading to higher consumptoin , causing demand pull inflatoin.

Raising pay is only one possible response to labour shortages. Rather than put up wages, firms can respond by leaving positions unfilled, trying to retrain current workers or investing in increased automation. If product markets are competitive, then firms may seek ways to avoid raising wages.

However, despite the labour shortage, inflationary effects may be negligible or mitigated. Firms yielding monopsony power may avoid paying higher wages, despite labour shortages, negating the risk of wage inflatoin. in teory larger firms suffer less from this problem, https://www.economicshelp.org/wp-content/uploads/2012/06/keynesian-increase-ad-lras.jpg https://www.economicshelp.org/wp-content/uploads/2017/07/phillips-curve-arrow.jpgA

If vacancies are being filled by migrants from abroad. (Though you could say if migrants can enter the labour market then there isn't a shortage, but, in the boom years of 2003-07, migrant labour was important for keeping inflationary pressures low in economies like Ireland and UK.

If other inflationary pressures are muted. A shortage of labour puts upward pressure on wage increases, but, other factors affect inflation. If interest rates are being increased and the economy is experiencing efficiency savings, overall inflation may not be affected very much. Between 2012 and 2017, the UK saw a fall in unemployment, but real wage growth remained weak. See – UK unemployment mystery.

Microeconomic impact of labour shortages

Phillips Curve and Inflation. The Phillips curve suggests that as unemployment falls, inflation rises. However, in the 2000s, we had a fall in unemployment without inflationary pressures. Part of this was due to the fact falling unemployment reflected a fall in the natural rate of unemployment.

Discuss whether the Phillips curve is irrelevant in explaining relationship between unemployment and inflation

MACRO falls in labour supply add to inflatoinary pressure - empoyers compete for scarce employees through raising wages, adding to cost of producing goods/services. Constraining the level output can be producued, or by leading to incresaing costs of proudciton, labour shortages limit economic growth. falls in labour supply worsen public finances, through lower tax receipts, and depending on who is withdrawing from the labour fource and why could result in increases in benefits JLI...

Although it is plausibe to suggest, potentially rising productivity as firms invest more in technology and capital to replace workers “necessity is the mother of inventoin”. Firms are to some extent able to pass the higher wage costs onto consumers, in other industires, firms are facing squeezed profit margins https://www.economicshelp.org/wp-content/uploads/2017/02/fall-in-supply-labour-wages-increase.png

It depends on the industry. Farming has very tight margins, and farmers face monopsony buyers (Supermarkets putting pressure on farmers to keep prices low). Supermarkets also have the option of importing food if UK wages do rise. Therefore this makes it harder to put up wages

In the service sector, some jobs are currently hard to replace with technology, e.g. hairdressing, baristas. Some jobs in manufacturing are easier to replace with increased automation.

There is a difference between short-term and long-term. In the short-term, employers may leave positions unfilled, but in the long-term, this may be increasingly untenable.

Monopsony employers. In jobs such as nurses and care workers, the principal employer is the government, therefore wages may not rise due to market pressures because governments are limited by spending limits.

Prolonged labour shortages can have an upward effect on wages. Over time, higher wages will start to feed into higher inflation (both cost-push and demand-pull pressures) The impact on inflation depends on:

How much employers respond to shortages by putting up wages.

The number of occupations affected by labour shortages and whether there is a knock-on effect to other wages in the economy.

Other inflationary pressures in the economy.

Labour shortages can increase the tendency for firms to look abroad for willing/skilled workers. If you have a shortage in nursing, it is very difficult to increase UK supply. Even higher wages would have little impact in the short-term. Encouraging migration from other countries is the easiest way to attract nurses to fill immediate shortages. outsourcing? There is no guarantee that a shortage of labour will be solved by the free-market. If the economy is close to full employment, even a modest rise in wages may be insufficient to attract workers to the job. For example, wages have risen for meat-processing plants, lorry drivers and fruit pickers, but in the UK, most native born workers do not like the idea of working there. The result is both partial rising wages and prolonged shortages of the good/service. Hence some goods have remained undelivered and there is real concern that care homes will be unable to provide the necessary amount of labour. Labour shortages – short-term and long-term https://www.economicshelp.org/wp-content/uploads/2017/02/Screen-Shot-2017-02-14-at-10.02.22-600x365.png.webp Some may argue that migration is a short-term fix to labour shortages. If migration is stopped, it will force an economy to deal with labour shortages by training relevant workers.However, limiting migration may not be enough. Lower levels of migrants don't necessarily lead to increase in the number of trained nurses, builders and plumbers. There are also structural factors behind why people choose or don't choose training qualifications. There could also be a period of shortages because it would take time for the labour market and educational institutions to respond to the labour shortages.

the august monetary policy comitte report said, "inflationray pressure stemming from the labour market has tended to be more persistent in the past than that cause dby factors such as the cost of energy" he Bank of England's Monetary Policy Committee has projected that the UK economy will probably be in recession throughout 2023 and until the middle of 2024.10 The Office for Budget Responsibility has forecast a somewhat shallower recession and also forecast that the budget deficit in 2022/23 is £177 billion (7.1% of GDP), rising from £133 billion (5.7% of GDP) last year.11 The Recruitment and Employment Confederation told us that labour shortages could cost up to £39 billion a year in GDP.1

Trends in benefit payments to those suffering from ill health and potentially unable to work also highlight one of the fiscal impacts linked to increasing economic inactivity: it will worsen the public finances; health- and disability-related benefit claim increases are forecast to cost an additional £8.2 billion in 2026/27.

Although, in theory the magntitude of cost-push inflation as a result of labour shortages depends on the % of labour costs of total costs. Were labour costs to be a negligible/insignificant % of total costs, said inflation may be minimal. Furthermore, larger firms may be able to offset/absorb costs, through their capital reserves, this may not be the case with smaller industries such as "mom and pop shops".

Micro effects, 1. Higher wages - might include a supply of labour diagram 2. Rising costs to firms. 3. Firms may as a result, close/leave markets. 4. use a cost/revenue/profit diagram accept fixed or variabel cost rising, 6.Lack of provision/availabilty of service, exacerbate waiting times... 7. Greater migration to fill vacancies 8. Movement towards more capital intensive production? 9. Relocation arguments to find more available labour

Macro effects, include, use of ad/as analysis e.g. output gap, inflation - cost push, inflation - demand pull changes in equality lras productive potential, ppf arguments, higher immigration impact on international competitiveness

for eval, consideration of skilled labour discussoion of robotic replacement for unskilled labour consideration of pes of labour time lag argumenets depends on type of labour required Position of AD on LRAS Short run Long run effect sNon wage benefits might be considered as contrast