

AFRICA CENTER FOR PROJECT MANAGEMENT

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**COURSE: POST GRADUATE DIPLOMA IN HUMAN RESOURCES
MANAGEMENT**

1. What is the importance of labour economics?

Meaning of Labour:

Labour – is one of the primary factors of production other factors include. Labour, capital and entrepreneurship derived demand, these are input we derive. Note that labour is the collect name given to the productive service, embodied in human physical efforts, skill, intellectual power.

There are different types of effort and skill content. This means that labour input is not homogeneous according to the principle of economics production. Resources are relatively scarce or limited this means that the desire of consumer, business and governmental unit for goods and services exceed our productive capacity.

Since resources are scarce and the want unlimited, society is obliged to manage this resource efficiently. Labour economics therefore looks at ways labour as a resource could be efficiently utilized.

In simple meaning by 'Labour' we mean the work done by hard manual labour mostly work done by unskilled worker.

But in Economics, the term labour mean manual labour. It includes mental work also.

In other-words we can say that Labour includes both physical and mental work undertaken for some monetary reward.

In this way, workers working in factories, services of doctors, advocates, officers and teachers are all included in labour. Any physical or mental work which is not undertaken for getting income, but simply to attain pleasure or happiness, is not labour.

For example:

The work of a gardener in the garden is called labour because he gets income for it. But if the same work is done by him in his home garden, it will not be called labour, as he is not paid for that work. Further, if a mother brings up her child, a teacher teaches his son and a doctor treats his wife, these activities are not considered 'Labour' in economics. It is because of the fact that these are not done to earn income.

Definition of Labour by different scholars;

1. According to Prof. Marshall – “Any exertion of mind or body undergone partly or wholly with a view to earning some good other than the pleasure derived directly from the work.”
2. According to Prof. Jevons – “Labour is any exertion of mind or body undertaken partly or wholly with a view to some good other than the pleasure derived directly from the work.”
3. As S. E. Thomas has said – “Labour connotes all human efforts of body or mind which are undertaken in the expectation of reward.”
4. According to Waugh – “..... we define labour as human efforts used in production.”

Therefore, important facts regarding Labour are:

- (i) Only the work of man is included under Labour.
- (ii) The physical and mental work undertaken for some monetary reward is included under Labour.
- (iii) Any work done for entertainment or for self-satisfaction is not included under Labour in economics.
- (iv) In Economics Labour has no relation with morality.
- (v) Any work done by animal or bird is not Labour in Economics.

Therefore,

Labour Economics is concerned with many of the important decisions facing individuals at various different points in their lives, despite some of these decisions being made when the person is not actively involved in the labour market. For example, it has helped us to gain a far better understanding of the factors influencing how long to stay in full-time education and when is the best time to retire.

Labour economics is the branch of economics which studies the workings and outcomes of the market for labour services, labour economics deals with the behavior of employers and employees to the pecuniary (wages, prices, profits) and non-pecuniary (working conditions, work environmental) aspects of the employment relationship firms operate in three markets as they pursue their objectives of profit maximization; the labour markets, the capital market and the product market.

It is the study of the labour force as an element in the process of production. Labour force comprises a part of the population which is employed or available for work.

The labour force is made up of all those who work for gain whether as employees, employers or as self-employed. It also includes the unemployed who are seeking for employment.

Labour economics is therefore the study of the factors affecting efficiency of workers, their development between different industries and occupations and the determination of their pay.

Importance of Labour in Economics

- It helps economists to understand labour related problems e.g Issues on fair wage or salaries workers, welfare of workers, labour productivity, workers safety, gender related matters, job security and Job satisfaction.
- The study important in providing data for economic planning and policy e.g. It helps economists to know the contribution of labour services to peoples income (wages and salaries). There is evidence that in most economy, labour input is the most of economic resources.
- The study of labour economics helps us to understand the nature of the market in which labour services are bought and sold.

Labour is the fundamental and active factor of production Labour has important contribution to the production of commodities. Labour is the exertion of mind and body undertaken with a view to some goods other than the pleasure directly derived from the work. Like a commodity, Labour

cannot be stored and withdrawn from the market for a favourable time if the wage offered is low.

Further, Labour is inseparable from labourer and has to be delivered personally, working conditions or environment are of great importance. If the place of work is congenial and the management is kind hearted, even a lower wage can be acceptable. Labour has a weak bargaining power, therefore, the employer has an upper hand in Labour transactions and the wage given is lower than it is due.

The supply of Labour cannot quickly adjust to the change in demand. The wages sometimes rule higher and at other times lower than need be. As the Labour has no calculable cost of production, it has to be satisfied with the wage it can receive or it receives.

Therefore, Karl Marx has said—"Capital is the collective shape of Labour performed in the past. Land which has been made for productive purposes is the important effort of Labour". Hence, we cannot ignore the importance of Labour in Economics.

Labor economics look out to recognize the dynamics and functions of the **markets** of labor. The **labor market** function is by the interaction and dealing of employers and workers. **Labor economics** tries to understand the result pattern of income, employment and wages by looking at the workers or

employs and the employers. According to **economics labor** is the measurement of the work that is done by the human beings. Usually, there is dissimilarity in **labor economics** and other aspects of production such as capital and land. The concept of **human capital** is developed by some economic theories.

Human capital refers to the skills that workers have, this is not necessary that this is their genuine work. There are some theories of **macroeconomics** system and according to these counter posing theories human capital has contradicted terms.

In **labor economics** we study that how the labor services suppliers (**workers**) are distributed in the **jobs** and how their wages or rate of payments decided and how their abilities of work affected by the other factors. Those who work and gain the capability are included in the labor force of the country as well as those who are unemployed and searching for the job or work.

There are many factors manipulate how labor services suppliers (**workers**) are consumed and to what extent they are paid for their services. It also includes the qualities of **labor** force (workers) such as their level of education, their health, allocation of their skills and special trainings and the degree of mobility.

Structural characteristics of **economy** are also included in it like heavy **manufacturing** proportions, service industries and technology. In addition institutional factors are included as well such as power and extent of association of employers and labor unions and the existence of the laws of minimum-wages. Miscellaneous factors are also considered which includes variations and customs in **business cycle**.

Some specific general trends are extensively recognized by labor economists. For example, level of wages is tending to be elevated in jobs and it engages high risk, higher level of efficiency of labor like training or education is required in the industries, in the **economies** that are highly proportional by such industries and the industries that are highly unionized. **Labor efficiency** is the capability of labor to raise the output of products and goods without raising the labor force. If the labor force is efficient then the **production** level of goods and products will be increased.

Dealing with a shortage of raw materials. Economics provides a mechanism for looking at possible consequences as we run short of raw materials such as gas and oil.

How to distribute resources in society. To what extent should we redistribute income in society? Is inequality necessary to create economic incentives or does inequality create more economic problems?

To what extent should the government intervene in the economy. A critical divide in economics is the extent to which the government should intervene in the economy. Free market economists, like Hayek and Friedman, argue for limited government intervention and free markets. Other economists, like Stiglitz or Krugman, argue government intervention can overcome inequality and underprovision of public goods. For example – should the government provide health care free at the point of use or is it more efficient to encourage private health care?

The principle of opportunity cost. Politicians win elections by promising more spending and cutting taxes. This is because lower taxes and more spending is what voters want to hear. However, an economist will be aware that everything has an opportunity cost. Spend more on subsidising free university education, and it means higher taxes and lower spending elsewhere. Giving students £4,000 a year to spend at university may be a

noble ideal. But, is it the best use of public money? Are there better uses of money, such as spending on primary education?

Social efficiency. The free market leads to countless examples of market failure. I feel one of the best uses of economics is to provide solutions to overcoming market failure. For example, driving into the centre of town creates negative externalities such as pollution and congestion. There is overconsumption. An economist can suggest a tax on driving into towns to internalise the externality. Of course, new taxes are not popular, but, it would provide a better solution for society. You may not want to pay £10 a week to drive into a city centre. But, if it saved you 2 hours of sitting in a jam, then maybe you would be quite happy to pay it.

Knowledge and understanding. One of the principal jobs for economists is to understand what is happening in the economy and investigate reasons for poverty, unemployment and low economic growth. For example, in a political debate such as – Should, the UK leave the EU? There are many emotional arguments made about immigration. Economic studies can try and evaluate the costs and benefits of free movement of labour. Economic studies can try to examine the economic effects of immigration. This can help people make a decision about political issues.

Forecasts. Economic forecasts are more difficult than understanding the current situation. However, although forecasts are not always reliable, they can help give decision makers an idea of possible outcomes. For example, in 2003, the UK took a decision about whether to join the Euro. Many economists suggested the UK could struggle with a common monetary policy. The Euro was not an optimal currency area with the UK in. This analysis was a factor in UK government deciding not to join. In retrospect, the analysis under-estimated the costs of the Euro. But, if it had been taken on purely political grounds, the UK may have joined.

Evaluation. Economics is not a definitive science like Maths. Because of many unknown variables, it is impossible to be definitive about outcomes, but a good economist will be aware the result depends on different variables, and there are different potential outcomes. This should help avoid an overly ideological approach. For example, a government may have the philosophy ‘free markets are always best’, but an economist would be aware of a more nuanced view that in some markets, like health care, transport, government intervention can overcome market failure and improve welfare. But, at the same time, it doesn’t mean state intervention is always best.

Behavioural economics Why do people behave as they do? Can governments subtly nudge people into better behaviour, e.g. banning

cigarette advertising? Are we subject to bias and irrational behaviour? For example, can we be sucked along by a bubble and lose a fortune on the stock market? Behavioural economics examines the reasons why we make decisions. See: Behavioural economics.

Applying economics in everyday life. Modern economists have examined economic forces behind everyday social issues. For example, Gary Becker argued that most crime could be explained by economic costs and benefits. See:

2. Discuss the scope as well as the importance of labour economics.

Economics has a subject-matter of its own. We can know something about the subject-matter of Economics from its definitions given above.

The student already knows about Mathematics, History and Geography. But Economics is new to him and he cannot say what it is about.

We can say that Economics studies man's life and work, not the whole of it, but only one aspect of it. It does not study how a person is born, how he grows up and dies. This is the work of another science named Biology.

Economics does not study how human body is made up and how it functions. That is the subject of Physiology. Economics does not tell us how a man thinks. It is Psychology which studies man's mind. Economics does not study the human organization like the State. This is the subject of Political Science. Economics only tells us how a man utilizes his limited resources for the satisfaction of his unlimited wants. A man has a limited amount of money and time; but his wants are unlimited. He must so spend the money and time he has that he derives maximum satisfaction. This is the subject-matter of Economics.

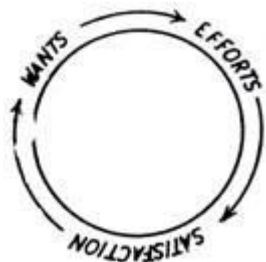
Economic Activities:

If we look around, we see the farmer tilling his field, the workman working in the factory, the clerk at his desk, the doctor attending to his patients, the teacher teaching his students, and so on. They are all engaged in what is called economic activity. They earn money to satisfy their wants. It is with this part of man's life that Economics deals.

We may say that when a man is engaged in an economic activity he is busy earning money. But he does not want money for its own sake. He needs it to buy things which satisfy his wants. The purpose of all economic activity is the desire to purchase goods to satisfy human wants. Neither good nor money is an end in itself. They are needed for the satisfaction of human wants and to promote human welfare.

A man wants food, clothes and shelter. To get these things he must have money. For getting money, he must work or make an effort. Effort leads to

satisfaction. Thus, Wants—Efforts—Satisfaction, sums up the subject-matter of Economics. This circle of economic activity is shown in the adjoining diagram.



In a primitive society, the connection between wants, efforts and satisfaction is close and direct. A primitive man feels hungry; he picks up some fruit, eats it, and is satisfied. But in a modern society things are not so simple and straight. Here a man produces what he does not consume and consumes that he does not produce. The shoe-maker produces shoes, but he cannot use them all by himself. He sells them for money with which he buys the things he needs. This work of selling what you do not want and buying what you want is called exchange. Today the process of exchange comes in between wants, efforts and satisfaction.

Nowadays most of the things we need are made in factories. To make them the worker gives his labour, the landlord his land, the capitalist his capital, while the businessman organizes the work of all these. They all get a reward in money. The laborer earns wages, the landlord gets rent, the capitalist gets interest, while the entrepreneur's reward is profit. Economics studies how these incomes—wages, rent, interest, and profits—are determined. The process is called Distribution. Like Exchange, Distribution also comes in between effort and satisfaction in a modern society.

Thus, we can say that the subject-matter of Economics is Consumption (i.e., the satisfaction of wants), Production (i.e., producing things or creating utilities or making an effort to satisfy our wants), Exchange and its mechanism (i.e., money, credit and banking, etc.) and finally Distribution (i.e., sharing of all that is produced in the country among workers, landlords, capitalists and organizers). In addition, Economics also studies Public Finance. Thus it is indeed a very wide subject.

Scope of Economics:

While discussing the subject-matter and definition of Economics, we have said something about the scope of Economics too. But there are a few more things which we have to discuss in considering the scope of Economics. 'Scope' means the sphere of study. We have to consider what Economics studies and what lies beyond it.

The scope of Economics will be brought out by discussing the following:

- (a) The subject-matter of Economics.
- (b) Economics is a Social Science.
- (c) Whether Economics is a Science or an Art?
- (d) If Economics is a science, whether it is a positive science or a normative science?

Economics—a Social Science:

We have seen that Economics studies human beings. But it does not study them as isolated individuals living aloof in jungles or in mountain caves. Rather, it studies man living in organized society, exchanging his goods for those of others, influencing them by his actions and being influenced by them in turn. He depends on them, and they on him. Economics is thus a social science and not one dealing with individual isolated human beings. Interest has now almost completely shifted to the economy as a whole, how it grows and develops, the factors that hinder its growth and the measures that would help or accelerate it.

Positive Science or Normative Science?

A positive science explains the 'why' and 'wherefore' of things, i.e., their causes and effects. A normative science, on the other hand, discusses the Tightness or wrongness of things. Economists hold different views on this point. Some economists think that Economics is only a positive science and as such explains why things are as they are. It is neutral as regards ends. Others think that it is a normative science and tells us as the things ought to be.

Our view is that Economics is both a positive and a normative science. It not only tells us why certain things happen, it also says whether it is the right thing to happen. For example, we know that a few people in the world are very rich while the masses are very poor.. Economics should explain not only the causes of this unequal distribution of wealth, but it should also say whether this is good or bad. It might well say that wealth ought to be fairly distributed. Further, it should suggest the methods of doing it.

A Science or an Art?

When a student joins a college, he has to choose between two groups of subjects—Science subjects and Arts subjects. In the former group are included Physics, Chemistry, and Biology, and in the latter History, Civics, Economics, Philosophy, Sanskrit, etc. According to this classification, Economics falls in the Arts group. But this is not a sound classification, and does not help us in deciding whether Economics is a science or an art.

Let us first understand what the terms “science” and “art” really mean. A science is a systematized body of knowledge. A branch of knowledge becomes systematized when relevant facts have been collected and analyzed in a manner that we can “trace the effects back to their causes and project causes forward to their effects.” Then it is called a science.

In other words, when laws have been discovered explaining facts, it becomes a science. Facts are like beads. But mere beads do not make a necklace. When a thread runs through the beads, it becomes a necklace. The laws or general principles are like this thread and govern the facts of that science. A science lays down general principles which help to explain things and guide us.

The knowledge of Economics has advanced a great deal. It has reached a stage when its facts have been collected and carefully analysed, and ‘laws’ or general principles explaining facts have been laid down. Thus, the study of Economics has become so thoroughly systematized that it is entitled to be called a science. But Economics is also an art. An ‘art’ lays down precepts or formulae to guide people who want to achieve a certain aim. The aim might be the removal of poverty from a country, or the production of more wheat from an acre of land.

Many English economists consider that Economics is a pure science and not an art. They claim that its function is merely to explore and explain and not

to help in the solution of practical problems. Yet many others are of the opinion that Economics is also an art. Economics does undoubtedly help us in solving many practical problems of the day. It is not a mere theory; it has great practical use. It is both light-giving and fruit-bearing. Hence, Economics is both a science and an art.

Conclusion:

We may, then, sum up the scope of Economics by saying that it studies man's actions in relation to wealth from the social point of view. It does not merely explore and explain but it also advocates and condemns. It not only investigates facts and discovers truths, but it also prescribes rules of life and passes judgment as to what is right and what is wrong. It is also both an art and a science. The scope of Economics is very wide indeed.

Relation of Economics with Other Sciences:

Economics has relation with almost all other sciences. All sciences have been developed by man for the benefit of mankind. As a science, which is primarily concerned with man's welfare, Economics freely makes use of the other sciences in its study. It uses, in its own reasoning, the conclusions at which the other sciences may have reached. But its relation with social sciences like Politics, History and Ethics is the closest. Let us consider this relationship.

Economics and Politics:

Economics and Politics are very closely mixed up these days. All political events have their roots in economic causes. All political problems are economic in nature. If you follow discussions in the legislature, you will find that most of the time of the legislature is taken up by economic matters.

Political institutions also affect economic conditions, and vice versa. Dictatorship moulds economic conditions in a different manner from a democracy. Foreign rule in India was largely responsible for Indian poverty. Thus, there is a very close connection between Economics and Politics.

Economics and History:

Economics makes use of History in understanding the background of the present-day economic problems. History is also useful in establishing or

verifying economic theories and laws. But History is incomplete unless it discusses the economic condition of man. History must devote its attention to the discussion of the economic condition of the people. It does not merely tell a tale of kings. Thus,

Economics without History has no root;

History without Economics has no fruit.

Economics and Ethics

Ethics is a science of what ought to be. It tells us whether a thing is right or wrong. Now ethical or moral considerations govern all economic activity. The economist cannot justify immoral activities. Some modern, economists (e.g., Robbins), however, think that Economics is a pure science and as such it is not concerned with right or wrong. It is said to concern itself merely with means, and ends lie outside its scope. It is regarded as neutral as regards ends. The ends may be good or the ends may be bad, Economics is not concerned.

But our view is that Economics cannot be dissociated from Ethics. Ethics is indeed a handmaid of Economics. The economists are being called upon more and more to give their advice in economic affairs, and they should not shirk this task. That is why it is said that Economics is both a positive science and a normative science.

Economic Laws:

Definition of an Economic Law:

Like every other science, Economics, too, has drawn its own set of generalizations, which are called the laws of Economics. These laws are supposed to govern and explain all economic activity.

In the words of Marshall, economic laws may be defined thus:

“Economic laws, or statements of economic tendencies, are those social laws, which relate to branches of conduct in which the strength of the motives chiefly concerned can be measured by money price.” In terms of Robbins’s definition of economic activity, we might say that economic laws are statements of uniformities which govern human behaviour concerning the

utilization of limited resources for the achievement of unlimited ends. These, in short, are the principles according to which we act when engaged in our ordinary business of life or in an economic activity.

Comparison of Economic Laws with Other Laws:

Let us compare economic laws with the laws of the government, with the laws of morality and with the natural laws.

Economic Laws and Government Laws:

The laws of the government are coercive; there is a penalty attached to their breach, but there is no penalty for breaking an economic law. For instance, there is no punishment if a consumer or a producer does not try to derive maximum benefit from his resources, economic laws are not binding or compulsory. They just tell us what will happen under certain conditions.

Economic Laws and Moral Laws:

The laws of morality merely indicate how we should act in order to satisfy public opinion or our own conscience. Economic laws and laws of ethics or morality belong to two different planes. Economic laws explain the business behaviour of a person, whereas moral laws govern his moral behaviour. Telling a lie is bad morally but many businessmen tell lies and make money. But by and large economic behaviour must conform to the dictates of morality.

Economic Laws and Laws of Natural Sciences:

The laws of natural sciences can be stated with precision and they have a universal validity. Economic laws are not exact or definite. In short, the nature of economic laws is not indicated by the word “must” as in the case of government laws, or by “ought”, as in the case of moral laws, but their nature is indicated by the phrase, “other things being equal” (*ceteris paribus*).

Economic Laws and Laws of the Social Sciences:

Economic laws may not be as definite and exact as the laws of physical sciences but as compared with other social sciences, Economics is in a very happy position. Other social sciences like History and Political Science have really no Laws worth the name; they may have some generalizations.

Although it is generally said that history repeats itself, yet he will be a bold historian indeed who can even remotely guess the course of future events. Political Science is in no better position.

But economic laws are more exact and definite than laws of other social sciences. We shall look in vain in other social sciences for laws like the law of diminishing marginal utility or the law of diminishing marginal return or the law of equi-marginal returns and the theory of comparative costs or for the tools of measurement of elasticity of demand or consumers' surplus.

The superiority of Economics lies in the fact that economic phenomena are capable of being measured in money price. This measuring rod of money is altogether missing in other social sciences. Hence, economic laws compare very favorably with laws of other social sciences,

Nature of Economic Laws:

From the above discussion, we can understand something about the nature of economic laws. Some economic laws are axiomatic in character, e.g., greater gain is preferred to smaller gain. Also, there are other economic laws which are of the nature of physical laws, e.g., the law of diminishing return. But most of the economic laws are hypothetical. They hold good under certain conditions.

Given certain conditions certain results will follow. They will hold good only if certain conditions are fulfilled. If the conditions are not fulfilled, they will not hold good. For instance, we say that when demand increases, price will rise. But price will rise only if supply has remained unchanged. If supply has increased in the meantime, price may even fall or at any rate, it will not rise. That is why the phrase "other things being equal" is attached to all economic laws. This means that an Economic law holds good if the relevant conditions remain the same.

It follows from the above that economic laws are not certain or definite. The material of Economics is complex and ever-shifting. There is a great deal of economic friction arising out of custom and law. Social disabilities and legal restrictions obstruct the operation of an economic law. There is also a preponderance of the human element. All these factors impart an element of uncertainty to economic laws. They lack the definiteness and exactitude found in laws of sciences like Physics.

Marshall has compared economic laws to the laws of tides rather than to the simple laws of gravitation. The law of gravitation tells us something that is definite and certain. For example, a ball thrown upwards must fall back on earth. The earth's gravity pulls everything towards it. There is no exception. On the other hand, one can never be sure about the time of the tide or the level to which it will rise.

It depends on so many factors, e.g., the relative position of the earth and the moon. Uncertainty surrounds laws of economics too like the laws of tides since they too relate to a complex phenomenon. That is why economic laws have been compared with laws of tides rather than with the simple laws of gravitation.

It may, however, be repeated that the laws of economics are more exact than those of any other social science, because the economic phenomena are capable of being measured in money price. This measuring rod of money is not available to any other social science like History and Political Science. Hence, economic phenomena are more predictable than those of History or Political Science.

We can also say that economic laws are statements of tendencies. That is, they only indicate what is likely to happen and not what must happen. Economic laws are inevitable and inescapable if the necessary assumptions are fulfilled. But these assumptions are not always fulfilled. Hence economic laws lack predictability.

“There is no convenient yard-stick by which to measure the currents in business affairs, for these are subject to gusts of fear or perhaps of fantastic optimism as unpredictable as earthquakes.” We cannot, therefore, say what will happen next, because it depends on the fulfillment of so many conditions. We can only say what is likely to happen. Economic laws are, therefore, merely statements of tendencies or of statistical probabilities.

Their Applicability:

One controversial point about economic laws is about their applicability. The Classical Economists were of the opinion that economic laws were immutable, eternal, inexorable and so universally applicable, without any qualification whatsoever. The Historical School, on the other hand, emphasized their relativity and insisted that they had only a limited

application to a given environment. Bagehot, for example, declared that the laws of Economics propounded in England were applicable to “a grown-up society of competitive commerce.

Modern economic opinion inclines to the view that inasmuch as economic laws are based on essentials of human nature, they hold good of almost all communities. But, in the formulation of actual economic policies, allowance must be made for varying local condition... Who can doubt that Gresham's law, the quantity theory of money, the law of diminishing utility, the law of choice and host of other economic laws are independent of sociological and political conditions? Given the conditions under which they are true, the conclusions to which they point are inescapable. “If the data they postulate are given, then the consequences they predict necessarily follow.”

To say that economic laws are historic-relative and that they have no relevance outside certain historical conditions is wrong. The fact is that they are based t>n very wide human experience and have almost a universal applicability.

Labour economics is also concerned with issues that affect or concern the labour force. Issues that concerns labour forces include;

a) **Labour mobility and migration**

Mobility of labour means the ability and the capacity of labour to move from one place to another or from one occupation to another or from one job to another or from ne industry to another.

It also refers to alternative employment. Indian labour is less mobile because of ignorance, conservatism, caste considerations and due to lack of cheap and quick means of transport and communication.

b) **Labour markets**

A labour market is the place where workers and employees interact with each other. In the labour market, employers compete to hire the best, and the workers compete for the best satisfying job.

A labour market in an economy functions with demand and supply of labour. In this market, labour demand is the firm's demand for labour and supply is the worker's supply of labour. The supply and demand of labour in the

market is influenced by changes in the bargaining power.

c) **Supply of labour**

- It is the number of workers willing and able to work in a particular job or industry for a given wage
- The labour supply curve for any industry or occupation will be upward sloping. This is because, as wages rise, other workers enter this industry attracted by the incentive of higher rewards. They may have moved from other industries or they may not have previously held a job, such as housewives or the unemployed
- The extent to which a rise in the prevailing wage or salary in an occupation leads to an expansion in the supply of labour depends on the elasticity of labour supply.

d) **Unions and collective bargaining**

One of the aims of a trade union is to negotiate with employers about matters affecting their members and other employees. Once a trade union is recognised in a workplace, the negotiations they have with the employer are called collective bargaining; these negotiations will be regarding terms and conditions of employment.

Trade unions and employers will agree on how the process will operate, for example:

- who will represent the workers, or group of workers (bargaining unit) in negotiations
- which workers are included in the bargaining unit
- how often meetings will take place
- which issues, including which terms and conditions will be discussed
- how failures to agree will be resolved
- how discussions will work if more than one trade union is recognised

For trade unions and employers who face problems at work which result in a dispute Acas can help. Collective conciliation can move

parties towards a resolution of a dispute through the expertise of an impartial and independent third party

e) **Work leisure decision**

People do not obtain utility just from products they purchase. They also obtain utility from leisure time. Leisure time is time not spent at work. The decision-making process of a utility-maximizing household applies to what quantity of hours to work in much the same way that it applies to purchases of goods and services. Choices made along the **labor-leisure budget constraint**, as wages shift, provide the logical underpinning for the labor supply curve. The discussion also offers some insights about the range of possible reactions when people receive higher wages, and specifically about the claim that if people are paid higher wages, they will work a greater quantity of hours—assuming that they have a say in the matter.

f) **Government and institutions**

An important part of today's labour economics has been increasingly concerned with the issue of labour market institutions/regulations, their interactions and their impact on different economic and labour market outcomes. Labour market regulations actually include labour market institutions as well as part of labour market policies: they cover wage setting institutions, mandatory social benefits, the unemployment insurance system, as well as different aspects of labour legislation (law on minimum wage, employment protection legislation, and the enforcement of the legislation). Labour market policies (LMP), on the other hand, comprise all kinds of regulative policies that influence the interaction between labour supply and demand. They consist of policies that provide income replacement (usually called passive labour market policies) as well as labour market integration measures available to unemployed or those threatened by unemployment.

g) **Participation rates of Labour**

The labor force participation rate measures an economy's active labor force and is the sum of all employed workers divided by the working age population. It refers to the number of people who are either employed or are actively looking for work. During an economic recession, many workers often get discouraged and stop looking for employment, resulting in a decrease in the participation rate. The number of people who are no longer actively searching for work would not be included in the participation rate.

Participation Rate

How it is Used

The participation rate is an important metric to use when analyzing unemployment data because it reflects the number of people who are interested in participating in the workforce. These people are either looking for employment or are employed, and are at or above the working age of 16. People not included in the participation rate include those who do not want to work or can't work. This includes students, homemakers, incarcerated people and retirees.

h) Wage structure

Wage structure is generally the levels or hierarchy of job and pay ranges. It is the interrelationship of the levels of pay for different types of employees.

It may mean the way the total wage of a worker or group of workers is composed; for example including such elements as a basic rate, a piecework bonus and other forms of bonus, overtime, etc. It may also mean the established system of pay differentials between groups of workers by occupation or the pattern of differentials on the basis of grade or status.

i) Quality of labour

Under capitalism the quality of labor, being another expression of the quality of labor power, is reflected spontaneously in wages. The level of wages in the labor market is influenced by the proletariat's class struggle for its own economic interests and depends on the ratio between the supply and the demand for labor power of a particular quality.

Under socialism, in accordance with the economic law of distribution on the quantity and quality of labor, labor quality is expressed in wages by means of the rate and bonus system. Increased wages for higher quality labor result because this labor creates more value in a set amount of working time than lower quality labor does.

In most of the socialist countries the basic tool for differentiating wages according to the quality of labor is the wage rate (tariff) system. All jobs performed by workers are divided according to their complexity into grades of the wage rate schedule. The schedule is given in rate and skills reference books; the schedules are worked out by summary and analytic methods and ratified in a centralized manner. With the summary method the degree of complexity of the job is determined by commissions of experts on the basis of the full set of factors that characterize the overall complexity of a job. The

analytic method is more precise because it breaks the labor process down into individual work functions. As a rule the complexity of jobs analyzed according to its functions is compared by evaluating them on the basis of a point system. Rate-skill reference books are also used to distribute workers to different grades of the rate schedule according to their skills. Each grade of the wage rate schedule has a certain wage factor that is multiplied by the wage rate of the first grade to determine the rate of the particular grade. When a worker improves his skills, he is awarded a higher grade and assigned to more complex work. The wages of engineering-technical personnel and salaries of office workers are differentiated according to the complexity of their labor by means of salary schedules.

The difference in the intensity of the labor of piece-rate workers and time-rate workers is reflected in wages by differentiating wage rates (taking into account the forms and overall level of remuneration). Labor performed under difficult or unhealthy conditions is normally paid at higher rates.

To reward more intensive labor with increased earnings, piece-rate workers are paid according to fulfillment of output norms; all production workers, engineering-technical personnel, and office workers have bonus systems of various kinds. Workers receive bonuses from both the wages fund and the material incentive funds, with engineering-technical personnel and office workers receiving bonuses primarily from the enterprise's material incentive funds.

j) **Personal distribution of earning**

The term 'distribution' in economics refers to personal distribution and functional distribution of income. Personal distribution relates to the forces governing the distribution of income and wealth among the various individuals of a country. Under personal distribution, we study the pattern of the distribution of national income and the shares received by the different classes.

k) **Labour productivity**

Labor productivity measures the hourly output of a country's economy. Specifically, it charts the amount of real gross domestic product (GDP) produced by an hour of labor. Growth in labor productivity depends on three main factors: investment and saving in physical capital, new technology and human capital.

Labor productivity, also known as workforce productivity, is defined as real economic output per labor hour. Growth in labor productivity is measured by the change in economic output per labor hour over a defined period. Labor productivity should not be confused with employee productivity, which is a measure of an

individual worker's output.

How to Calculate Labor Productivity

To calculate a country's labor productivity, you would divide the total output by the total number of labor hours.

For example, suppose the real GDP of an economy is \$10 trillion and the aggregate hours of labor in the country is 300 billion. The labor productivity would be \$10 trillion divided by 300 billion, equaling about \$33 per labor hour. If the real GDP of the same economy grows to \$20 trillion the next year and its labor hours increase to 350 billion, the economy's growth in labor productivity would be 72 percent.

The growth number is derived by dividing the new real GDP of \$57 by the previous real GDP of \$33. Growth in this labor productivity number can usually be interpreted as improved standards of living in the country.

1) Wages and inflation

Wage push inflation is an overall rise in the cost of goods that results from a rise in wages. To maintain corporate profits after an increase in wages, employers must increase the prices they charge for the goods and services they provide. The overall increased cost of goods and services has a circular effect on the wage increase; eventually, as goods and services in the market overall increase, higher wages will be needed to compensate for the increased prices of consumer goods.

BREAKING DOWN Wage Push Inflation

Companies can increase wages for a number of reasons. The most common reason for raising wages is an increase to the minimum wage. The federal and state governments have the power to increase the minimum wage. Consumer goods companies are also known for making incremental wage increases for their workers. These minimum wage increases are a leading factor for wage push inflation. In consumer goods companies especially, wage push inflation is highly prevalent, and its effect is a function of the percentage increase in wages.

Industry Factors Driving Wage Inflation

Industry factors also play a part in driving wage increases. If a specific industry is growing rapidly, companies might raise wages to attract talent or provide higher compensation for their workers as an incentive to help business growth. All such factors have a wage push inflation effect on the goods and services the company provides.

Economists track wages closely because of their wage push inflation effects. Wage push inflation has an inflationary spiral effect that occurs when wages are increased and businesses must — to pay the higher wages — charge more for their products and/or services. Additionally, any wage increase that occurs will increase the money supply of consumers. With a higher money supply, consumers have more spending power, so the demand for goods increases. An increase in demand for goods then increases the price of goods in the broader market. Companies charge more for their goods to pay higher wages, and the higher wages also increase the price of goods in the broader market.

As the cost of goods and services rise at the companies paying higher wages and in the broader market overall, the wage increase is not as helpful to employees, since the cost of goods in the market has also risen. If prices remain increased, workers eventually require another wage increase to compensate for the cost of living increase. The percentage increase of the wages and prices and their overall effect on the market are key factors driving inflation in the economy.

An Example of Wage Inflation

If a state raises the minimum \$5 to \$20, that company must compensate by increasing the prices of its products on the market. But because the goods become more expensive, that raise isn't enough to propel a consumer's purchasing power, and the wage must be raised again, therefore causing an inflationary spiral.

m) Employment and unemployment

Unemployment or joblessness is the situation of actively looking for employment but not being currently employed. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force.

Importance of some of the scopes of labour economics:

- a) **Mobility of labour/worker mobility and Migration** – it refers to the ease with which labour can move from one occupation or geographical area to another. It has two components or aspects namely:
 - **Geographical mobility of labour:** is the movement of labour between geographical locations or areas. That is mobility of workers from one region,

country and location to another. If the present value of the benefits associated with mobility exceeds the costs, both monetary and psychic, we assume that labour will decide to change jobs or move, or both. Also if the discounted stream of benefits is not as large as the costs, then people will decide not to change jobs.

- **Occupational mobility of labour** – it measures the extent to which workers change occupation or skills in response to differences on their wages or job availability.

3. What is the nature of the labour problem in developing economies?

Labour Problem can be defined as the problem of improving the conditions of employment of the wage-earning classes. It encompasses the difficulties faced by wage-earners and employers who began to cut wages for various reasons including increased technology, desire for lower costs or to stay in business at all cost. The wage-earning classes responded with strikes, by unionizing and by committing acts of outright violence.

It was a nationwide problem that spanned nearly all industries and helped contribute to modern business conditions still seen today. Possible causes include the failure to account for the negative externality of reproduction in the face of finite natural resources which results in over- supply of labor and falling living standards for wage-laborers, depersonalization by machines and poor working conditions.

The Nature and Causes of Unemployment in Developing Countries!

Lack of Physical Capital Relative to Labour Force:

Keynesian theory is mainly concerned with cyclical unemployment, which emerges in the developed capitalist countries, especially in times of depression. During the period 1929-33, the developed capitalist economies suffered from severe depression which caused huge magnitude of unemployment. Keynes analysed this type of unemployment and asserted that it was caused by deficiency of aggregate demand.

Nature:

The nature of unemployment in under-developed countries is quite different; it is of chronic and long-term nature. It is now almost universally recognised that the chronic unemployment and under-employment in less developed countries are not due to the lack of aggregate effective demand which, according to J.M. Keynes, was responsible for unemployment in developed countries in times of depression. Rather it is stated to be due to the lack of land, capital and other complementary resources in relation to the total population and labour force.

In the phenomenon examined by Keynes, not only labour force but also capital equipment were unemployed due to the deficiency of aggregate effective demand. In other words, in the Keynesian scheme, both the labour force and capital equipment were crying out for full employment which could be achieved by raising the level of aggregate monetary expenditure.

Thus, according to Joan Robinson:

“Keynes’ theory has little to say, directly, to the under-developed countries, for it was framed entirely in the context of an advanced industrial economy, with highly developed financial institutions and a sophisticated business class. The unemployment that concerned Keynes was accompanied by under-utilisation of capacity already in existence. It had resulted from a fall in effective demand. The unemployment of under-developed economies arises because capacity and effective demand never have been great enough”.

The existence of unemployment due to lack of capital or other co-operating factors was an important question which was discussed by Marx in the context of advanced industrialized countries. Therefore such unemployment has often been called Marxian unemployment as distinguished from Keynesian unemployment which is caused by the deficiency aggregated demand.

According to Marx, the number of workers employed by the capitalists depends upon the amount of capital in existence, and there is what he called “reserve army of unemployed labour” because there is inadequate capital to employ all the available labour. If A stands for the total amount of available labour, N for the amount of labour-employment which is necessary to work with the existing stock of capital at its normal capacity, then $A-N$ is the reserve army of unemployed labour.

Thus, the standard explanation for the existence of labour surplus or unemployment and underemployment in less developing countries like India is that as compared with the magnitude of population and labour force there is limited availability of capital or complementary resources which include land, factories, machines, tools and implements-the means with which labour produces.

Now, if the population grows faster than the stock of capital of a country, the entire addition to the labour force cannot be absorbed in productive

employment because not enough instruments of production would be there to employ them. Since in less developed countries, the stock of capital has not been growing at a rate fast enough to keep pace with the growth of population, the ability to offer productive employment is very limited. This has resulted in surplus labour which is manifested in the existence of huge magnitude of under-employment or disguised unemployment and open unemployment in both the rural and urban areas.

Capital as the major bottleneck to growth of employment was made popular by Harrod-Domar model of economic growth in which capital accumulation plays a pivotal role and according to which rate of growth of output depends upon the proportion of national income saved, divided by the capital-output ratio ($g = s/v$, where g stands for growth rate, V for the proportion of income saved and V for the capital- output ratio).

This model assumes capital-coefficients (i.e., capital-output ratio and capital-labour ratios) to remain constant. With constant capital-output and capital-labour ratios, the more the capital, the more will be both output and employment. Therefore, when adapted to the less developed countries, this model suggests that the rate of growth of output and therefore of employment is determined by the growth of capital stock.

Lack of Wage Goods and Unemployment in Developing Countries:

It is worth mentioning a dissenting view regarding the cause of unemployment and underemployment in developing countries. This dissenting view had been put forward by Prof. P.R. Brahmananda and C.N. Vakil of Bombay University. According to them, the basic cause of unemployment in developing countries is the deficiency of the availability of essential consumer goods, often called wage goods.

They point out that when the unemployed people or disguisedly unemployed people who are withdrawn from agriculture are engaged in some public works, they will have to be supplied with wage-goods so that employed labourers can subsist. If the wage-goods are not sufficiently available, their employment in capital-creation works cannot be sustained. Given the real wage rate, a particular number of people can be employed in the economy, depending upon the supply of wage-goods in the economy.

Now, the total quantity of wage-goods required to employ all the disguised unemployed workers in agriculture, according to them, would exceed the actual available supply of wage-goods even when the release of wage goods by the withdrawal of disguised unemployed is taken into account. Thus, according to Prof. Brahmananda and Vakil, there exists a wage-goods gap which is the fundamental cause of unemployment in labour surplus developing countries.

A prominent Indian economist Prof. A.K. Sen has also emphasised the supply of wage-goods in determining employment in developing countries. According to Prof. Sen, the quantum of wage employment in the economy depends on the total supply of wage-goods on the one hand and the real wage-rate on the other. If E represents the quantum of employment, M represents the supply of wage-goods and W , the real wage-rate, then the employment which can be provided will be given by the following equation.

$$E = M/W$$

It is thus evident from Sen's above equation that if the supply of wage-goods (M) is less than the required supply to provide all labour force, then all workers cannot be fully employed, which will result in the emergence of unemployment. Thus, to generate enough employment and solve the problem of unemployment and under-employment, the wage-goods industries, especially agriculture, must be accorded a high priority in the strategy of economic development.

Most of the unemployment in underdeveloped countries is of a different nature from that in advanced and developed countries. A major part of unemployment in present-day developed countries is of cyclical nature which is due to deficiency of aggregate effective demand. But most of the unemployment in developing countries is not cyclical. Thus, in developing countries, there is not much Keynesian type short-term unemployment. Instead, it is a chronic problem.

Causes:

Causes of Unemployment in Developing Countries:

We have explained above the two basic explanations of unemployment and under employment prevailing in the developing countries. We now explain below in some detail the various causes which account for unemployment and underemployment that still prevails in the developing countries.

1. Lack of the Stock of Physical Capital:

The major cause of unemployment and underemployment in underdeveloped countries like India is the deficiency of the stock of capital in relation to the needs of the growing labour force. In the modern world, man by himself can hardly produce anything. Even the primitive man needed some elementary tools like the bow and arrow to engage in hunting for the earning of his livelihood.

With the growth of technology and specialisation, he needs much more capital with which to engage in the productive activity. If he is an agriculturist, he needs a piece of land and also a plough, a pair of oxen, seeds and some foodgrains and other necessities of life to sustain himself during the period of sowing to the reaping of the harvest. In the industrial sector, he needs factories to work in and machines to work with. All these aids to production belong to the community's stock of capital.

Now, if the working force grows faster than the stock of capital of a country, the entire addition of labour force cannot be absorbed in productive employment because not enough instruments of production would be there to employ them. The resulting unemployment is known as the long- term or chronic unemployment.

A nation's stock of capital can be enlarged by increased investment which in the absence of any unutilised resources, requires additional saving on the part of the community. The concern of the classical economists was to ensure that the rate of capital formation was kept sufficiently high so that employment opportunities were successively enlarged to absorb the additions to the working force of a country as a result of population growth.

This is also the problem that the developing countries like India are facing today. In recent times, the labour force in India has been growing at more

than 2 per cent per year, yet our rate of investment expressed as a percentage of our stock of capital has not been growing at a fast enough rate so as to keep pace with the growth of population. As a result, the country's ability to offer productive employment to the new entrants in the labour market has been severely limited.

This manifests itself in two things: first, the prevalence of large-scale open unemployment in the urban areas as evidenced by the statistics of employment exchanges; second, it manifests itself in the form of open unemployment in the rural areas as well as disguised unemployment in agriculture.

2. Use of Capital Intensive Techniques:

An important factor responsible for slow growth of employment has been the use of capital-intensive techniques of production, even in consumer goods industries where alternative labour-intensive techniques are available. Even before 1991, under the industrial policy resolution 1956, the development of consumer goods industries were left open for the private sector.

However, private sector prefers to invest in highly capital-intensive plants and equipment on the basis of technology developed in labour-scarce western countries. It is argued by them the alternative labour-intensive techniques have low productivity and low-surplus-generating capacity. However, the important reason for the use of capital-intensive techniques has been the availability of cheap capital.

Even firms in modern small industry sector which were expected to generate large employment opportunities have also tended to use capital-intensive techniques of production. Thus, Prof. J.C. Sandesara states, "the availability of cheap capital has tended to encourage the modern small-scale industries sector to over-capitalize and use more capital-intensive methods of production and thus reduce employment potential".

In agriculture, reckless mechanisation of various agricultural operations despite the existence of surplus labour has reduced the employment-augmenting effect of new high-yielding technology involving the use of HYV seeds, fertilisers and pesticides. This has prevented the generation of enough employment opportunities in rural areas.

Now, a pertinent question is why capital-intensive techniques are used in industries despite the condition of labour-abundance in the economy. First reason is the relatively low price of capital, relatively low price of capital has caused by (a) lower rate of interest, (b) liberal depreciation allowance on capital investment permitted in the taxation system of the country, (c) relatively cheap capital equipment imported from abroad. Second, higher wages of labour in the organised sector relative to their productivity under pressure from trade unions. Thirdly, rigid labour laws also discourage the employment of labour. It is difficult to retrench labour even when it is not required in case an industrial unit becomes sick and proposes to close down or exit.

Fourthly, Research and Development (R & D) activity has not been adequately directed to discover and identify labour-intensive appropriate techniques to be used in industries which, though labour-intensive, have also reasonably good productivity.

3. Inequitable Distribution of Land:

Another cause of unemployment prevailing in the developing countries like India is inequitable distribution of land so that many agricultural households have no adequate access to land which is an important asset for agricultural production and employment.

Sub-division of land holdings under the pressure of rapid population growth since 1951 has further reduced access to land for several agricultural households. As a result many persons who were self-employed in agriculture have become landless agricultural labourers who suffer from acute unemployment and under-employment.

4. Rigid Protective Labour Legislation:

Another reason for the slow growth of employment in the organised sector has been the existence of unduly rigid protective labour legislation which makes it very difficult to retrench a worker who has been employed for 240 days. Labour-legislation is so much rigid that it is even difficult to close down the unit and quit the industry. Thus, this excessively protective labour-legislation induces private entrepreneurs to prefer the maximum use of capital in place of labour.

5. Neglect of the Role of Agriculture in Employment Generation:

An important factor responsible for slow growth of employment opportunities is the neglect of agriculture for generating employment opportunities. The general perception, as existed in the first three five year plans in India (1951-65) as well as in the theoretical models of growth for dualistic economies such as Lewis “Economic Development with Unlimited Supplies of Labour” was that agriculture already contained surplus labour and it was required to withdraw this surplus labour from agriculture and employ them in the modern industrial sector. By the mid-sixties it was realised that not to speak of employing new entrants to the labour force year after year, the modern industrial sector could not absorb productivity even a fraction of the then existing unemployed persons in the foreseeable future.

Agriculture though containing surplus labour can generate employment opportunities if proper strategy for its development is adopted. For instance, the empirical evidence shows that on an irrigated hectare of land the number of man-hours employed is almost twice that on the unirrigated hectare. Irrigation requires more labour input for watering the fields, but also since output per hectare on irrigated land is much higher, more labour is used for harvesting and threshing the crop. Besides, irrigation makes the adoption of double cropping possible which greatly raises the employment potential of agriculture.

It is worth noting that new agricultural technology, commonly called green revolution technology, involving the use of HYV (High Yielding Varieties) seeds, greater use of fertilisers and pesticides along with water is highly labour absorptive. What is equally important, this new green revolution technology is size-neutral, that is, it can be equally well adopted by small farmers. Further, HYV seeds are of short-duration type, that is, they mature in a short time so that they make multiple cropping more feasible.

The use of double or multiple cropping greatly enhances the opportunities of employment generation in agriculture. The experience of Punjab, Haryana and Western UP is a shining example of large employment generation in agriculture. What is needed for the generation of large employment opportunities in agriculture, the new green revolution technology should be widely diffused and adopted in the backward and lagging agricultural regions in India.

6. Lack of Infrastructure:

We have explained above lack of physical capital with which labour is equipped for productive employment as the cause of unemployment prevailing in the developing countries like India. By capital we generally mean machines, plant & equipment, factory buildings etc. But a similar factor responsible for huge unemployment prevailing in these countries is lack of infrastructure such as roads, power, telecommunications, highways, irrigation facilities in agriculture. Inadequate availability of infrastructure is a great obstacle for the generation of opportunities for productive employment.

It follows from above that unemployment and under-employment prevailing in India and other developing countries is not cyclical Keynesian type of unemployment caused by decline in aggregate demand. Unemployment and under-employment in India are caused by more basic structural factors such as lack of capital, use of capital-intensive technologies, lack of access to land for agricultural household, lack of infrastructure, racial growth of population resulting in large annual increments in labour force year after year. Unemployment in India, as in other developing countries, manifests itself in both open unemployment and under-employment.

Common Characteristics of Developing Countries | Economics

Following are some of the basic and important characteristics which are common to all developing economies:

An idea of the characteristics of a developing economy must have been gathered from the above analysis of the definitions of an underdeveloped economy. Various developing countries differ a good deal from each other. Some countries such as countries of Africa do not face problem of rapid population growth, others have to cope with the consequences of rapid population growth. Some developing countries are largely dependent on exports of primary products, others do not show such dependence, and others do not show such dependence.

Some developing countries have weak institutional structure such as lack of property rights, absence of the rule of law and political instability which affect incentives to invest. Besides, there are lot of differences with regard to levels of education, health, food production and availability of natural

resources. However, despite this great diversity there are many common features of the developing economies. It is because of common characteristics that their developmental problems are studied within a common analytical framework of development economics.

Characteristic # 1. Low Per Capita Income:

The first important feature of the developing countries is their low per capita income. According to the World Bank estimates for the year 1995, average per capita income of the low income countries is \$ 430 as compared to \$ 24,930 of the high-income countries including U.S.A., U.K., France and Japan. According to these estimates for the year 1995, per capita income was \$340 in India, \$ 620 in China, \$240 in Bangladesh, \$ 700 in Sri Lanka. As against these, for the year 1995 per capita income was \$ 26,980 in USA, \$ 23,750 in Sweden, \$ 39,640 in Japan and 40,630 in Switzerland.

It may however be noted that the extent of poverty prevailing in the developing countries is not fully reflected in the per capita income which is only an average income and also includes the incomes of the rich also. Large inequalities in income distribution prevailing in these economies have made the lives of the people more miserable. A large bulk of population of these countries lives below the poverty line.

For example, the recent estimates reveal that about 28 per cent of India's population (i.e. about 260 million people) lives below the poverty line, that is, they are unable to get even sufficient calories of food needed for minimum subsistence, not to speak of minimum clothing and housing facilities. The situation in other developing countries is no better.

The low levels of per capita income and poverty in developing countries is due to low levels of productivity in various fields of production. The low levels of productivity in the developing economies has been caused by dominance of low-productivity agriculture and informal sectors in their economies, low levels of capital formation – both physical and human (education, health), lack of technological progress, rapid population growth which are in fact the very characteristics of the underdeveloped nature of the developing economies. By utilising their natural resources accelerating rate of capital formation and making progress in technology they can increase their levels of productivity and income and break the vicious circle of poverty operating in them.

It may however be noted that after the Second World War and with getting political freedom from colonial rule, in a good number of the underdeveloped countries the process of growth has been started and their gross domestic product (GDP) and per capita income are increasing.

2. Excessive Dependence on Agriculture:

A developing country is generally predominantly agricultural. About 60 to 75 per cent of its population depends on agriculture and its allied activities for its livelihood. Further, about 30 to 50 per cent of national income of these countries is obtained from agriculture alone. This excessive dependence on agriculture is the result of low productivity and backwardness of their agriculture and lack of modern industrial growth.

In the present-day developed countries, the modern industrial growth brought about structural transformation with the proportion of working population engaged in agriculture falling drastically and that employed in the modern industrial and services sectors rising enormously. This occurred due to the rapid growth of the modern sector on the one hand and tremendous rise in productivity in agriculture on the other.

The dominance of agriculture in developing countries can be known from the distribution of their workforce by sectors. According to estimates made by ILO given in Table 4.1 on an average 61 per cent of workforce of low-income developing countries was employed in agriculture whereas only 19 per cent in industry and 20 per cent in services. On the contrary, in high income, that is, developed countries only 4 per cent of their workforce is employed in agriculture, while 26 per cent of their workforce is employed in industry and 70 per cent in services.

Table 4.1. Distribution of Workforce by Sectors (percentage)

Countries	Agriculture	Industry	Services
Low-income countries	61	19	20
Middle-income countries	22	34	44
High-income countries	4	26	70

In India at the time of independence about 60 per cent of population was employed in agriculture and with six decades of development the percentage of population engaged in agriculture has fallen to around 50 per cent in 2011-12. However, it is significance to note that the increase in population in non-agriculture sector has found employment not in organised industry and

services sector but in informal sector where labour productivity is as low as in agriculture.

Besides, it is important to note though at present (2011-12) agriculture employees 50 per cent of workforce, it contributes only 13 per cent to its GDP. This shows labour productivity in agriculture and informal sector in the Indian economy, as in other developing economies, is due to the fact that the employment in organised industrial and services sector has not grown at a rate commensurate with the increase in population despite recording a higher growth rate in output.

This is due to use of capital-intensive technologies in the organised industrial and services sectors. With the growth of population in the last few decades the demographic pressure on land has increased resulting in fall in land-labour ratio. With this agricultural holdings have become sub-divided into small plots which do not permit the use of efficient methods of cultivation.

In developing countries today, despite their modern industrial growth in the last four decades not much progress has been achieved towards structural transformation in the occupational structure of their economies. Due to the use of highly capital-intensive techniques very few employment opportunities have been created in their organised industrial and services sectors.

When increasing population cannot obtain employment in the modern non-agricultural occupations, such as industry, transport and other services, then the people remain on land and agriculture and do some work which they are able to get. This has resulted in disguised unemployment in agriculture. During the last some decades because of population explosion the pressure of manpower on land in the developing countries has largely increased.

3. Low Level of Capital Formation:

The insufficient amount of physical and human capital is so characteristic a feature in all undeveloped economies that they are often called simply 'capital-poor' economies. One indication of the capital deficiency is the low amount of capital per head of population. Not only is the capital stock extremely small, but the current rate of capital formation is also very low. In the early 1950s in most of developing countries investment was only 5 per cent to 8 per cent of the national income, whereas in the United States,

Canada, and Western Europe, it was generally from 15 per cent to 30 per cent.

Since then there has been substantial increase in the rate of saving and investment in the developing countries. However, the quantity of capital per head is still very low in them and therefore productivity remains low. For example, in India rate of investment has now (2012-13) risen to about 35 per cent but it still remains a poor country with low level of productivity. This is because as a result of rapid population growth, capital per head is still very low.

The low level of capital formation in a developing country is due both to the weakness of the inducement to invest and to the low propensity and capacity to save. The rate of saving in developing countries is low primarily because of the low level of national income. In such an economy, the low level of per capita income limits the size of the market demand for manufacturing output which weakens the inducement to invest. The low level of investment also arises as a result of the lack of dynamic entrepreneurship which was regarded by Schumpeter as the focal point in the process of economic development.

At the root of capital deficiency is the shortage of savings. The level of per capita income being quite low, most of it is spent on satisfying the bare necessities of life, leaving a very little margin of income for capital accumulation. Even with an increase in the level of individual incomes in a developing economy, there does not usually follow a higher rate of accumulation because of the tendency to copy the higher levels of consumption prevailing in the advanced countries. Nurkse has called this as “demonstration effect”. It is usually caused through media like films, television or through foreign visits.

Generally, there exist large inequalities in the distribution of incomes in developing countries. This should have resulted in a greater volume of savings available for capital formation. But most often the sector in which the greatest concentration of incomes lies is the one which derives its income primarily from non-entrepreneurial sources such as unearned incomes of rents, interests and monopoly profits.

The attitudes and social values of this sector are often such that it is prone to use its income for ‘conspicuous consumption’, investment in land and real

estate, speculative transactions, inventory accumulation and hoarding of gold and jewellery. If these surpluses are channelled into productive investment, they would tend to increase substantially the level of capital formation.

4. Rapid Population Growth and Disguised Unemployment:

The diversity among developing economies is perhaps nowhere to be seen so much in evidence as in respect of the facts of their population in respect of its size, density and growth. While we have examples of India, Pakistan and Bangladesh with their teeming millions and galloping rates of population growth, there are the Latin American countries which are very sparsely populated and whose total population in some cases numbers less than a single metropolitan city in India and China. In several newly emerging countries of Africa too and in some of the Middle Eastern countries the size of their population cannot be regarded as excessive, considering their large expanse. The South- East and Eastern Asia, on the other hand, have large populations.

However, there appears to be a common feature, namely, a rapid rate of population growth. This rate has been rising still more in recent years, thanks to the advances in medical sciences which have greatly reduced the death rate due to epidemics and diseases. While the death rate has fallen sharply, but there has been no commensurate decline in birth rate so that the natural survival rate has become much larger. The great threat of this rapid population growth rate is that it sets at nought all attempts at development in as much as much of the increased output is swallowed up by the increased population.

One important consequence of this rapid rate of population growth is that it throws more and more people on land and into informal sector to eke out their living from agriculture, since alternative occupations do not simultaneously develop and thus are not there to absorb the increasing numbers seeking gainful employment. The resultant pressure of population on land and in informal sector thus gives rise to what has been called “disguised unemployment”.

Disguised unemployment means that there are more persons engaged in agriculture than are actually needed so that the addition of such persons does not add to agricultural output, or putting it alternatively, given the

technology and organisation even if some of the persons are withdrawn from land, no fall in production will follow from such withdrawal. As a result, marginal productivity of a wide range of labourers employed in agriculture is zero.

It will be seen from Table 4.2 that in 2009, population of the world was estimated at 6,775 million in 2009 and its annual population growth in 1990-2009 was 1.3 per cent. The population growths in low-income developing countries have been 2.3 per cent per annum during 1990-2009 and of middle income developing countries as a whole has been 1.3 per cent per annum. As against this, population growth rate in high income countries (i.e., developed countries) was 0.7% per annum. That is, population in developing countries has been growing at a much faster rate as compared to the developed countries.

In Table 4.2, we have given the dependency ratio on the working population. Both children and boys below the age of 15 years (i.e., young ones) and the old people above the age of 65 years and above represent dependency burden as they are unproductive members and are financially dependent on the working population.

The bad effect of this dependency burden for developing countries is that it reduces saving rate of the community and therefore adversely affects economic growth. It will be seen from Table 4.2 that the dependency burden of young persons (i.e., below the age of 15 years) in case of low-income countries is very high at 69%, whereas the dependency burden of old people on the working population is much lower, only 6 per cent. As against this, for high income countries dependency burden of old persons is relatively very high being 23 per cent.

Table 4.2. Population Growth and other Features of Population

Countries	Population in 2009 Millions	Average annual population growth rate 1990-2009 (per cent)	Dependency ratio (% of working age population)		Crude death rate per 1,000 people (2009)	Crude birth rate per 1000 people (2009)
			Young 2009	Old 2009		
World	6,775	1.3	42	12	8	20
Low Income	4,846	2.3	69	6	11	34
Middle Income	4,813	1.3	41	10	8	19
Low & Middle Income	5,659	1.4	45	9	8	21
High Income	1,117	0.7	26	23	8	12

Underutilization of Natural Resources:

The natural resources in an underdeveloped economy are either unutilised or underutilised. Generally speaking, under-developed countries are not deficient in land, water, mineral, forest or power resources, though they may be untapped. In other words, they constitute only potential resources. The main problem in their case is that such resources have not been fully and properly utilised due to various difficulties such as shortage of capital, primitive technology and the small size of the market.

5. Lower Levels of Human Capital:

Human capital – education, health and skills – are of crucial importance for economic development. In our analysis of human development index (HDI) we noted that there is great disparity in human capital among the developing and developed countries. The developing countries lack in human capital that is responsible for low productivity of labour and capital in them.

Lack of education manifests itself in lower enrolment rate in primary, secondary and tertiary educational institutions which impact knowledge and skills of the people. Lower levels of education and skills are not conducive for the development of new industries and for absorbing new technologies to achieve higher levels of production. Besides, lack of education and skills makes people less adaptable to change and lowers the ability to organise and manage industrial enterprises. Further, in countries like India, advantage of demographic dividend can be taken only if the younger persons can be educated, healthy and equipped with appropriate skills so that they can be employed in productive activities.

The data of various education indicators is given in Table 4.3. It will be seen from this table that as compared to high income countries enrolment in secondary and tertiary educational institutions was 38% and 63% of person of relevant age group in 2009 as compared to 100 per cent in high-income developed countries.

Similarly, enrolment rate in tertiary educational institutions which impart higher liberal, managerial and technical education in developing countries of low income and lower middle income is 6 per cent and 19 per cent respectively of the relevant age group as compared to 67 per cent in high-income developed countries. It will be seen from Table 4.3 that in India

enrolment for secondary education is 60 per cent and in China 78 per cent of relevant age group.

Similarly, Table 4.3 reveals that adult literacy rate (percentage of population of ages 15 and older that can read and write a short simple statement in their everyday life) is much lower (62% in low income and 80% in lower middle income developing countries) in 2009 as compared to 98% in high income developed countries. In India adult literacy rate is only 63 per cent in 2009 whereas it is much higher in China (94 %) and Brazil (90 %) as compared to 98% in high-income developed countries.

It is evident from above that educational and skill levels in developing countries are much lower as compared to developed countries. This lowers the quality of the people of developing countries as productive agents and wealth creators.

Table 4.3. Indicators Education Level

Country or Group	Gross Enrolment Rate % (relevant age group) 2005-09			Adult Literacy Rate % of age 15 years and older (2005-09)
	Primary	Secondary	Tertiary	
Low Income	104	38	6	62
Lower Middle	107	63	19	80
Upper Middle	111	88	42	92
High Income	101	100	67	98
Country				
Congo Dem. Rep.(LIC)	90	37	6	67
Egypt (LMC)	100	–	28	66
India (LMC)	117	60	13	63
China (UMC)	113	78	25	94
Brazil (LMC)	120	90	38	90
Malaysia (UMC)	95	69	36	92
United States (HI)	99	94	83	–
United Kingdom (HI)	106	99	57	–
Region				
East Asia & Pacific	111	74	–	94
Europe & Central Asia	99	89	55	98
Latin America & Caribbean	116	89	35	91
Middle East & N. Africa	105	73	27	74
South Asia	108	52	11	61
Sub-Saharan Africa	100	34	6	62

Health:

Likewise, health, the other important human resource, is a key factor that determines efficiency or productivity of the people. The people who are

undernourished and malnourished often suffer from sickness cannot be efficient and therefore cannot contribute much to the increase in productivity.

Besides, health enjoyed by the people is good in itself as it directly increases the happiness and welfare of the people, Lower health of the people of developing countries is manifested lower life expectancy at birth, higher mortality rate of children under 5 years age, undernourishment and malnourishment (i.e., underweight children) of the people and access to improved sanitation facilities. Though health conditions in developing countries have greatly improved in the last some decades of development, there are still important differences between them and developed countries. The data of various health indicators is given in Table 4.4.

Table 4.4. Health Indicators

Country or Group	Life Expectancy at birth (years)		Under 5 years Mortality rate per 1000 live births		Undernourished persons (% of population)		Children under 5 Malnourished (under-weight)	Access to Improved Sanitation Facilities (% of population)	
	1990	2009	1990	2009	1990-92	2005-09	2004-09	1990	2008
Lower Income	52	57	171	118	38	31	27.7	23	35
Lower Middle	63	68	93	57	19	15	24.0	37	50
Upper Middle	68	72	51	22	8	6	–	78	84
High Income	75	80	12	7	5	5	–	100	99
Country									
Congo Dep. Rep.(LIC)	48	48	199	199	26	69	28.2	9	23
Egypt (LMC)	63	60	90	21	<5	<5	6.8	72	94
India (LMC)	58	64	118	66	20	21	43.5	18	31
Brazil (LMC)	66	73	56	21	11	6	2.2	69	80
Malaysia (UMC)	70	75	18	6	<5	<5	–	84	96
United States (HI)	75	79	11	8	<5	<5	1.3	100	100
United Kingdom (HI)	76	80	10	8	<5	<5	–	100	100
Region									
EAsT Africa & Pacific	67	72	55	26	20	11	8.8	42	59
Europe & Central Asia	68	70	52	21	7	6	–	87	89
Latin America & Caribbean	68	74	52	23	13	9	3.8	69	79
Middle E. & N. Africa	64	71	76	33	7	7	6.8	73	84
South Asia	58	64	125	71	22	22	42.5	22	36
Sub-Saharan Africa	50	53	181	130	31	26	24.7	27	31

LIC = Lower Income country; LMC = Lower Middle Income Country; UMC = Upper Middle Income Country and HI = High Income Country

It will be seen from Table 4.4 that life expectancy at birth in low income (LIC) and lower middle income countries (LMC) is 57% and 68% respectively in 2009 as against 80% in high income developed countries. Health conditions in South Asia and Sub-Saharan Africa are highly deplorable and

they continue to suffer from problems of acute undernourishment, malnourishment and children's mortality rate. Mortality rate of under 5 years age children per 1000 live births in 2009 was 118 in low income countries (LIC) and 57 in lower middle income countries (LMC). In India which is a lower middle income country, under 5-years mortality rate in 2009 was relatively high at 66 as against only 8 per 1000 live births in the United States and United Kingdom.

Two types of statistical data regarding nutrition are given in Table 4.4. First, undernourished persons in a country as per cent of population, undernourishment refers to dietary energy consumption that is continuously below minimum requirement for maintaining healthy life so as to carry out light physical activity with an acceptable minimum weight. Second, Child nutrition which is here measured by malnourishment of children under 5 year's age who are underweight. This un-nourishment impairs the working capacity of the individuals and also makes them unable to acquire education and skills needed for high productivity job.

It will be seen from Table 4.4 that percentage of under-weight persons to total population is very high in developing countries 31 per cent in low income countries (LIC) and 15 per cent in lower middle income countries whereas it is very low at 5% in high income developed countries in the year 2009. In India the percentage of undernourished persons to total population was high at 21 per cent but Brazil has succeeded in lowering it to 6 per cent of the population.

As regards the prevalence of malnourishment, the condition in India is shocking as it has the highest, 43.5%, of children less than 5 years age whereas it is only 1.3% in 2009. The same is the case with regard to access to improved sanitation facilities. It will be seen from Table 4.4 that in India 31 per cent of population has access to improved sanitation facilities as against 100 per cent in the United States and United Kingdom.

6. Dualistic Structure of the Underdeveloped Economies:

An important feature of developing economies, especially those which are marked by surplus labour is that they have a dualistic structure. This dualistic character of these economies has been held to be the cause of unemployment and underemployment existing in them. Keeping in view this dualistic structure of less developed economies, important models of income and employment have been propounded.

Famous Lewis model of economic development with unlimited supplies of labour and Fei-Ranis model of “Development in a Labour Surplus Economy” explain how in dualistic economies, the unemployed and underemployed labour in the traditional sector is drawn into a modern high productivity sector.

The concept of dualism was first of all introduced into the development analysis by Dr. J.H. Boeke but he emphasised the social dualism, according to which there is sharp contrast between the social systems characterising the two broad sectors of the economy, one in which the original social system with its subsistence or pre-capitalist nature, limited wants, non-economic behaviour and low level of economic and social welfare prevails, and the other where imported capitalist system with its modern system of industrial organisation, wage employment, unlimited wants and positive behaviour to economic incentives exists.

However, it is technological dualism rather than Boeke’s social dualism which has an important bearing on the problem of economic growth and surplus labour in the developing countries. According to the concept of technological dualism, the important difference between the traditional and the modern sectors lies in the difference between the production techniques or technologies used. In the small modern sector consisting of large-scale manufacturing and mining which provides wage employment, highly capital-intensive techniques imported from the developed countries are used.

On the other hand, in the large traditional sector covering agriculture, handicrafts and allied activities, in which there exist extended family system and self-employment, labour-intensive technology is generally used. As a result of the difference in technologies used, the labour productivity and levels of earnings in the modern sector are much higher than those in the traditional sector.

Moreover, since the technology used in the modern sector is highly capital-intensive, the growth of this sector has not absorbed adequate amount of labour in high productivity and high wage employment. With the explosive rate of growth of population and labour force and the limited creation of employment opportunities in the modern sectors because of the highly capital-intensive technology, surplus labour has emerged in the agriculture and services. It has been possible for agriculture to contain the surplus

labour because of the prevalence of extended family system in which both work and income are shared by the family members.

We thus see that the problem of unemployment and underemployment in less developed economies has been intensified by the technological dualism caused by the use, in the modern manufacturing and mining, of capital-intensive technology imported from abroad which is wholly unsuitable to the factor endowments of these less developed economies with abundant labour and small capital.

The unemployment and underemployment in these less developed economies are not only due to the slow growth of capital or low rate of investment, it is also due to the highly capital-intensive techniques used in the modern sector. This technological dualism with the fact that modern sector has limited labour-absorptive capacity contains important implications for development strategy to be framed for less developed countries like India with surplus labour.

Need for Development:

There is a very urgent need for economic development in the underdeveloped or poor countries. Economic development is needed so that living standards of their people may be raised. What is more important is that economic development of the poor countries is necessary from the point of view of the richer countries. What do we find today? The world is divided into two parts- one of the poor and the other of the rich which is continuously becoming richer.

Such a situation threatens the economic and political stability of the world. Unless the poor countries are enabled to share the general prosperity, their condition will become more and more difficult. It is the relative difference between the rich and poor countries which will make the poor countries discontented. Ever-increasing discontent in the poor countries is bound, sooner or later, to aggravate the already explosive situation in the world.

As the gulf between the rich and poor countries widens, the tension in the world will grow. The poor countries will agitate more and more for a share in prosperity and, consequently, their demand on the richer countries will grow louder and louder in volume and intensity. There is ample evidence in the world of the fact that when nations cannot solve their domestic problems,

their governments plunge them into war with their neighbours who may be prosperous. It is thus in the interest of world peace and harmony that the poor countries are enabled to remove or reduce their poverty.

There is a growing and legitimate desire of the poor nations to eradicate poverty. The desire to develop is keenly felt by different sections of their population. Their desire to develop is natural and understandable because they experience acute physical sufferings as a result of appallingly miserable economic conditions in which they live. The masses in the poor countries constantly face hunger, illiteracy, sickness and are forced to eke out a life of extreme poverty.

Note that, according to the new view as made popular by Amartya Sen economic development is needed mainly for two reasons:

- (1) The removal of poverty,
- (2) Enlargement of human capabilities and freedoms.

For the removal of poverty capabilities of the poor should be enhanced so that they should be able to meet their minimum basic needs which include getting adequate food, health, clothing and shelter. To achieve these economic growths is necessary but not sufficient. Therefore, for removal of poverty, direct anti-poverty measures such as generation of enough employment opportunities are taken.

Secondly, as emphasized by Amartya Sen, development is needed so that people should enjoy freedom and life of valued functioning. To quote Amartya Sen, “The valued functioning may vary from elementary ones, such as being adequately nourished and being free from avoidable diseases to very complex activities or personal states such as being able to take part in the life of community and having self-respect”. Thus, according to Amartya Sen, freedom of choice, and control of one’s own life are central aspects of well-being for which true development is needed.

Times are gone when people believed in their destiny or kismet. They are no longer prepared to reconcile to their poverty as resulting from fate. They have now realized that the solution of the problem of poverty lies in economic development. This realization has been further strengthened by the ever-increasing contacts and communications between such countries

and the developed countries. The awareness of the possibilities of development is growing every day. Already, the upper sections of society in developing countries are imitating the living standards prevalent in the rich countries.

The desire for development has followed the political freedom of the many poor countries from foreign rule. It has now been realised that political freedom without economic freedom and prosperity has no meaning. Political independence has naturally raised expectations of the people in the economic sphere. No wonder that people of these countries which have won freedom from the colonial rule aspire to develop economically and that in the shortest possible time

Labour Problem can be defined as the problem of improving the conditions of employment of the wage-earning classes. It encompasses the difficulties faced by wage-earners and employers who began to cut wages for various reasons including increased technology, desire for lower costs or to stay in business at all cost. The wage-earning classes responded with strikes, by unionizing and by committing acts of outright violence.

It was a nationwide problem that spanned nearly all industries and helped contribute to modern business conditions still seen today. Possible causes include the failure to account for the negative externality of reproduction in the face of finite natural resources which results in over-supply of labor and falling living standards for wage-laborers, depersonalization by machines and poor working conditions.

Most developing economies have labour related problems, such problems include:-

1. Shortage of labour – many developing countries lack skilled labour. The reasons are because majority of the population are not skilled or semiskilled labour. For that reason they use expertise (foreigner) in productions that need high level skilled manpower.
2. Most people who are working receive low wage payments which are common among employees who have no skills or are semi-skilled. That is those who have little or no education.

3. Labour is abundant for agriculture, while there is less labour for industries, commerce and services.

4. Government is the chief employer of labour. While the employment by the organized private sector is minimal in such economy. 5. Labour force problem is a characteristic of many self-employed artisans who are not organized nor have anything to do with government, government institutions or the organized private sector.

Labour Problems in developing countries

We have identified the following as some of the labour problems in Nigeria;

1. Disparity between the supply of labour and the demand for labour force: This does not march with a corresponding increase in job opportunities. The total number of youths and graduates who are willing and ready to participate in the labour market cannot find places to work.

The implication is that the supply for labour is more than the demand for labour. Under such situation the wage rate will be affected negatively. The rate could even fall below the market equilibrium under the free enterprises economy. The effect is that supply of labor increases while it demands falls drastically and at the end of the day, the problem compounds into low wage payments.

2. Series of Industrial conflict – conflicts take the form of strike and other destructive form of man-days are lost and production activities are also stopped. In the same way important services that could have contributed to economic development and to human welfare are held by the labour force. These are thought to affect negatively the pace of economic development especially in less developed Countries (LDCs). It affects all economic activities of the state, thus determination of wages are no longer triggered by the free interplay of the forces of demand and supply.

3. The role of inflation – The problem of inflation has serious negative influence in the labour market. Inflation gives rise to the prices of the factors of production. Similarly it has influence in the commodity price; it leads to low production because of its effect on the factors price. Inflation is most times heightened by low production, money laundering or structural defects which are very peculiar to the developing countries' economy economy.

4. Consistent failure of imported ideas or strategies: In the past years most imported ideas, approaches and strategies have failed to work in developing countries. Non workability of the ideas is attributed to differences in collective and historical background. Attempt to emulate foreign ideas or policies would end up aggravating the problems already faced in the developing countries' labor market rather than solving them.

5. Insecurity – This is one of the major problem facing the labour force in developing countries. It is more pronounced in the labour sector and amongst our youths.

6. Violation of Institutional Arrangements: Wages are supposed to be negotiated and not rewarded. Basically there is always an institutional arrangement for wage determination which could either be by collective bargaining, labor courts or sometimes the police force.

Unfortunately, the institutional arrangements are completely violated and flawed by the state which of course distorts the flow or functioning of the labor market. A very good example is the award of wages to workers by the state.

7. The problem of informalization of the economy: It is one of the labour problems faced by developing countries. It has caused labour issues and has affected the demand of labour in the labour market.

8. Mismatch of skills: This is one of the major problems in the Nigerian labour market and it is greatly affecting the demand for labour in the market.

9. Geographical mismatch, political and regional interference and regional differences or crisis are some of labour problems in Developing countries.

Shortage of labour – many developing countries lack skilled labour. The reasons are because majority of the population are not skilled or semiskilled labour. For that reason they use expertise (foreigner) in productions that need high level skilled manpower.

Most people who are working receive low wage payments which are common among employees who have no skills or are semi-skilled. That is those who have little or no education.

Labour is abundant for agriculture, while there is less labour for industries, commerce and services.

Government is the chief employer of labour. While the employment by the organized private sector is minimal in such economy.

Labour force problem is not a characteristic of many self-employed artisans who are not organized nor have anything to do with government, government institutions or the organized private sector.

4. **What are the causes of child labour and as a Human Resource personnel how will you mitigate the same in your organization?**

Child labour is when a person below 15 years of age is doing work that is depriving them of their childhood, their potential and their dignity - when the work is harming their physical and mental development. When a child is forced to leave school or combine schooling and work or when they are getting sick from the kind of work that they do – this is considered child labour.

The most extreme and abhorrent forms of child labor involves child slavery, hard labor, prostitution and mutilation. Most of these children can be found working in the agricultural and textile sectors, factories, mining companies, sweatshops and home-based operations. Companies employ them for their low wages which drives down their operational costs.

Child labour refers to the exploitation of children through any form of work that deprives children of their childhood, interferes with their ability to attend regular school, and is mentally, physically, socially or morally harmful. Such exploitation is prohibited by legislation worldwide, although these laws do not consider all work by children as child labour; exceptions include work by child artists, family duties, supervised training, and some forms of child work practiced by Amish children, as well as by Indigenous children in the Americas.

Child labour has existed to varying extents throughout history. During the 19th and early 20th centuries, many children aged 5–14 from poorer families worked in Western nations and their colonies alike. These children mainly worked in agriculture, home-based assembly operations, factories, mining, and services such as news boys—some worked night shifts lasting 12 hours. With the rise of household income, availability of schools and passage of child labour laws, the incidence rates of child labour fell.

In the world's poorest countries, around 1 in 4 children are engaged in child labour, the highest number of whom (29 percent) live in sub-saharan Africa. In 2017, four African nations (Mali, Benin, Chad and Guinea-Bissau) witnessed over 50 percent of children aged 5–14 working. Worldwide agriculture is the largest employer of child labour. The vast majority of child labour is found in rural settings and informal urban economies; children are predominantly employed by their parents, rather than factories. Poverty and lack of schools are considered the primary cause of child labour.

Globally the incidence of child labour decreased from 25% to 10% between 1960 and 2003, according to the World Bank Nevertheless, the total number of child

labourers remains high, with UNICEF and ILO acknowledging an estimated 168 million children aged 5–17 worldwide were involved in child labour in 2013

The working condition of child laborers can be subhuman. Some of them are forced to work more than 12 hours a day. Some child prostitutes are forced to participate in sexual acts that permanently ruins their innocence. Most of them are paid a pittance for the long hours of work. One cannot imagine our own children going through the same plight

The problems of child Labour exist throughout the world. It is however common in developing countries, particularly rural areas where the capacity to enforce minimum age requirements for schooling and work does not exist. Here children are being exploited and forced into child labour. They have little or no chance of receiving formal education. Children in this category are working objects of extreme exploitation with minimal wage.

The conditions under which these children work in most developing countries are very severe. They are often not provided the sanitation for proper physical and mental development.

In most countries of the world there are restrictions on child labour but not followed in many developing countries. Most state leaves these children vulnerable to exploitation. Child labors are the worst paid categories in the world. They face health hazards and potential abuse. Most employers take undue advantage of child laour knowing that they cannot legally form unions to change their conditions of employment.

This manipulation stifles the development of youths in the society. The working conditions of these children do not provide the stimulation for proper physical and mental development. Consequently, these children are deprived of the simple joy of childhood. (Gbosi, 2005).

Causes of child labour

The following are the causes of child labour;

- i. **Poverty:** Children in the child labour category work for many reasons. The most important is poverty. Children work to ensure the survival of their family and themselves. Children are paid far less than adults. The income they earn is of benefit to their poor families.
- ii. **Schooling Problems:** The school problems contribute to child labour. Many times children seek employment because they don't have access to schools or good education. Even when there is access to education, the low quality of education often makes attendance a waste of time for most students.
- iii. **Traditional Factors:** In Africa most female children, based on cultural believe and traditional believe that women will not fit into native roles if they become educated. They believe that educated women will not get married or have children. Therefore many families prefer their female children to take over household duties. The intended purpose is to release mothers for paid employment in many developing countries. Such cultural practices eventually restrict the education of females and promote child employment in many developing countries. This make certain siblings going to school while others work.
- iv. **Rapid Rural Urban-Migration:** This is another reason for the increasing rate of child labour in urban areas of developing countries. Families leave the severity of agricultural working conditions for cities in order to search for economic opportunities that often do not exist.

Besides the above there are other several factors that courses child labour

Primary causes

International Labour Organization (ILO) suggests poverty is the greatest single cause behind child labour. For impoverished households, income from a child's work is usually crucial for his or her own survival or for that of the household. Income from working children, even if small, may be between 25 and 40% of the household income. Other scholars such as Harsch on African child labour, and Edmonds and Pavcnik on global child labour have reached the same conclusion.

Lack of meaningful alternatives, such as affordable schools and quality education, according to ILO, is another major factor driving children to harmful labour. Children work because they have nothing better to do. Many communities, particularly rural areas where between 60–70% of child labour is prevalent, do not possess adequate school facilities. Even when schools are sometimes available, they

are too far away, difficult to reach, unaffordable or the quality of education is so poor that parents wonder if going to school is really worth it.

Cultural causes

In European history when child labour was common, as well as in contemporary child labour of modern world, certain cultural beliefs have rationalised child labour and thereby encouraged it. Some view that work is good for the character-building and skill development of children. In many cultures, particular where the informal economy and small household businesses thrive, the cultural tradition is that children follow in their parents' footsteps; child labour then is a means to learn and practice that trade from a very early age. Similarly, in many cultures the education of girls is less valued or girls are simply not expected to need formal schooling, and these girls pushed into child labour such as providing domestic services

Macroeconomic causes

Biggeri and Mehrotra have studied the macroeconomic factors that encourage child labour. They focus their study on five Asian nations including India, Pakistan, Indonesia, Thailand and Philippines. They suggest¹ that child labour is a serious problem in all five, but it is not a new problem. Macroeconomic causes encouraged widespread child labour across the world, over most of human history. They suggest that the causes for child labour include both the demand and the supply side. While poverty and unavailability of good schools explain the child labour supply side, they suggest that the growth of low-paying informal economy rather than higher paying formal economy is amongst the causes of the demand side. Other scholars too suggest that inflexible labour market, size of informal economy, inability of industries to scale up and lack of modern manufacturing technologies are major macroeconomic factors affecting demand and acceptability of child labour

Child labour by country

.Colonial empires

Systematic use of child labour was common place in the colonies of European powers between 1650 and 1950. In Africa, colonial administrators encouraged traditional kin-ordered modes of production, that is hiring a household for work not just the adults. Millions of children worked in colonial agricultural plantations, mines and domestic service industries. Sophisticated schemes were promulgated where children in these colonies between the ages of 5–14 were hired as an apprentice without pay in exchange for learning a craft. A system of Pauper Apprenticeship came into practice in the 19th century where the colonial master neither needed the native parents' nor child's approval to assign a child to labour, away from parents, at a distant farm owned by a different colonial master. Other schemes included 'earn-and-learn' programs where children would work and thereby learn. Britain for example passed a law, the so-called Masters and Servants Act of 1899, followed by Tax and Pass Law, to encourage child labour in colonies particularly in Africa. These laws offered the native people the legal ownership to some of the native land in exchange for making labour of wife and children available to colonial government's needs such as in farms and as *picannins*¹

Beyond laws, new taxes were imposed on colonies. One of these taxes was the Head Tax in the British and French colonial empires. The tax was imposed on everyone older than 8 years, in some colonies. To pay these taxes and cover living expenses, children in colonial households had to work.

In southeast Asian colonies, such as Hong Kong, child labour such as the *Mui Tsai*, was rationalised as a cultural tradition and ignored by British authorities. The Dutch East India Company officials rationalised their child labour abuses with, "it is a way to save these children from a worse fate." Christian mission schools in regions stretching from Zambia to Nigeria too required work from children, and in exchange provided religious education, not secular education Elsewhere, the Canadian Dominion Statutes in form of so-called Breaches of Contract Act, stipulated jail terms for uncooperative child workers

Proposals to regulate child labour began as early as 1786

Africa

Child Labour in Africa

Children working at a young age has been a consistent theme throughout Africa. Many children began first working in the home to help their parents run the family farm. Children in Africa today are often forced into exploitative labour due to family debt and other financial factors, leading to ongoing poverty. Other types of domestic child labour include working in commercial plantations, begging, and other sales such as boot shining. In total, there is an estimated five million children who are currently working in the field of agriculture which steadily increases during the time of harvest. Along with 30 percent of children who are picking coffee, there are an estimated 25,000 school age children who work year round.

What industries children work in depends on if they grew up in a rural area or an urban area. Children who were born in urban areas often found themselves working for street vendors, washing cars, helping in construction sites, weaving clothing, and sometimes even working as exotic dancers. While children who grew up in rural areas would work on farms doing physical labour, working with animals, and selling crops. Of all the child workers, the most serious cases involved street children and trafficked children due to the physical and emotional abuse they endured by their employers. To address the issue of child labour, the United Nations Conventions on the Rights of the Child Act was implemented in 1959. Yet due to poverty, lack of education and ignorance, the legal actions were not/are not wholly enforced or accepted in Africa.

Other legal factors that have been implemented to end and reduce child labour includes the global response that came into force in 1979 by the declaration of the International Year of the Child. Along with the Human Rights Committee of the United Nations, these two declarations worked on many levels to eliminate child labour. Although many actions have been taken to end this epidemic, child labour in Africa is still an issue today due to the unclear definition of adolescence and how much time is needed for children to engage in activities that are crucial for their development. Another issue that often comes into play is the link between what constitutes as child labour within the household due to the cultural acceptance of children helping run the family business. In the end, there is a consistent challenge for the national government to strengthen its grip politically on child labour, and to increase education and awareness on the issue of children working below the legal age limit. With children playing an important role in the African economy, child labour still plays an important role for many in the 20th century.

Australia

From European settlement in 1788, child convicts were occasionally sent to Australia where they were made to work. Child labour was not as excessive in Australia as in Britain. With a low population, agricultural productivity was higher and families did not face starvation as in established industrialised countries. Australia also did not have significant industry until the later part of the 20th century when child labour laws, and compulsory schooling had developed under the influence of Britain. From the 1870s Child labour was restricted by compulsory schooling.¹

Child labour laws in Australia differ from state to state. Generally, children are allowed to work at any age, but restrictions exist for children under 15 years of age. These restrictions apply to work hours and the type of work that children can perform. In all states, children are obliged to attend school until a minimum leaving age, 15 years of age in all states except Tasmania and Queensland where the leaving age is 17.

Brazil

Child labour has been a consistent struggle for children in Brazil ever since the country was colonised on April 22, 1500 by Pedro Álvares Cabral. Work that many children took part in was not always visible, legal, or paid. Free or slave labour was a common occurrence for many youths and was a part of their everyday lives as they grew into adulthood. Yet due to there being no clear definition of how to classify what a child or youth is, there has been little historical documentation of child labour during the colonial period. Due to this lack of documentation, it is hard to determine just how many children were used for what kinds of work before the nineteenth century. The first documentation of child labour in Brazil occurred during the time of indigenous societies and slave labour where it was found that children were forcibly working on tasks that exceeded their emotional and physical limits. Armando Dias, for example, died in November 1913 whilst still very young, a victim of an electric shock when entering the textile industry where he worked. Boys and girls were victims of industrial accidents on a daily basis.

In Brazil, the minimum working age has been identified as fourteen due to continuous constitutional amendments that occurred in 1934, 1937, and 1946. Yet due to a change in the dictatorship by the military in the 1980s, the minimum age restriction was reduced to the age of twelve but was reviewed due to reports of dangerous and hazardous working conditions in 1988. This led to the minimum age being raised once again to 14. Another set of restrictions was passed in 1998 that restricted the kinds of work youth could partake in, such as work that was considered hazardous like running construction equipment, or certain kinds of factory work. Although many steps were taken to reduce the risk and occurrence of

child labour, there is still a high number of children and adolescents working under the age of fourteen in Brazil. It was not until recently in the 1980s that it was discovered that almost nine million children in Brazil were working illegally and not partaking in traditional childhood activities that help to develop important life experiences.

Brazilian census data (PNAD, 1999) indicate that 2.55 million 10-14 year-olds were illegally holding jobs. They were joined by 3.7 million 15-17 year-olds and about 375,000 5-9 year-olds. Due to the raised age restriction of 14, at least half of the recorded young workers had been employed illegally which lead to many not being protect by important labour laws. Although substantial time has passed since the time of regulated child labour, there is still a large number of children working illegally in Brazil. Many children are used by drug cartels to sell and carry drugs, guns, and other illegal substances because of their perception of innocence. This type of work that youth are taking part in is very dangerous due to the physical and psychological implications that come with these jobs. Yet despite the hazards that come with working with drug dealers, there has been an increase in this area of employment throughout the country.

Britain

Many factors played a role in Britain's long-term economic growth, such as the industrial revolution in the late 1700s and the prominent presence of child labour during the industrial age. Children who worked at an early age were often not forced; but did so because they needed to help their family survive financially. Due to poor employment opportunities for many parents, sending their children to work on farms and in factories was a way to help feed and support the family. Child Labour first started to occur in England when household businesses were turned into local labour markets that mass-produced the once homemade goods. Because children often helped produce the goods out of their homes, working in a factory to make those same goods was a simple change for many of these youths. Although there are many counts of children under the age of ten working for factories, the majority of children workers were between the ages of ten and fourteen.

Another factor that influenced child labour was the demographic changes that occurred in the eighteenth century. By the end of the eighteenth century, 20 percent of the population was made up of children between the ages of 5 and 14. Due to this substantial shift in available workers, and the development of the industrial revolution, children began to work earlier in life in companies outside of the home. Yet, even though there was an increase of child labour in factories such as cotton textiles, there were large numbers of children working in the field of agriculture and domestic production.

With such a high percentage of children working, the rising of illiteracy, and the lack of a formal education became a widespread issue for many children who worked to provide for their families. Due to this problematic trend, many parents developed a change of opinion when deciding whether or not to send their children to work. Other factors that lead to the decline of child labour included financial changes in the economy, changes in the development of technology, raised wages, and continuous regulations on factory legislation.

The first legal steps taken to end the occurrence of child labour was enacted more than fifty years ago' In 1966, the nation adopted the UN General Assembly of the International Covenant on Economic, Social and Cultural Rights. This act legally limited the minimum age for when children could start work at the age of 14. But 23 years later in 1989 the Convention on the Rights of Children was adopted and helped to reduce the exploitation of children and demanded safe working environments. They all worked towards the goal of ending the most problematic forms of child labour

Cambodia

Significant levels of child labour appear to be found in Cambodia. In 1998, ILO estimated that 24.1% of children in Cambodia aged between 10 and 14 were economically active. Many of these children work long hours and Cambodia Human Development Report 2000 reported that approximately 65,000 children between the ages of 5 to 13 worked 25 hours a week and did not attend school. There are also many initiative and policies put in place to decrease the prevalence of child labour such as the United States generalized system of preferences, the U.S.-Cambodia textile agreement, ILO Garment Sector Working Conditions Improvement Project, and ChildWise Tourism.

Ecuador

An Ecuadorean study published in 2006 found child labour to be one of the main environmental problems affecting children's health. It reported that over 800,000 children are working in Ecuador, where they are exposed to heavy metals and toxic chemicals and are subject to mental and physical stress and the insecurity caused by being at risk of work-related accidents. Minors performing agricultural work along with their parents help apply pesticides without wearing protective equipment.

India

In 2015, the country of India is home to the largest number of children who are working illegally in various industrial industries. Agriculture in India is the largest sector where many children work at early ages to help support their family. Many of these children are forced to work at young ages due to many family factors such as unemployment, a large number of family members, poverty, and lack of parental education. This is often the major cause of the high rate of child labour in India.

On 23 June 1757, the English East India Company defeated Siraj-ud-Daula, the Nawab of Bengal, in the Battle of Plassey. The British thus became masters of east India (Bengal, Bihar, Orissa) – a prosperous region with a flourishing agriculture, industry and trade. This led to a large number of children being forced into labour due to the increasing need of cheap labour to produce large numbers of goods. Many multinationals often employed children because that they can be recruited for less pay, and have more endurance to utilise in factory environments. Another reason many Indian children were hired was because they lack knowledge of their basic rights, they did not cause trouble or complain, and they were often more trustworthy. The innocence that comes with childhood was utilised to make a profit by many and was encouraged by the need for family income.

A variety of Indian social scientists as well as the non-governmental organisations (NGOs) have done extensive research on the numeric figures of child labour found in India and determined that India contributes to one-third of Asia's child labour and one-fourth of the world's child labour. Due to a large number of children being illegally employed, the Indian government began to take extensive actions to reduce the number of children working, and to focus on the importance of facilitating the proper growth and development of children. International influences help to encourage legal actions to be taken in India, such as the Geneva Declaration of the Right of Children Act was passed in 1924. This act was followed by The Universal Declaration of Human Rights in 1948 to which incorporated the basic human rights and needs of children for proper progression and growth in their younger years. These international acts encouraged major changes to the workforce in India which occurred in 1986 when the Child Labour (Prohibition and Regulation) Act was put into place. This act prohibited hiring children younger than the age of 14, and from working in hazardous conditions.

Due to the increase of regulations and legal restrictions on child labour, there has been a 64 percent decline in child labour from 1993-2005. Although this is a great decrease in the country of India, there is still high numbers of children working in the rural areas of India. With 85 percent of the child labour occurring in rural areas,

and 15 percent occurring in urban areas, there are still substantial areas of concern in the country of India.

India has legislation since 1986 which allows work by children in non-hazardous industry. In 2013, the Punjab and Haryana High Court gave a landmark order that directed that there shall be a total ban on the employment of children up to the age of 14 years, be it hazardous or non-hazardous industries. However, the Court ruled that a child can work with his or her family in family based trades/occupations, for the purpose of learning a new trade/craftsmanship or vocation.

Ireland

In post-colonial Ireland, the rate of child exploitation was extremely high as children were used as farm labourers once they were able to walk, these children were never paid for the labour that they carried out on the family farm. Children were wanted and desired in Ireland for the use of their labour on the family farm. Irish parents felt that it was the children's duty to carry out chores on the family farm.

Japan

Though banned in modern Japan, *shonenko* (child labourers) were a feature of the Imperial era until its end in 1945. During World War 2 labour recruiting efforts targeted youths from Taiwan (Formosa), then a Japanese territory, with promises of educational opportunity. Though the target of 25,000 recruits was never reached, over 8,400 Taiwanese youths aged 12 to 14 relocated to Japan to help manufacture the Mitsubishi J2M Raiden aircraft.

The Netherlands

Child labour existed in the Netherlands up to and through the Industrial Revolution. Laws governing child labour in factories were first passed in 1874, but child labour on farms continued to be the norm up until the 20th century.

Soviet Union and Russia

Although formally banned since 1922, child labour was widespread in the Soviet Union, mostly in the form of mandatory, unpaid work by schoolchildren on Saturdays and holidays. The students were used as a cheap, unqualified workforce on *kolhoz* (collective farms) as well as in industry and forestry. The practice was formally called "work education".

From the 1950s on, the students were also used for unpaid work at schools, where they cleaned and performed repairs. This practice has continued in the Russian Federation, where up to 21 days of the summer holidays is sometimes set aside for school works. By law, this is only allowed as part of specialised occupational

training and with the students' and parents' permission, but those provisions are widely ignored. In 2012 there was an accident near city of Nalchik where a car killed several pupils cleaning up a highway shoulder during their "holiday work" as well as their teacher who was supervising them.

Out of former Soviet Union republics Uzbekistan continued and expanded the program of child labour on industrial scale to increase profits on the main source of Islam Karimov's income, cotton harvesting. In September, when school normally starts, the classes are suspended and children are sent to cotton fields for work, where they are assigned daily quotas of 20 to 60 kg of raw cotton they have to collect. This process is repeated in spring, when collected cotton needs to be hoed and weeded. In 2006 it is estimated that 2.7 million children were forced to work this way.

Switzerland

As in many other countries, child labour in Switzerland affected among the so-called *Kaminfegerkinder* ("chimney sweep children") and children working p.e. in spinning mills, factories and in agriculture in 19th-century Switzerland, but also to the 1960s so-called *Verdingkinder* (literally: "contract children" or "indentured child laborers") were children who were taken from their parents, often due to poverty or *moral reasons* – usually mothers being unmarried, very poor citizens, of Gypsy–Yeniche origin, so-called *Kinder der Landstrasse*; etc. – and sent to live with new families, often poor farmers who needed cheap labour.

There were even *Verdingkinder* auctions where children were handed over to the farmer asking the least amount of money from the authorities, thus securing cheap labour for his farm and relieving the authority from the financial burden of looking after the children. In the 1930s 20% of all agricultural labourers in the Canton of Bern were children below the age of 15. Swiss municipality guardianship authorities acted so, commonly tolerated by federal authorities, to the 1960s, not all of them of course, but usually communities affected of low taxes in some Swiss cantons.¹ Swiss historian Marco Leuenberger investigated, that in 1930 there were some 35,000 indentured children, and between 1920 and 1970 more than 100,000 are believed to have been placed with families or homes. 10,000 *Verdingkinder* are still alive. Therefore, the so-called *Wiedergutmachungsinitiative* was started in April 2014. In April 2014 the collection of targeted at least authenticated 100,000 signatures of Swiss citizens has started, and still have to be collected to October 2015.

Ways of Tackling the Problem of Child Labour:

- **Improved quality education:** If the governments improve the quality of education, the value will increase to children and parents. School represents the most important means of drawing children away from the labour market. School provides children with guidance and opportunity to understand their role in the society. Therefore there is need to adequately fund all levels of education in developing countries.
- **Provision of Subsidies:** Poor families should be provided with subsidies prone to having children. This will enable them afford their children's school fees and other fees associated with attendance. The issue of poverty should be addressed so as to reduce the level of child labour.
- **Establishing partnership with International Organizations:** These organizations should include united nation (UN), the International Labour Organization (ILO), the World Bank, the International Monetary Fund (IMF) and other international agencies should be encouraged to assist government of developing countries in the area of financial aid, public enlightenment campaigns and the establishment of a world labour court. The court should be charged with handling matters relating to the problems of child labour throughout the globe.
- **Begin with yourself**

Let's accept that the people who employ children at their homes or places of work in the name of giving them an opportunity to earn a living and sustain themselves instead of starving, are not as charitable as they pretend to be. They benefit greatly from the children they look upon as nothing more than cheap labour; labour that doesn't question them, is always at their service, resides in a corner of their house to answer their every beck and call, and can be molded to the best of the owner's needs.
- But here's what we need to remember: change begins with YOU.
- Refrain from keeping 'chotus' to clean your house, take care of your younger ones, do your dishes or wash your car. Instead, employ the poor adults in need of employment to sustain their families. While there are reasons humane enough to encourage you to do so, if that doesn't work, please remind yourself that child labour is illegal!

Be a conscientious consumer

- Be it garments, confectionery, jewelry or any other consumer product, ask your retailer, manufacturers or shopkeeper if their brand is child-labour free. They might not always have an answer as sometimes, the supply chain has many layers and the end seller might not be aware of the processes followed

at other levels. But at least you've asked! This will make them think. Many might even be encouraged to investigate and ensure no child labour is involved in their business.

- You can also suggest they put up a proud declaration on their premises stating 'My business is child labour free!'
- Another option is to make a conscientious decision to go with organisations like *GoodWeave*. Formerly known as *Rugmark*, this is a global network of organisations, committed to end child labour in carpet and readymade garment industry.
- This industry used to be one of the most notorious with incidents of atrocious working conditions and forced child labour. Many organizations including *Bachpan Bachao Andolan*, have worked through their rescue operations and liberated many bonded child labourers from the carpet industry.
- As responsible citizens, you must go for brands promoted by *GoodWeave* as those have been certified to be child labour free after a rigorous process of investigation.

Educate yourself on the laws

- One of the first steps to making the society child labour free is to yourself know about the provisions laid down in our Constitution for the protection of children, as well as the various laws in place to stop their exploitation and ensure prosecution of offenders. A simplified list of such provisions and laws can be accessed.
- Once you are aware of this, you are better equipped to assess the situation at hand and to warn the offenders around you.

Use the fear of retribution for good!

- Promotion - While you try talk to the offenders about the trauma child labour can have on the children's psyche, they might not be as moved. Because, let's accept it, had they considered those children as humans with feelings, they would not have subjected them to slavery, thus snatching away their innocent childhood. In such cases, informing them of the penalty laid down by law, for the protection of children, has a better chance of keeping them from destroying childhoods.

Be vigilant and report abuse

- Be aware of any form of child abuse or exploitation happening around you. Remember, such children need us to be their voices. Know about the concerned authorities in your locality such as the RWA head, NGOs or CBOs active in your area.
- When you come across any case of child labour in your surroundings, immediately inform the police at 100 or call the Child Helpline at 1098 or reach out immediately to the NGOs/CBOs in your locality. You can also inform these concerned authorities either personally or through a phone call or letter. Phone calls or letters can be used to keep your identity anonymous in case the offender is someone influential.

Talk to the parents of child labourers

- Having the parents understand the ill-effects of child labour also helps in ensuring effective rehabilitation of the child, post rescue.
- Many times, there are children working around us with their parents also in the vicinity. This gives you a brilliant chance to talk to these parents about the serious implications that child labour has on children, in long run. Try counselling the parents of these children and persuade them to take the children out of work and enroll them in schools instead, thus helping the children move towards a different and better future.
- While the parents are likely to cite reasons like poverty and illiteracy, you can counsel them to understand this vicious circle. Poverty leads to child labour and child labour in turn, ensures that poverty remains. If there has to be a economically bright future for these families, their children must be provided with quality education and skill building.

Volunteer with some pioneer movements /organisations working to eradicate child labour

- Volunteer at the nearest regional office of these organisations to understand this issue in-depth and understand what's being done and what needs to be done, going forward. You will be appalled to know of the atrocities and the inhumane conditions these children are subjected to, in many cases.
- And these organisations always need a helping hand in their work. Take some hours out from your weekend and help them in whichever way you can.
- *Bachpan Bachao Andolan* is one of the pioneer grassroots movements, founded by Kailash Satyarthi, Nobel Peace Prize Laureate. In its work of over 35 years, it has rescued and rehabilitated over 85,000 children working as

forced labourers in industries as diverse as garment manufacturing, cosmetics, firecrackers, toy making, slaughterhouses, tea plantations, footwear automobile, electronics, etc.

Be a well-informed voter

- Pay attention to the agenda of the candidates in your constituency. If child labour elimination is not a part of their agenda, bring that up in discussion forums and other interactions you may have with them. If they don't condemn child labour, or show disinterest in working towards its total elimination, don't vote for them. Spread this awareness among other voters around you as well.

Ensure a child labour free community

- Engage with the RWA in your locality to address the issue of child labour. Persuade them to make it a key priority to ensure that the locality is child labour free. Regular meetings with residents can be organized, where they are encouraged to keep adults as maids and helpers, and are asked to report cases of child labour around them.
- You could also engage with RWAs to hold meetings with the children of the families residing in the locality to involve them in the cause. After all, who better than children to speak for their fellow children!

Becoming Aware

- **Understand the economic factors.** Before we can take action, we need to understand what leads to child labor. In many impoverished countries, children make up nearly half the labor force. Sometimes families need their children to work and help pay household expenses, and employers take advantage of this desperation by forcing children to work long hours in hazardous conditions for low pay and no rights.
- **Understand the role of education.** One of the root causes of child labor is poor or corrupt schools and a "lack of earning during learning." Most basically defined, "lack of earning during learning" means that children are not earning money while they are attending school; this lack of earning and the need for families to earn more money results in school dropout. Improving access to quality education is one way to intervene and help stop child labor.
- **Research organizations.** Use the internet to find out which organizations support anti-child labor initiatives. Browse their mission statements and

events pages to get a sense of their stance on the issues, and how they plan to help exploited children workers. Here are a couple of websites to start with:

- **Volunteer with a local chapter.** Your time and talents are a great resource. There are several non-for-profit organizations, like Human Rights Watch or Global March Against Child Labour, who depend on volunteer help to defend, uphold, and advance human rights.
 - Local chapters especially need volunteers to help in the day-to-day running of the organization. For a listing of local chapters, look here.
 - Reach out to your local chapter through their website or email. They will have more information and specific people to contact on their websites as well as more ways for you to get involved.
 - Offer to help run specific outreach programs or events in your area.
 - Offer to be in international ambassador. If you're interested in helping beyond your local level, volunteer to go abroad and help in those countries most plagued by child labor injustices.
- **Organize events.** This is a great way for your group to make a difference and raise more awareness about child labor injustices. There are countless types of events you can host -- from fundraisers and book drives, to film screenings and public lectures. Whichever event you choose, your efforts will make an impact and bring awareness to your group and anti-child labor cause

Taking Action in Other Ways

- **Send letters and emails.** Find out who your local government policy makers are and tell them about the need to end child labor, both domestically and internationally.^[4]
- **Make your point through media.** Media is an effective tool to reach a large number of people and to share your message.
 - Get involved with local newspapers and magazines by writing columns or op-ed pieces about anti-child labor activism.
 - If you are artistically inclined, considered integrating child labor issues into your next song, poem, short story, or art piece as a way to spread awareness.
- **Be a mindful consumer.** Many of our daily consumables are made in unethical ways, including the use of child labor.^[5]

- Take a little extra time to find out how your clothes and food are made. Don't buy from a company that is known to use child labor.
- Look for products with Fair Trade logos or that are made with sweatshop-free labor.^[6]
- Consider adding an application to your smart phone or mobile device that helps you search for Fair Trade and ethical products while you're shopping.^[7]
- **Be the change.** Passion can be contagious, so share your interest with your friends, family, coworkers, and anyone willing to listen. You're making a difference just by caring and hopefully others will take notice and be inspired to do the same!
- Setting up petitions and campaigns to make people more aware at your school/college can help, and charity fundraisers are always a good idea. You can sometimes get representatives from charities to hold talks about their work, which can be delivered to other students. Joining in with any marches or rallies with a group of like-minded people would be good too.
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- Learn to spot the signs of a person who is being compelled to work or trafficked. Often if you see someone with another person and they are not allowed to speak or look up, that can be a warning sign. Boycott child labor by avoiding the purchase of things made in countries that use child labor.

Becoming Aware

- **Understand the economic factors.** Before we can take action, we need to understand what leads to child labor. In many impoverished countries, children make up nearly half the labor force. Sometimes families need their children to work and help pay household expenses, and employers take advantage of this desperation by forcing children to work long hours in hazardous conditions for low pay and no rights.
- **Understand the role of education.** One of the root causes of child labor is poor or corrupt schools and a “lack of earning during learning.” Most basically defined, “lack of earning during learning” means that children are not earning money while they are attending school; this lack of earning and the need for families to earn more money results in school dropout. Improving access to quality education is one way to intervene and help stop child labor.
- **Research organizations.** Use the internet to find out which organizations support anti-child labor initiatives. Browse their mission statements and

events pages to get a sense of their stance on the issues, and how they plan to help exploited children workers. Here are a couple of websites to start with:

Supporting an Organization

- **Volunteer with a local chapter.** Your time and talents are a great resource. There are several non-for-profit organizations, like Human Rights Watch or Global March Against Child Labour, who depend on volunteer help to defend, uphold, and advance human rights.^[3]
 - Local chapters especially need volunteers to help in the day-to-day running of the organization. For a listing of local chapters, look here.
 - Reach out to your local chapter through their website or email. They will have more information and specific people to contact on their websites as well as more ways for you to get involved.
 - Offer to help run specific outreach programs or events in your area.
 - Offer to be in international ambassador. If you're interested in helping beyond your local level, volunteer to go abroad and help in those countries most plagued by child labor injustices.
- **Sign petitions.** Organizations strive to influence policy makers and increase awareness through petitions. Through a little online research, you can find open petitions for local and global child labor issues.
- **Make a donation.** Supporting organizations and their efforts through a financial donation is another way to make a difference.
 - Many organizations sponsor public aid programs, collect funds for better schools, and offer financial services for children and their families; often, you can donate directly to these initiatives and individual programs.
 - Be sure to make contributions through reputed organizations so that your donated dollars really count and go where you want them.
 - If you chose to donate clothing, toys, or books, make sure these items are Fair Trade certified and haven't been produced through sweatshops or child labor.

Starting Your Own Group

- **Recruit members.** One of the first things you'll need to do if you decide to start your own activist group is to recruit like-minded members.

- Try personally inviting friends, family, and community members.
- Send out blast emails to other groups you belong to.
- Post informational flyers in local coffee shops or bookstores.
- Set up a website to explain and promote your new group.

Hold meetings.

- Having meetings at a consistent time and place is vital to your group's success.
 - Meet once a week or once a month, as you and your members see fit.
 - Keep a directory of member's first names and email address so you can all stay in touch.
 - Offer to host your group meetings at your home, or see if a local hall can donate a meeting room.
 - Introduce new members at the beginning of each meeting and give them an overview of your group's mission statement and main goals concerning child labor.
 - Develop a clear agenda for each meeting including current events and news stories concerning child labor issues.
 - Encourage everyone to speak-up and share their ideas.
 - Invite members to bring snacks to share -- this helps generate camaraderie, conversation, and idea sharing.
- **Organize events.** This is a great way for your group to make a difference and raise more awareness about child labor injustices. There are countless types of events you can host -- from fundraisers and book drives, to film screenings and public lectures. Whichever event you choose, your efforts will make an impact and bring awareness to your group and anti-child labor cause.

5. Discuss the factors that determine the size and composition of a labour force?

Factors affecting the size of a labor force include population, income, educational attainment, home ownership, number of industries and government policies. Economic Online reveals that a 1 percent growth in state population causes a 0.74 percent growth in the size of the labor force. Additionally, an increase in minimum wage causes an increase in the size of a labor force.

According to Economic Online, home ownership has many benefits to the society, but it reduces employee mobility, decreasing the size of a labor force. An increase in the wage rate reduces the demand for labor, reducing the size of a labor force. On the other hand, high productivity increases the demand for labor and the size of a labor force. The supply of labor also affects the size of a labor force. Economic Online adds that immigration increases the size of a labor force while migration reduces it.

Preference for work also affects the size of a labor force because the benefits of working motivate people to seek employment. Economic Online notes that trade unions prevent a decrease in the size of a labor force by protecting the rights of workers. According to InContext, the cost of living has no impact on the size of a labor force.

Main factors responsible for determining the size of the firm are as follows:

The size of an average firm varies from country to country. We have, on the one hand, giant concerns in the United States and Germany and tiny businesses in small Indian towns. Why is it so? There are a number of factors which determine the size of a business unit in a country.

The following are the main factors responsible:

1. Entrepreneurial Skill:

The most important factor of comes is the skill, initiative and resourcefulness of the entrepreneur. Everything depends on his judgment and ability. An entrepreneur of outstanding ability will be able to procure as much finance as he may need, hire the requisite labor force and build up a huge business. But an entrepreneur of moderate ability will run business on a moderate scale and a man of limited entrepreneurial skill will be content with a small business

2. Managerial Ability:

For running the routine part of the business, managers are appointed. If a firm is lucky enough to have a manager of great ability, the size of the firm will grow to considerable dimensions. On the other hand, a mediocre manager will have a small-sized firm to manage.

3. Availability of Finance:

It is finance which oils the wheels of business machine. If ample funds are available, it will help the entrepreneur to make his business grow to a big size. This requires a proper development, of the banking system so that savings of the community can be effectively mobilized and utilized in the development of trade and industry.

4. Availability of Labour:

Another factor on which the size of the firm depends is the availability of labour of requisite skill. After all, what can the entrepreneur even with large capital do, if the labour to man the business is not available? What is required is efficient and skilled labour.

5. Nature of Business:

Much also depends on the nature of business. If the business obeys the law of increasing Returns, it will grow to a big size, otherwise, in the case of diminishing returns it will remain stunted, and in the case of constant returns it will remain stagnant

6. Extent of the Market:

The size of the firm also depends on the extent of the market. If the commodity in which the firm deals or which it-manufactures has a wide market, naturally the business will assume a large scale. But if the demand for the commodity is fitful or limited, the size of the firm will continue to be

small. These are some of the factors on which the size of an average firm in a country depends.

7. Personal Qualities of Labourers:

The efficiency of a worker is influenced by qualities which he acquires or possesses.

The important of them are as follows:

(i) Racial Qualities:

It has been seen that every person inherits certain qualities from the race to which he belongs.

The people of Northern India, especially the Jats, the Rajputs and the Punjabi's and the Dogras are considered more hardy and strong in comparison to those of Bengal. Hence, the efficiency of the former is higher than that of the latter.

(ii) Hereditary Qualities:

A child inherits the skill of his father by birth. He will be more efficient if he enters the trade of his father.

For example:

Swiss people are considered to be more efficient watchmakers than others because they have been making watches from generations.

(iii) Moral Qualities:

Man is a moral animal. In man not only self-alertness is present but all moral alertness and self-morality is present. Moral qualities increase the efficiency of the worker. An honest, sincere and good character worker is liked by the management and this quality helps in increasing the efficiency.

(iv) Individual Qualities:

If a worker is mentally alert, possesses good physique, is intelligent, sober, honest and resourceful and is responsible, he will be more efficient than others.

(v) General Education and Intelligence:

There are certain qualities which a worker acquires by education, general and technical. Among these attributes may be mentioned honestly intelligence, perseverance, judgment, health and strength of the body, resourcefulness, sense of responsibility, etc. Efficiency of labour depends also on these qualities. An honest intelligent and hard-working person will be more efficient in his work than one who lacks these qualities.

(vi) Standard of Living:

A worker having high standard of living is more efficient than a worker having low standard of living. Good nourishing food, suitable clothing, ventilated and comfortable home with healthy surroundings tend to increase the efficiency of the workers.

(vii) Organisation among the labourers:

Good and proper organisation of labour inside the factory will improve labour efficiency. A good and well organised trade union can also improve labour efficiency through its fraternal functions.

8. Working Conditions:

The conditions under which the worker works also influence his efficiency.

The factors which affect his working conditions are as under:

(i) Factory Environment and Place of Work:

If the factory is neat and well ventilated and the surroundings are sanitary and attractive and there is sufficient space for movement between machines and provision for fresh water, refreshment and rest between work, their efficiency will be higher.

(ii) Working Hours:

It must be remembered that small working hours with tea and lunch break, rest and recreation always help increase the efficiency of labour. It has been proved that long hours mean low efficiency.

(iii) Rate of Wages:

Efficiency of worker depends to a great extent on wages which he receives. A worker who receives sufficiently high wages will ensure an adequate standard of living will have high efficiency. A low-paid worker will always grumbles and is unable to put his heart into the job. Consequently, his efficiency will be low.

(iv) Regularity of Wages:

Regular payment of wages on a due date fixed increases efficiency of labour because workers adjust their budgets accordingly, otherwise they are put to much more inconvenience when wage payment is irregular and they are not able to devote themselves whole heartedly to their work which reduces their efficiency.

(v) Methods and System of Wage Payment:

If a worker is paid wages according to the work which he is doing, this increases efficiency of the worker. These days economists have recommended for 'incentive methods of wage payment'.

(vi) Nature of Machines:

The more advanced the machines are in a factory, the more efficient are the workers therein. A labourer, however, skilled and intelligent

Besides the above

1. **Population size** - Labour force is part of the population, the relationship between the population and labour force depends on birth rate, death rate and net immigration. Other demographic factors include:-

- b) **Age composition of the population** – This helps to determine the labour force. For example in Nigeria age eligible population that can participate in

labour force is within 15-64 years. Because they are qualified to belong to the labour force. The more we have people within this range the more the size of the labour force.

- c) **Sex composition of the population** – in any economy where the population skew favor any particular sex, for instance more men, it mean that more members of the population will be available for work whether skilled or unskilled.
- d) **Labour force participation rate of the population:**

Participation rate means the percentage of the working age population which is actually working or seeking for work. Labour force participation rate is determined by compiling the actual with the potential labour force or what is called the age eligible population.

- i) **Potential labour force** – The potential labour force or age eligible population is defined as the entire population less (i) young peoples under 15 years of age and the (ii) peoples who are institutionalized, children under 15 years of age are excluded on the assumption that in some countries schooling and child labour laws keep most of them out of the labour force.
- ii) **Actual labour force** – It consists of those people who are either employed or unemployed but actively seeking a job. In percentage form labour force

participation rate is expressed as actual labour force divided by potential labour force multiply by 100. i.e. $\frac{\text{actual labour force}}{\text{potential labour force}} \times 100$

Potential labour force

e) **The average number of hours worked weekly and annually:** By this the labour force minus the total amount of labour supplied in the economy does not depend only on the number of labour force that participates but also on the average no of hours worked per week and per year by those participants. Experience show that work week decline on weekly basis as follows:-

- Workers income – leisure preferences
- Non-wage income – if non-wage income increases, the no of working hours will reduce.
- Assumption that leisure is a normal goods

4. People attitude to work: General attitude of people in a particular society will affect the size of the labour force. In countries where those who belong to the labour force do not depend on the unemployment effort or any form of it (Social allowance or Benefit). The size of labour force would be large. In such a situation people will be willing to provide labour services for their up keep.

5. Quality of labour: A qualitative or superior labour force is one that is more experienced, more educated and better trained. Productivity of labour may be considering an investment in human capital. Human capital investment includes expenditures on:-

- a. Formal education
- b. On the job training
- c. Health and

migration Worker can become more productive by;

- Improving their physical and mental health
- By moving from locations and jobs where their productivity is relatively low to where their productivity is relatively high.

6. Legal requirement on women participation in the labour force: In some countries as a result of religious influence, women are excluded from the labour force, for that reason the size of the labour force in such a country will be limited to the no of men who are willing to work. If it happens in a country where the population of women exceeds that of men, it could mean that the greater no of the labour force is excluded from the labour market.

he may be, will produce relatively little if the machines on which he works are outmoded.

(vii) Prospects of Promotion:

If the worker knows that he will be suitably rewarded and promoted to a higher grade when he will produce more, then he will work diligently and his efficiency will increase. On the other-hand, the trade in which such incentives do not exist, the efficiency of labour will be low.

7. Conditions of the Country:

Efficiency of labour is also dependent on the social, political and economic conditions of the country.

Important factors are:

(i) Climatic Conditions:

The climate of a place also determines the efficiency of labour in a country. Workers who live and work under hot climate becomes tired soon both physically and mentally. As a result their efficiency declines. On the other-hand workers living and working in cold and temperate regions are more alert and hence their efficiency is high.

(ii) Social Conditions:

If the society to which the workers belong is backward and is based on caste and creed relationships, workers will not work in co-operation with workers belonging to other castes. This labour efficiency will be definitely low. Similarly workers who are fatalists are seldom hard-working by nature and hence their efficiency is also low.

(iii) Political Conditions:

Political conditions also affect the efficiency of labour. If the government of the country in which the worker lives is strong enough to preserve peace at home and provide security from foreign aggression, his efficiency will be high as against that worker who leads a life of insecurity in a country full of internal disturbances and constant threat of war from abroad.

(iv) Cultural and Religious Traditions:

The cultural and religious traditions of a country also affects the efficiency of a labourer, less educated people or illiterate people always fear with religion and they don't want to take such steps which may affect their normal efficiency.

(v) Social Security:

If a worker is to give his best, he must have reasonable assurance that in the event of injury, sickness, unemployment, disablement or death in service, he

or his dependents must be compensated suitably. If such provision is available this will definitely increase the efficiency.

(vi) Form of Economic System:

Form of economic system in a country also affects the efficiency of labour. A labourer of an under-developed country will get less wages or salary in comparison to a developed country.

8. Organisational and Managerial Ability:

Organisational and Managerial ability of the manager working in an organisation also affects the efficiency of the worker:

(i) Efficient Management:

Efficient management of the organisation affects the efficiency of labour. The worker will start working efficiently. In inefficient management efficiency of worker will decrease and working capacity will reduce.

(ii) Proper Relationship between Employer and Employee:

Efficiency of labour also depends upon the employer-employee relations. If the relations between the two are friendly and cardinal, efficiency of labour will be high. But the relationship between the employer and employees itself depends upon the behaviour of the employer towards the employees and that of trade unions towards the employer.

(iii) Sympathetic Attitude of the Management:

If the management possesses a sympathetic attitude towards the workers, the workers will give their best. On the other hand, a trade union which adopts militant attitude towards the employer, will lower labour efficiency.

9. Other Factors:

There are other factors also which affects the efficiency of labour and their considerations has been considered important.

They are:

(i) Labour Policy of the Government:

Labour policy of the government also affects the efficiency of a labourer. If the policy of the government is favourable towards labourer, it will create confidence in labourer and their efficiency will improve. If policy is unfavorable the labourer may feel disappointed.

(ii) Trade Unions:

If trade union is well organised the workers will have upper hand and they will get more wages and their standard of living will improve.

(iii) Sense of Patriotism:

Country in which workers are loyal to the country and have sense of patriotism the efficiency of workers will automatically go up. Love for the country encouraged them to do more efficiently.

6. With an aid of doctrines, discuss unemployment?

KEYNES stressed that under investment is the main cause of unemployment in an economy. According **KEYNES** the national income has two components, that part saved and that part consumed ($Y=C+S$) he emphasized that the entire amount saved must find its way to investment; if this is not so, it will result to chronic unemployment.

However the liquidity preference of individual who desire to hold fund in the form of cash as impediment. The amount of employment in an economy will depend on the volume of the national income. In order to maintain a high level of employment as previously, the amount of investment should be kept as high in the present period.

This has to be followed in some instance with the interest rate low enough to encourage saving and investment. Keynes said that even though it is possible saving and investment to be equal a level high enough to achieve full employment equilibrium is more likely to be reached at a lower point and demand for labour will not be enough at that point to ensure employment to those who desire job.

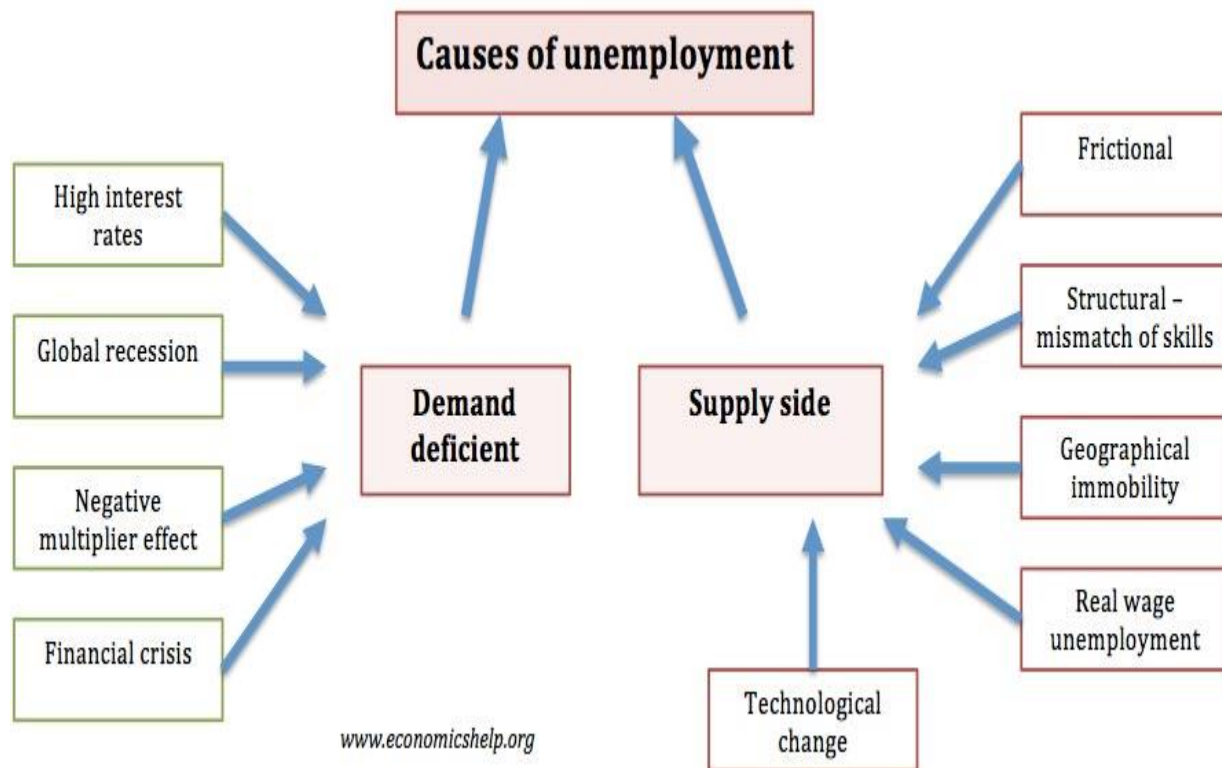
Some later followers of Keynes laid emphasis on interest rate as a method of inducing investment. They said that the decision of businessmen is more influenced by profit expectation and also by any cost reduction, which might be obtained from technological invention.

General unemployment shows that If the government fails to generate adequate level of aggregate monetary demand there will be general unemployment in the economy.

Government can influence the level of aggregate monetary demand by the manipulation of tax rates and public sector expenditures, so as to maintain full or nearly full employment.

7. **In your own view, what are the causes of unemployment in developing countries?**

Discuss briefly.



One reason for unemployment is voluntary. Some of the unemployed have saved enough money so they can quit unfulfilling jobs. They have the luxury to search until they find just the right opportunity.

The second cause is when workers must move for unrelated reasons. They are unemployed until they find a position in the new town.

The third reason is when new workers enter the workforce. That includes students who graduate from high school, college, or any higher degree program. They have more skills than if they didn't go to school. That's a big primary reason for youth unemployment.

The fourth reason is when job seekers re-enter the workforce. They went through a period in their lives when they stopped looking for work.

These include mothers who are re-joining the workforce after their children are old enough. Other re-entrants got married and set up the household while their spouses worked. Others had to care for elderly relatives before returning to the labour force.

The fifth cause is technology advances. That's when computers or robots replace worker tasks. Most of these workers need retraining before they can get a new job in their field.

The sixth cause is job outsourcing. That's when a company moves its manufacturing or call centers to another country. Labor costs are cheaper in countries with a lower cost of living. That occurred in many states in 1994. Many manufacturing jobs moved to Mexico from USA. It also occurred once when workers in China and India gained the skills needed by American companies.

The seventh reason for unemployment is when there are fewer jobs than applicants. The technical term is demand-deficient unemployment. When it happens during the recession phase of the business cycle, it's called cyclical unemployment.

Poor education: This is the major cause of unemployment in most countries that do not take serious care of their education sector. Nations who do not backup what the students are taught in their individual institutions of higher learning with practical background are likely to 'vomit' graduates yearly who cannot make good impact to the society.

When the graduates that are given out every year cannot defend what they studied, the only thing they do is to add to the unemployment level of the country.

Linking poor education level of nations with unemployment, Democratic Republic of Congo has one of the lowest education enrolments in Africa Continent. This poor education contributes seriously to unemployment in that country as many of their institutions were destroyed during the nation's Civil wars. So, the poorer the education sector of any country, the higher the increase in unemployment rate of the country.

The question is: how many of these graduates secure jobs after their graduation? The answer is that very little number of them secure jobs after years of their graduation. The reason is because there are little facilities and poorly trained teachers who rendered poor services to the graduates when they were in their institutions.

Lack of Skills: It is hard to see any person who is full of skills and still suffer from unemployment. A skillful person can adapt in many environments and feed appropriately to the fullness. One of the principal causes of unemployment among adults of different locations of the world is because good skills which can give them good self-employment are lacking in them. There are many importance of skill acquisition.

In many nations of the world, undergraduates are seriously working hard to acquire material certificates without putting into consideration the importance of skill acquisition. A skillful human being can stand at any point of test. When paper certificates are supported with skills their strengths are increased.

It is not a crime for someone who is studying mechanical engineering to go to a road-side mechanic (technician) and learn how to repair vehicles. When he learns this, it lessens insult which may be added to his injury (worsen the situation of unemployment) after his graduation.

What do I mean? Many who have graduated from mechanical engineering department most especially in African Continent are unable to defend their certificates when they are called for practical interview. They may perform well in theoretical examination but failed when they were called to show their skills from what they learnt by repairing faulty vehicles.

So to avoid worsening of the situation, they should learn skills necessary to see them through and can help them get their dream jobs even immediately after their graduation. When they have the necessary skills on their area of specialization, unemployment will be reduced as they will be employed; but contrary to that, there will be consistence rise in unemployment level.

It is shameful to hear that those who graduated from electronics and computer engineering in most developing or underdeveloped countries cannot produce or repair any electrical appliance. The major reason for that is because the skills needed are lacking. Youths, adults, and even the young are to go for skills to back themselves up.

Poor moral: One may ask: how can poor moral behaviour be a cause of unemployment? It is a cause of unemployment because many citizens have lost their jobs because their moral actions are too bad and negates the ethics of most structured organizations. Ladies wear some offensive clothes to their places of work and after advices by their boss get fired as a result of their stubbornness. They get sacked because their top banana (boss) could not take that from the poor morally

trained ladies.

Furthermore, some workers do not have good manner of approach. As a result of consistence complains received by the managers from their customers, the managers have no other option than to sack the workers before the misbehaved workers first 'sack' the customers. When the weak morally trained are given their walking papers (sacked), their numbers add to the number of those who have been 'swimming in the ocean of unemployment'.

There are those who suffer laziness the way patients suffer from diseases. They cannot attend work in a week without being late in at least two work days. This cankerworm that has eaten deep into their bodies became difficult for them to stop. After some time of lateness to duties, the Chief Executive Officer gets tired of them and decides to 'give run to them'. In order words, the CEO has to get the late comers sacked.

Poor government planning: A government that fails in her duty to help minimize unemployment in any country is as bad as a shepherd that does not care for his flock. Some top government officials are after their selfish interest without considering the importance of making provisions for her citizens. Due to the government's weakness, unemployment becomes the major problem in the country.

Selfish governments does not work hard in creating production companies where citizens of the country can get employed to reduce unemployment; rather, they keep on stealing and embezzling the public fund. When the funds that are supposed to be used by the government to provide employment for the masses is not used, the next that follows is persistence rise in unemployment status.

Corruption: What is corruption? How can corruption be a cause of unemployment? Corruption can be defined as immoral action which could involve bribery and embezzlement (misuse) of public fund for personal use. A corrupt government can be said to be a government which makes use of public fund for their (the government officials) personal and selfish use.

Corruption is a cause of unemployment because when those in government who are to use public money for building more manufacturing industries are busy embezzling the funds for their selfish use, the next is massive increase in unemployment rate.

According to 2008 census calculation in Liberia, 68 per cent of Liberians were unemployed in that year. In the same year, 2008, Liberia ranked 138 on the scale of 180 countries surveyed by Transparency International, which is a watchdog that

fight corruptions in countries and keep the records. This means that when 138 is subtracted from the 180, Liberia is known to be the 42nd most corrupt in the world in 2008 and that is still high when it comes to corruption.

When unemployment is connected to corruption, Liberia was the world most corrupt nation in 2013. It is clear evidence that corruption is also the major cause of unemployment.

Without going too far, Nigeria is the 8th most corrupt country in the world and this country also have high unemployment rate. The corruption in Nigeria government makes government of the country to spend less on the welfare of the citizens of the country.

When corruption is taken as normal routine, functions which are to be done by three persons is being taken up by one person alone and that same one person collects salaries made for three persons. Why won't unemployment rate increase when such action is being observed in the country?

Not All Causes of Joblessness Create Unemployment

If someone gives up looking for work, on the other hand, the **Bureau of Labour Statistics** (BLS) does not count them in the unemployment rate. If someone retires, goes back to school or leaves the work force to take care of children or other family members that is not unemployment.

That's because they no longer look for work. Even if they would prefer a job, the BLS doesn't count them as unemployed unless they looked in the past month.

Consequences of Unemployment:

Unemployment is not a friend and nobody of any kind even a mad person will not like to make it his friend. The reason is because there are many consequences it can bring. The word, consequence, is an English word, which means results or effects. So, consequences of unemployment are those things which unemployment can result to. Hence, the consequences of unemployment are:

Migration: Who will like to stay in any country where unemployment is on the high increase? Will you like to stay there if you are unemployed when you have other places to migrate to and secure good job at last? I am very sure that you will leave your country to another man's country where there is more availability of jobs to continue life in that part of the world.

What is migration? In this context, migration is movement from one particular area

where one is located to another in search of 'greener pasture'. Unemployment have made many citizens of specific country to move to other countries, work in the new locations, earn their money from that new location, and even die there at their old ages because they take the new place they migrate to as their new homes.

Conflict: There is a popular saying: an angry man is a hungry man. What is that that make the man angry which subsequently leads to hunger? The answer is that unemployment can make a man angry which results to hunger. When large numbers of citizens are unemployed, conflicts can come in because they are angry and hungry at the same time.

Many disagreements that are going on in some states of the world can be attributed to unemployment. People who are unemployed can come up one day and plan to indulge in rioting because of the problem of unemployment in the state. They in some cases move to Government Houses of their states in anger to show the disagreement they have against the ruling government.

Crime: What business does an employed worker have with criminal act going on in his or her country? Most people start thinking of one crime or the other that they will indulge in to make money when there is no source of income for them.

It is said that: an idle mind is devils workshop. Unemployment has made many minds to be idle which hence results to crime engagement. Many crimes committed today are because people do not have what they do for their living-unemployment. So, when they stay alone, they 'fabricate' one wicked act they will carry out, which is known as crime.

Low national industrial output: It is clear that any nation which faces unemployment will have decline in industrial production. This is because those who are to be employed into various manufacturing companies are not given opportunities to boost the output of the country.

Employing graduates and learned persons will increase products which are yearly produced in many nations. When there is fewer numbers of cosmetic companies in a nation instead of having many, the yearly output made by the country will be small. But when there are many cosmetic companies that produce the same products, the yearly cosmetic products will be of high increase. The high increase is because more workers were employed which help in rapid outputs that were obtained. In the contrast, due to low national industrial output because of unemployment, nations Gross Domestic Product (GDP) decreases.

Poverty: Mathematically, unemployment is directly proportional to poverty. Even any baby who is taught on unemployment can know that unemployment can result to Poverty. In the 2013 release of top countries that face high unemployment rate by International Labour Organization, Africa faces the highest unemployment rate. When this is compared with poverty level of African Continent, it is not farfetched that Africa continent is the poorest continent in the world. Yes! It is the poorest.

From the list of the world poorest country in the year 2013, the world poorest country is Democratic Republic of Congo located in African continent. In fact out of the top fifteen poorest countries released by the International Monetary Fund World Economic Outlook, fourteen of them came from Africa.

The increasing order in the poverty level of the top fifteen poorest nations in the world as in 2013 is given as: Mozambique→ Ethiopia→ Guinea→ Togo→ Mali→ Afghanistan→ Madagascar→ Malawi→ Niger→ Central African Republic→ Eritrea→ Liberia→ Burundi→ Zimbabwe→ Democratic Republic of the Congo. Out of these top fifteen poorest countries of the world, it is only Afghanistan that merged from another continent.

Kidnapping and robbery: What is kidnapping? Kidnapping can be defined as abduction of any person to receive ransom which can be money before the kidnapped is released from the captive. In criminal Law, kidnapping is the taking away or transportation of a person against the person's will, usually to hold the person in false imprisonment, a confinement without legal authority

Kidnapping is of higher increase in the recent time and government and other important organizations are fighting on daily basis to see that the menace is reduced in many parts of the world.

Missing of human beings is a daily occurrence in the United States of America. An astounding 2,300 Americans are reported missing every day, including both adults and children. This is as reported by the body in charge of keeping the records of the missing persons.

The question is: what are they used for or where can the abducted be found? Many persons said that some of these persons are used for sacrifices while others said that they are sold out to people in the form of slavery but nobody can really tell. According to a justice department study, nearly 90 per cent of the abductors are men.

According to the report on kidnapping, in the year 2000, Iraq was known to be the country with highest kidnapping activity with total of about 1, 500 foreigners kidnapped in that year. In the year 2004, Mexico registered the highest in kidnapping activity. Again, an estimate of about 12, 500 to 25, 500 persons are kidnapped per year in the world.

In totality, the cause of the kidnapping can be traced to be unemployment as one who has no job to sustain him can indulge in such act to make some money which he or she will use for daily expenses.

I do not think that a full flesh human being who makes enough money from where he is employed will have time to plot evil in the name of kidnapping to get ransom in return. Even if there are those who are working and still engage in kidnapping of people, they are of minimal number.

Robbery is another social criminal activity which can to be as a result of unemployment. One whose conscience is dead and wants to make money either by hook or crook can force himself into robbery to make money. Robbers have caused a lot of injuries to innocent persons and have shed lots and lots of blood.

Many do this because they want to meet up with the demand of life, which they think that the only option available to them is by armed robbery attacks.

Lawlessness: To make Law is good as it is a set of rules that govern group of persons living in a particular society or state. Laws are made by the Lawmakers and anyone who goes against it faces the 'kind of music' attributed to the offence. In a nutshell, any citizen that goes contrary to the Laws governing the state faces the punishment attributed to it.

Notwithstanding the importance of Law in any society, unemployment has made some Laws to be Lawlessness. How is that possible? People are no longer obedient to certain Laws that govern a group of persons because the government who made the Laws are not able to provide opportunities for the

citizens to get employed in many places of work.

The constitution of every nation prohibits armed robbery, yet people break this Law as a result of what unemployment caused.

Using Monetary Policy in Solving the Problem of Unemployment:

1. Monetary Policy:

Monetary policy would involve cutting interest rates. Lower rates decrease the cost of borrowing and encourage people to spend and invest. This increases AD and should also help to increase GDP and reduce demand deficient unemployment.

Also lower interest rates will reduce exchange rate and make exports more competitive.

In some cases, lower interest rates may be ineffective in boosting demand. In this case, Central Banks may resort to Quantitative easing. This is an attempt to increase money supply and boost aggregate demand.

Evaluation

- Similar problems to fiscal policy. e.g. it depends on other components of AD.
- Lower interest rates may not help boost spending, if banks are still reluctant to lend.
- Demand side policies can help to reduce demand deficient unemployment e.g. in a recession. However, they cannot reduce supply side unemployment. Therefore, their effectiveness depends on the type of unemployment that occurs.

Supply side policies for reducing unemployment

Supply side policies deal with more micro-economic issues. They don't aim to boost overall aggregate demand, but seek to overcome imperfections in the labour market and reduce unemployment caused by supply side factors.

Policies to reduce supply side unemployment:

- 1. Education and training.** The aim is to give the long term unemployed new skills which enable them to find jobs in developing industries, e.g. retrain unemployed steel workers to have basic I.T. skills which helps them find work in service sector. – However, despite

providing education and training schemes, the unemployed may be unable or unwilling to learn new skills. At best it will take several years to reduce unemployment.

2. Reduce power of trades unions. If unions are able to bargain for wages above the market clearing level, they will cause real wage unemployment. In this case reducing influence of trades unions (or reducing Minimum wages) will help solve this real wage unemployment.

3. Employment subsidies. Firms could be given tax breaks or subsidies for taking on long term unemployed. This helps give them new confidence and on the job training. However, it will be quite expensive and it may encourage firms to simply replace current workers with the long term unemployment in order to benefit from the tax breaks.

4. Improve labour market flexibility. It is argued that higher structural rates of unemployment in Europe are due to restrictive labour markets which discourage firms from employing workers in the first place. For example, abolishing maximum working weeks and making it easier to hire and fire workers may encourage more job creation. However, increased labour market flexibility could cause a rise in temporary employment and greater job insecurity.

5. Stricter benefit requirements. Governments could take a more proactive role in making the unemployed accept a job or risk losing benefits. After a certain time period the government could guarantee some kind of public sector job.

This could significantly reduce unemployment. However, it may mean the government end up employing thousands of people in un-productive tasks which is very expensive. Also, if you make it difficult to claim benefits, you may reduce the claimant count, but not the International Labour force survey.

6. Improved geographical mobility. Often unemployed is more concentrated in certain regions. To overcome this geographical unemployment, the government could give tax breaks to firms who set up in depressed areas. Alternatively, they can give financial assistance to unemployed workers who move to areas with high employment. (e.g.

help with renting in London)

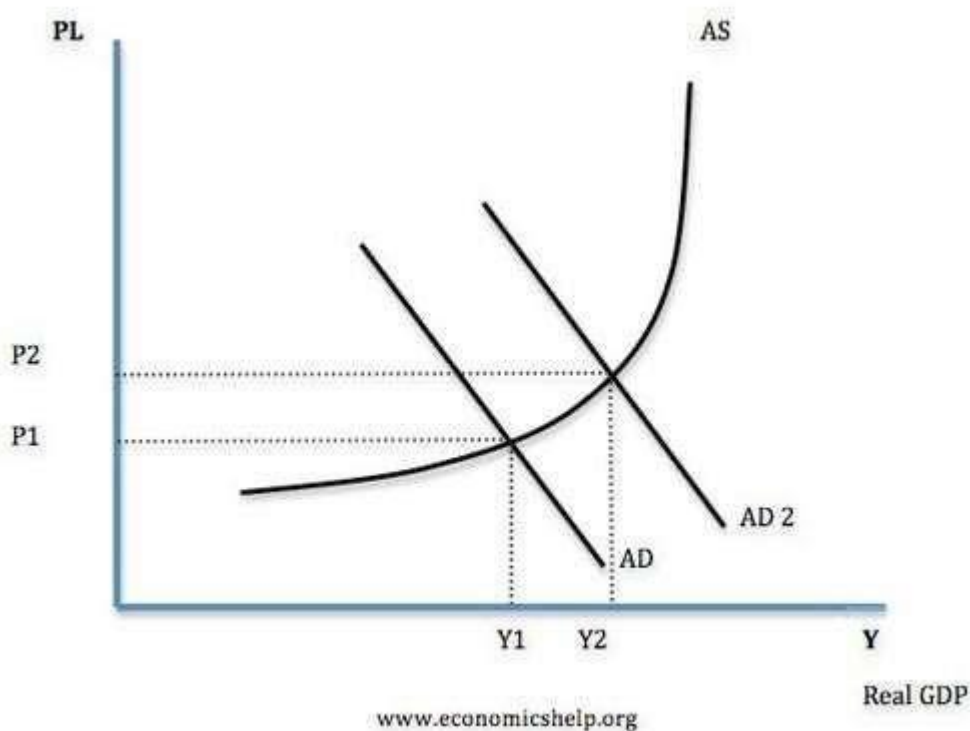
2. Fiscal Policy:

Fiscal policy can decrease unemployment by helping to increase aggregate demand and the rate of economic growth. The government will need to pursue expansionary fiscal policy; this involves cutting taxes and increasing government spending. Lower taxes increase disposable income (e.g. VAT cut to 15% in 2008) and therefore help to increase consumption, leading to higher aggregate demand (AD).

With an increase in AD, there will be an increase in Real GDP (as long as there is spare capacity in the economy.) If firms produce more, there will be an increase in demand for workers and therefore lower demand-deficient unemployment. Also, with higher aggregate demand and strong economic growth, fewer firms will go bankrupt meaning fewer job losses.

Keynes was a strong advocate of expansionary fiscal policy during a prolonged recession. He argue that in a recession, resources (both capital and labour) are idle, therefore the government should intervene and create additional demand to reduce unemployment.

Impact of Higher AD on Economy



However,

- a) It depends on other components of AD. E.g. if confidence is low, cutting taxes may not increase consumer spending because people prefer to save. Also, people may not spend tax cuts, if they will soon be reversed.
- b) Fiscal policy may have time lags. E.g. a decision to increase government spending may

take a long time to have an effect on increasing AD.

- c) If the economy is close to full capacity an increase in AD will only cause inflation.

Expansionary fiscal policy will only reduce unemployment if there is an output gap.

- d) Expansionary fiscal policy will require higher government borrowing – this may not be possible for countries with high levels of debt, and rising bond yields.
- e) In the long run expansionary fiscal policy may cause crowding out, i.e. the government increase spending but because they borrow from private sector, they have less to spend and therefore AD doesn't increase. However, Keynesians argue crowding out will not occur in a liquidity trap.

Unemployment in relation to labour economics:

Unemployment is the situation which exists when members of the labour force wish to work but cannot get any job. It is therefore used in the sense of involuntary unemployment rather than voluntary decision on the part of someone to choose leisure rather than work and properly earn income. It is borne out of choice rather than out of no available job to do.

Measurement of unemployed people:

A person is considered officially unemployed if in a given period of time, the person is:-

- 15 years old or above but not above 64 and was not institutionalized and the person is not working and he is available for work.
- The person is engaged in some specific job seeking activity for at least 4 weeks
- The person is waiting to be called back in a job from which he or she has been laid off

- Somebody who was looking for a job but was temporarily ill.
- Somebody who is waiting to report for a job within 30 days.

Unemployment rate – is defined as the percentage of the total labour force that is unemployed but actively seeking employment and willing to work. This is a measure of the extent of unemployment of the labour force at any particular time.

Unemployment rate are used to access the macroeconomic health of the economy. We should know that the labour force is a composition of those who are employed and those who are unemployed. The unemployment rate is the parentage of the labour force that is unemployed.

Unemployment rate of labour force:

Unemployment rate (%) = Unemployed Persons x

Total Labour force Mathematically it is expressed as: $UR =$

$UP/LF \times 100$

Where;

UR = Unemployment Rate

UP = Total number of Unemployed Persons

LF = Total Labour Force

For example assume that in 2015 Nigeria's total population was 100 million people. Out of this number, 80 million people were in the labour force, but 10 million people were unemployed. From the above show the unemployment rate;

Solution

$10/80 \times 100/1 = 12.5$ percent.

Therefore we say that Nigeria's unemployment rate in 2015 was 12.5 percent.

Natural rate of unemployment

It is the unemployment at which no excess demand or supply exists in the overall market. It is the rate at which job vacancy equal the number of unemployed

It is the unemployment rate that will occur in the long-run if the expected and the actual rate of inflation are equal.

Stock flow model of unemployment

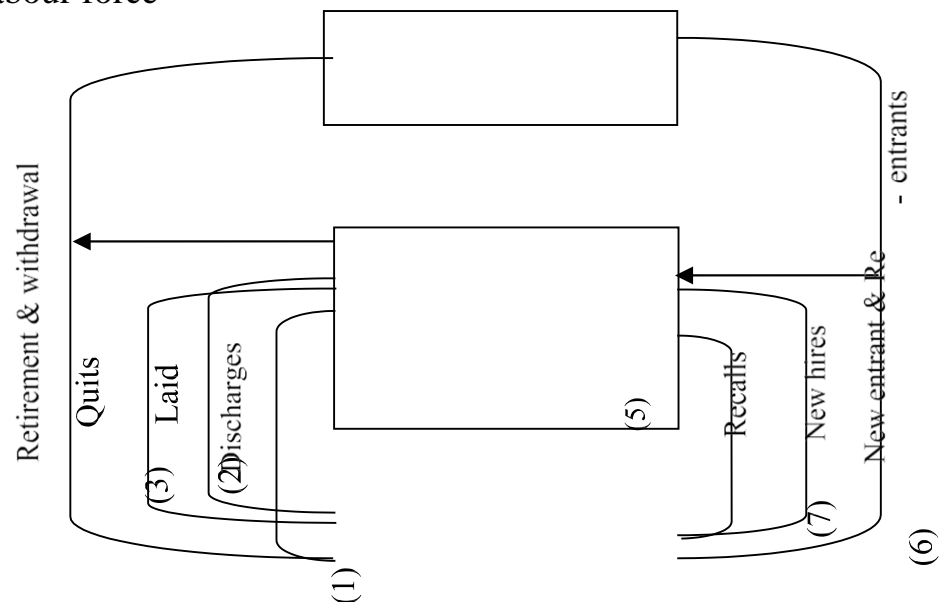
The stock indicates the continuous movements of flow of the pipe between the various categories of labour force, remember that labour force categories are the employed, the unemployed and those who are not in the labour market.

population not in the labour force

(N)

Unemployed (U)

Employed (E)



The diagram above shows that at any point in time there is a measurable stock of people in each of the three categories which represents categories of the labour force status.

Note that the stocks are simultaneously been depleted and replenished by numerous flows in and out of each category. None of them are in nature at each point in time.

There are some facts to know about the stock flow model of unemployment;

- The unemployment rate $u/E + u$ can remain constant even though the specific people in the unemployment pool change due to the flow.
- Several distinct flow factors can act independently or interact with one another to cause the unemployment rate to change.

Illustration:

If for example, the rate of flow to flow increase while other flow rate remain constant this will increase the absolute number of people who are unemployed. While leaving the size of the labour force unchanged.

Secondly if the rate exists from the employed category (E) for example, due to retirement and withdrawals increase, while other flows remains unchanged the unemployment rate will rise, but in this case the absolute number of unemployed persons remain at its previous level because that flow is from employed to the labour force or the size of labour force would rise and since unemployment would remain constant more people would moved from the category to the employed category.

Lesson:

- a) A considerable period of unemployment is due to prolong period of unemployment of relatively few people.
- b) During recession, the rate of laid offs and discharges rise and the rate of new hires and recalls falls more than compensating for decline in voluntary job and quits, consequently the overall unemployment rate rises.
- c) First time labour force entrance and people reentering the labour force constitutes over 1/3 of the unemployed.
- d) Unemployment rate stay higher than expected during earlier phases of an economic

recovery because improved job prospects entice people who are out of labour force to seek work and become officially unemployed.

8. Discuss the types of unemployment

The four types of unemployment include cyclical, frictional, seasonal and structural unemployment. Unemployment is a situation where people have no job and are actively seeking job opportunities. Unemployment may be caused by several factors, and it is used in measuring the health of the economy of a particular country.

Structural unemployment occurs because of a mismatch of skills in the labor market. This type of employment relies on the social needs and changes of a particular economy. For example, advancement in technology often causes many professionals to lose jobs because they lack the skills required for a particular job.

Frictional unemployment results when people take time to move from one job to another. It also happens when employers lack complete information or if the

information provided is incorrect. A good example is when a person quits a job in a company to seek another job elsewhere.

Cyclical unemployment occurs when the economy is below its full capacity. An economy that is in high recession tends to have high levels of unemployment. This happens because of economic breakdown hence fewer job openings and more unemployed people.

Unemployment that results from changes in seasons is referred to as seasonal unemployment. In such a situation, there are job opportunities only during certain seasons and when the season ends, the jobs end too. Good examples include farming and fishing.

Main types of unemployment

1. Frictional unemployment

This is unemployment caused by the time people take to move between jobs, e.g. graduates or people changing jobs. There will always be some frictional unemployment in an economy because information isn't perfect and it takes time to find work.

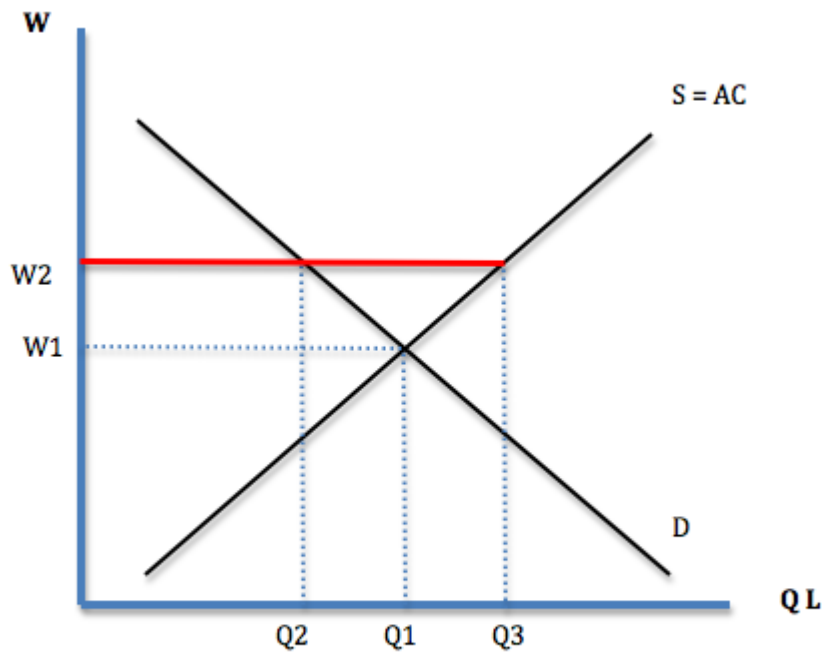
Frictional unemployment

2. Structural unemployment

This occurs due to a mismatch of skills in the labour market it can be caused by:

- **Occupational immobilities.** This refers to the difficulties in learning new skills applicable to a new industry, and technological change, e.g. an unemployed farmer may struggle to find work in high tech industries.
- **Geographical immobilities.** This refers to the difficulty in moving regions to get a job, e.g. there may be jobs in London, but it could be difficult to find suitable accommodation or schooling for their children.
- **Technological change.** If there is the development of labour saving technology in some industries, then there will be a fall in demand for labour.
- **Structural change in the economy.** The decline of the coal mines due to a lack of competitiveness meant that many coal miners were unemployed. However, they found it difficult to get jobs in new industries such as computers.
- See: structural unemployment.

Classical or real wage unemployment:



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- This occurs when wages in a competitive labour market are pushed above the equilibrium, e.g. at W_2 the supply of labour (Q_3) is greater than the demand for labour (Q_2).
- Wages could be pushed above the equilibrium level by minimum wages or trades unions. This is sometimes known as “disequilibrium” unemployment.
- Classical Unemployment

4. Voluntary unemployment

This occurs when people choose to remain unemployed rather than take jobs available. For example, if benefits are generous, people may prefer to stay on benefits rather than get work. Frictional unemployment is also a type of voluntary unemployment as they are choosing to wait until they find a better job.

- Voluntary unemployment

6. Demand deficient or “Cyclical unemployment”

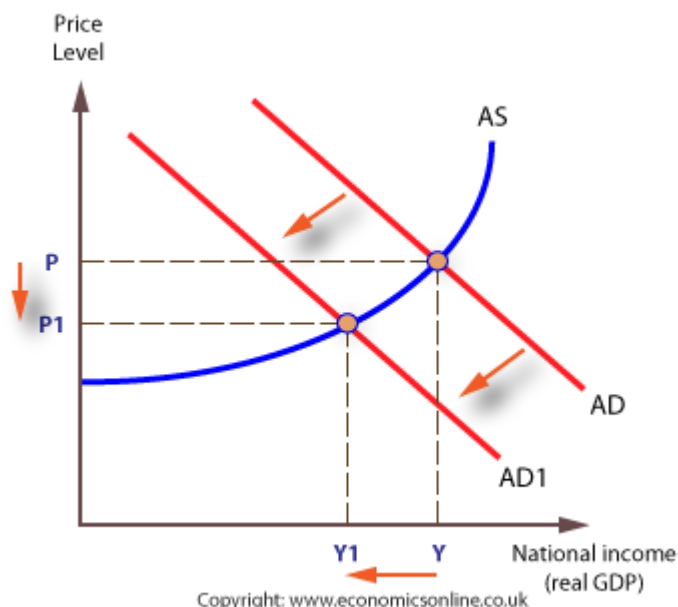
Besides the above, There are several types of unemployment, each one defined in terms of cause and severity.

Cyclical unemployment

Cyclical unemployment exists when individuals lose their jobs as a result of a downturn in aggregate demand (**AD**). If the decline in aggregate demand is persistent, and the unemployment long-term, it is called either *demand deficient*, *general*, or **Keynesian** unemployment. For example, unemployment levels of 3 million were reached in the UK in the last two recessions, between 1980 and 1982, and between 1990 and 1992. In the most recent recession of 2008-2010, unemployment levels rose to 2.4m in the last quarter of 2009, and are likely to peak at over 2.5m during 2010.

Demand deficient unemployment

This is caused by a lack of aggregate demand, with insufficient demand to generate full employment.



Structural unemployment

Structural unemployment occurs when certain industries decline because of long term changes in market conditions. For example, over the last 20 years UK motor vehicle production has declined while car production in the Far East has increased, creating structurally unemployed car workers. **Globalisation** is an increasingly significant cause of structural unemployment in many countries.

Regional unemployment

When structural unemployment affects local areas of an economy, it is called 'regional' unemployment. For example, unemployed coal miners in South Wales and ship workers in the North East add to regional unemployment in these areas.

Classical unemployment

Classical unemployment is caused when wages are 'too' high. This explanation of unemployment dominated economic theory before the 1930s, when workers themselves were blamed for not accepting lower wages, or for asking for too high wages. Classical unemployment is also called *real wage* unemployment.

Seasonal unemployment

Seasonal unemployment exists because certain industries only produce or distribute their products at certain times of the year. Industries where seasonal unemployment is common include farming, tourism, and construction.

Frictional unemployment

Frictional unemployment, also called *search unemployment*, occurs when workers lose their current job and are in the process of finding another one. There may be little that can be done to reduce this type of unemployment, other than provide better information to reduce the search time. This suggests that *full employment* is impossible at any one time because some workers will always be in the process of changing jobs.

Voluntary unemployment

Voluntary unemployment is defined as a situation when workers choose not to work at the current equilibrium wage rate. For one reason or another, workers may elect not to participate in the labour market. There are several reasons for the existence of voluntary unemployment including excessively generous welfare benefits and high rates of income tax. Voluntary unemployment is likely to occur when the equilibrium wage rate is below the wage necessary to encourage individuals to supply their labour.

The *natural* rate of unemployment

This is a term associated with **new Classical** and monetarist economists. It is defined as the rate of unemployment that still exists when the labour market is in equilibrium, and includes seasonal, frictional and voluntary unemployment. The US economist Milton Friedman first used the concept to help explain the connection between unemployment and inflation. Friedman argued that if unemployment fell below the *natural rate* there would be an increase in the rate of inflation.

Over the last 30 years, employment in the service sector has increased to over 70% of total employment, while employment in manufacturing has decreased to under 20%. Since the 1940s employment in the primary sector, including agriculture, has been less than 3% of the workforce.

Recent changes have created *two speed economy*, with a relatively buoyant service sector and a declining manufacturing one.

The main reasons are:

1. **Globalisation** and the rise of new 'low cost' overseas competitor countries.
2. Increased **competition** within the domestic product market.
3. The increasing **comparative advantage** of the UK as an international supplier of financial services.

Structural unemployment and labour mobility

Labour immobility is likely to increase structural unemployment. This is because those industries that are growing and need labour, often called *sunrise industries*, are not necessarily able to employ the same workers who have been displaced in the declining, *sunset industries*.

There are three types of labour immobility:

Geographical immobility

Geographical immobility occurs when workers are not willing or able to move from region to region, or town to town. Geographical mobility is made worse by immense **house price** variation between regions. It may be extremely difficult for workers in Yorkshire to sell their home and buy an equivalent one in London.

Other factors also contribute to geographical immobility, such as strong social and family ties, and parents being unwilling to disrupt their children's education by changing schools. The stresses of moving home can also be a deterrent to mobility for some.

Industrial immobility

Industrial immobility occurs when workers do not move between industries, such as moving from employment in motor industry to employment in the insurance industry. Industrial immobility has affected the UK, and many other industrial countries, as the growth of service industries, and the decline of manufacturing industries, has increased the need for mobility.

Occupational immobility

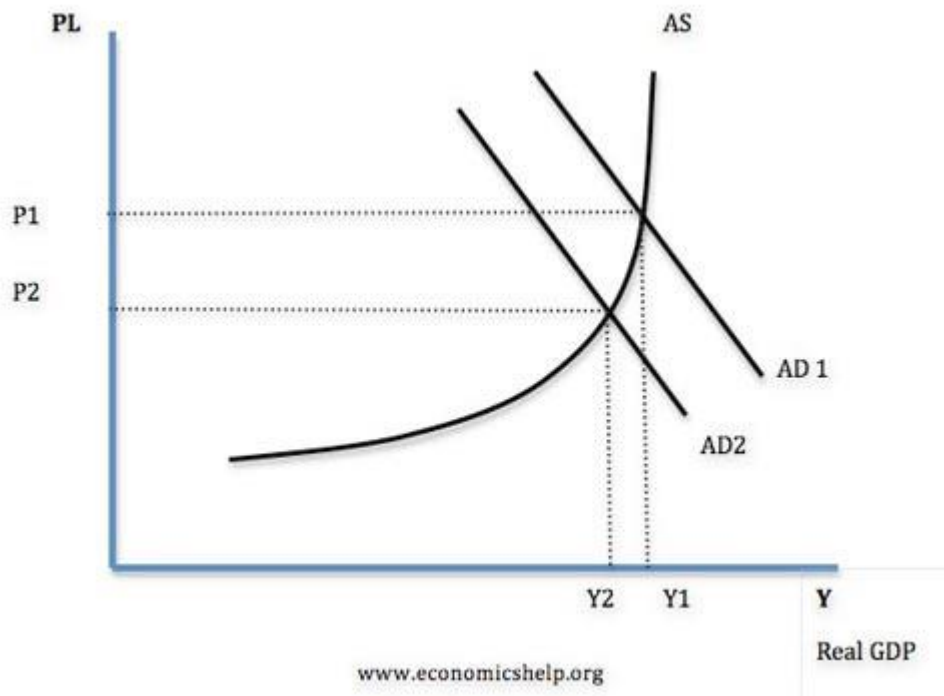
Occupational immobility occurs when workers find it difficult to change jobs within an industry. For example, it may be very difficult for a doctor to retrain to be a dentist.

Industrial and occupation immobility are most likely to happen when skills are not transferable between industry and job.

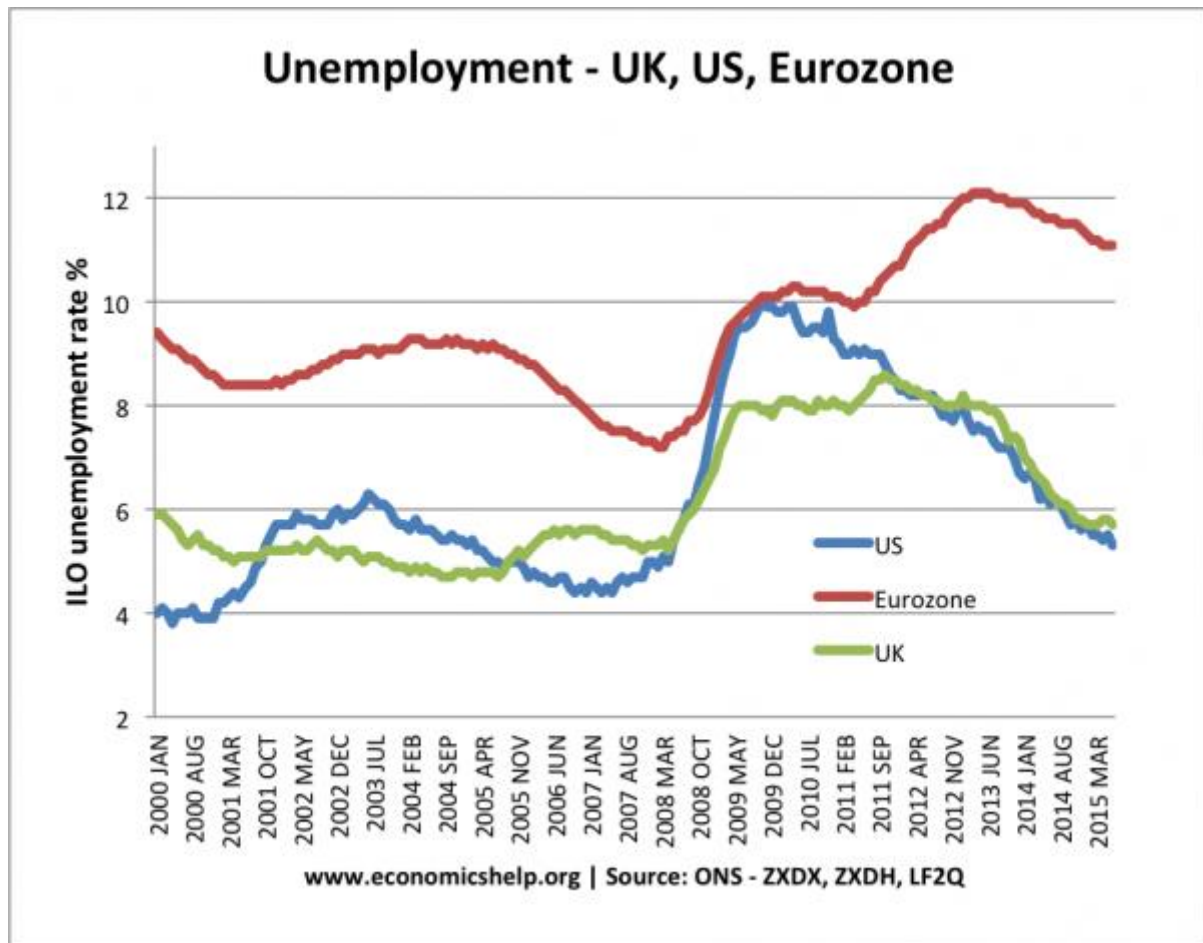
Information failure also contributes to labour immobility because workers may be immobile because they do not know where all the suitable jobs for them are.

A resulting problem with labour market immobility is that it can create regional unemployment, which is a type of **structural unemployment**. This means that a change in the structure of industry leaves some people unable to respond by changing job, industry, or location and as a result, they remain temporarily or permanently unemployed.

Immobility can also lead to rising labour costs, as firms have to increase wages to encourage workers to re-locate.



- Demand deficient unemployment occurs when the economy is below full capacity.
For example, in a recession aggregate demand (AD) will fall leading to a decline in output and negative economic growth.
- With a fall in output, firms will employ fewer workers because they are producing fewer goods. Also, some firms will go out of business leading to large scale redundancies.
- In recessions, unemployment tends to rise rapidly as firms lay off workers.



Unemployment in the UK, US and Eurozone rose sharply during the recession of 2008-09.

- More on demand deficient unemployment

Debate on demand deficient unemployment

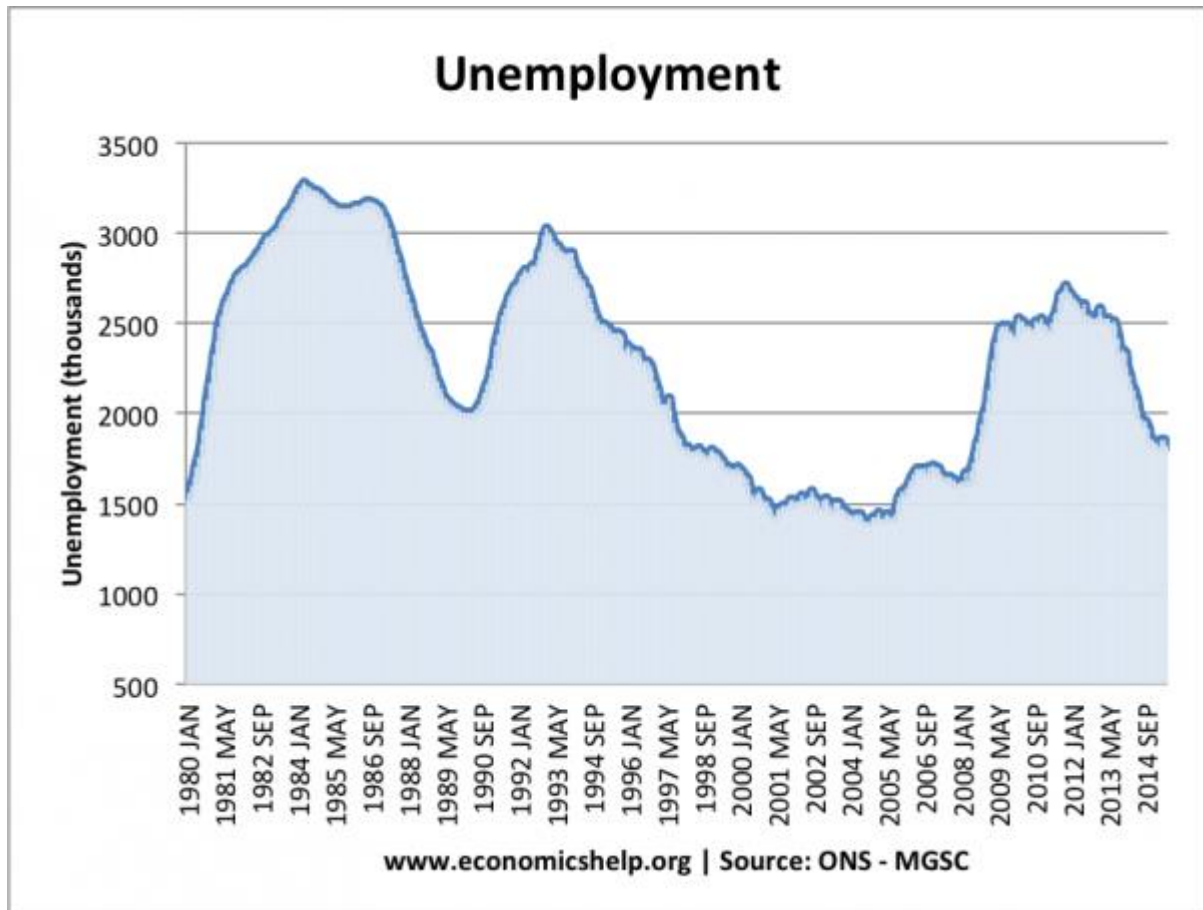
Classical economists emphasise supply side factors as the main cause of unemployment. They argue that demand deficient unemployment tends to be only short term. However other Keynesian economists emphasise the importance of aggregate demand in determining unemployment.

1. Wages are sticky downwards; this means workers are not willing to accept a wage cut
2. If wages are cut then there is a fall in consumer spending this causes a fall in AD. Therefore this makes the unemployment situation worse.
3. Efficiency Wages Theory. This states that if wages are cut workers become dispirited and work less hard leading to lower output.
4. During recession confidence is low and firms are reluctant to spend money on employing more workers even at a lower wage.

5. Keynes said in the long run wages may adjust, but in the long run we are all dead! In other words, why wait several years hoping wages will adjust downwards to reduce unemployment.

In the 1930s mass Unemployment continued until WW2. However, when governments did begin to spend on military expenditure, unemployment fell.

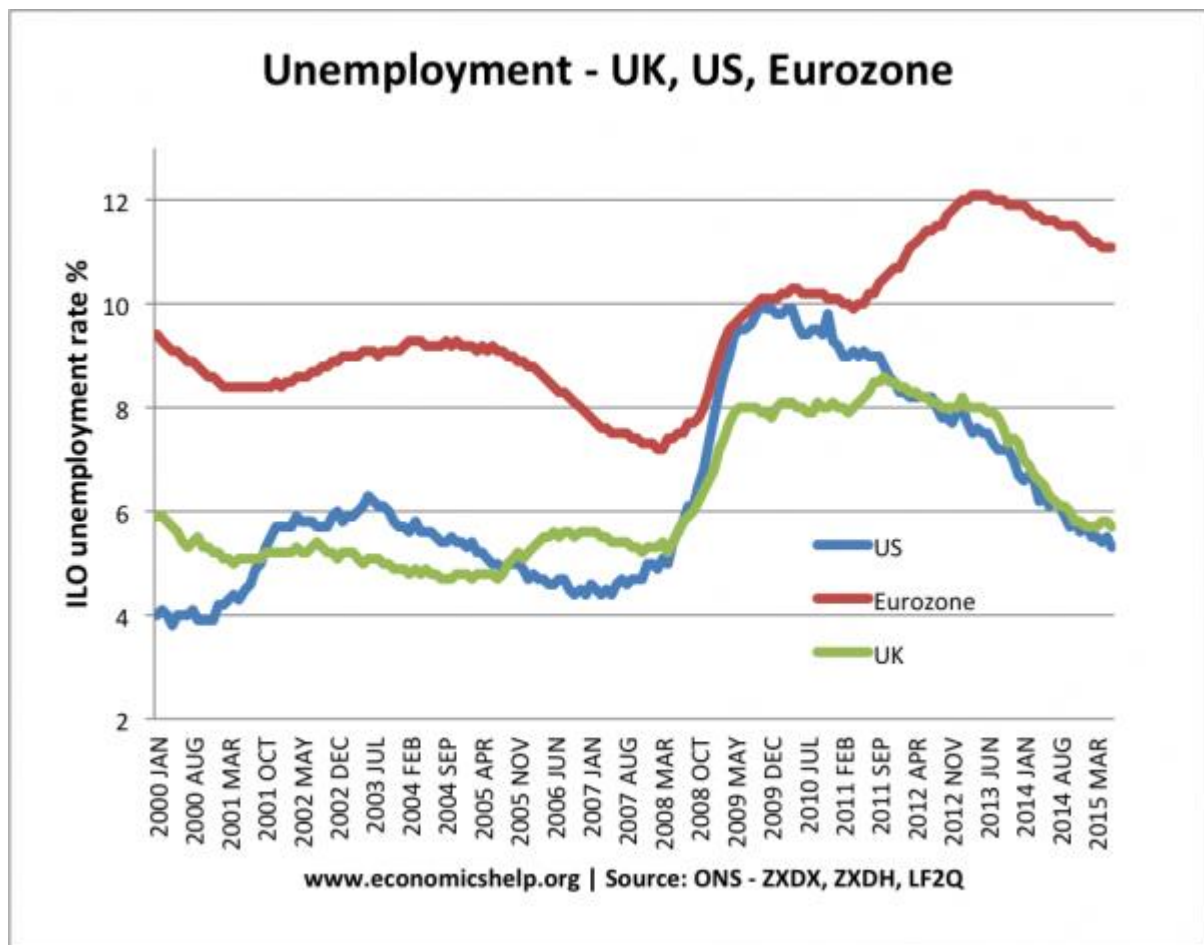
Examples of Unemployment



This graph of UK unemployment shows three periods of high unemployment (1981-85), 1992 and 2010-12)

- The rise in unemployment was directly related to the recessions of 1981, 1991/92 and 2008/09
- High unemployment in the mid-1980s was also due to structural unemployment. After the closure of coal mines and heavy industries, many former manual labour workers found it hard to gain employment – despite a growing economy.

European unemployment



After the 2008 financial crash, we see higher unemployment in UK, US, and Eurozone. However, unemployment continues to rise in Eurozone until 2012. This is because

1. Eurozone growth was sluggish due to Euro debt crisis.
2. The graph also shows higher structural unemployment in the Eurozone. Even during times of growth, the average unemployment rate is higher. This structural unemployment has been attributed to factors, such as labour market immobilities and excessive labour market regulation.

9. What are the factors that affect demand for labour?

The labour market is a **factor market** – it provides a means by which employers find the labour they need, whilst millions of individuals offer their labour services in different jobs.

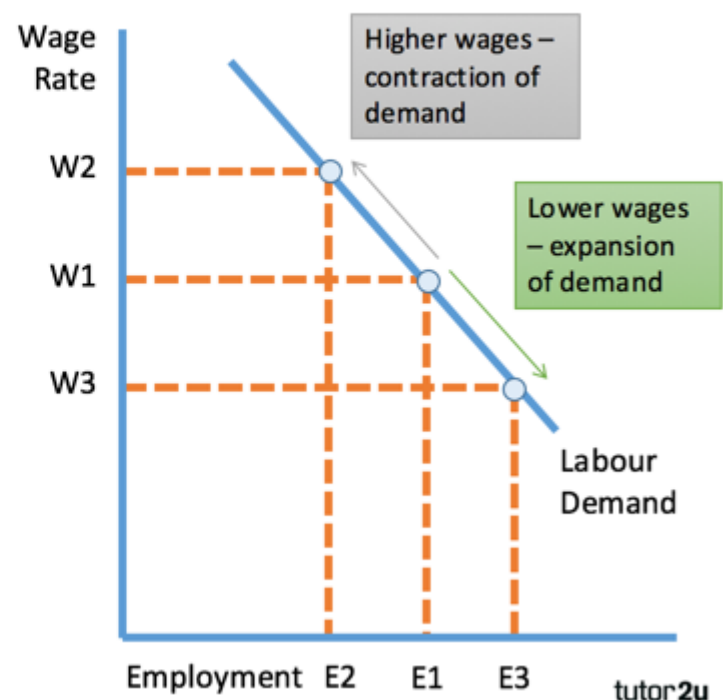
Labour Demand - Revision Video

The Demand for Labour

- Many factors influence how many people a business is willing and able to take on. But we start with the most obvious – the **wage rate or salary**
- There is an inverse relationship between the demand for labour and the wage rate that a business needs to pay as they take on more workers
- If the wage rate is high, it is more costly to hire extra employees
- When wages are lower, labour becomes relatively cheaper than for example using capital inputs. A fall in the wage rate might create a substitution effect and lead to an expansion in labour demand.

The demand for labour shows how many workers an employer is **willing and able to hire at a given wage rate** in a given time period.

- Businesses employ people
- There is an inverse relationship between demand for labour & the market wage rate
- If the wage rate is high then it is more costly for a business to hire extra employees
- When wages are lower, labour becomes relatively cheaper than capital. A fall in the wage rate might then create a substitution effect between labour and capital and lead to an expansion in labour demand



the Demand for Labour

Shifts in the Demand for Labour

The number of people employed at each wage level can change and in the next diagram we see an outward shift of the labour demand curve. The curve shifts when there is a change in the conditions of demand in the jobs market. For example:

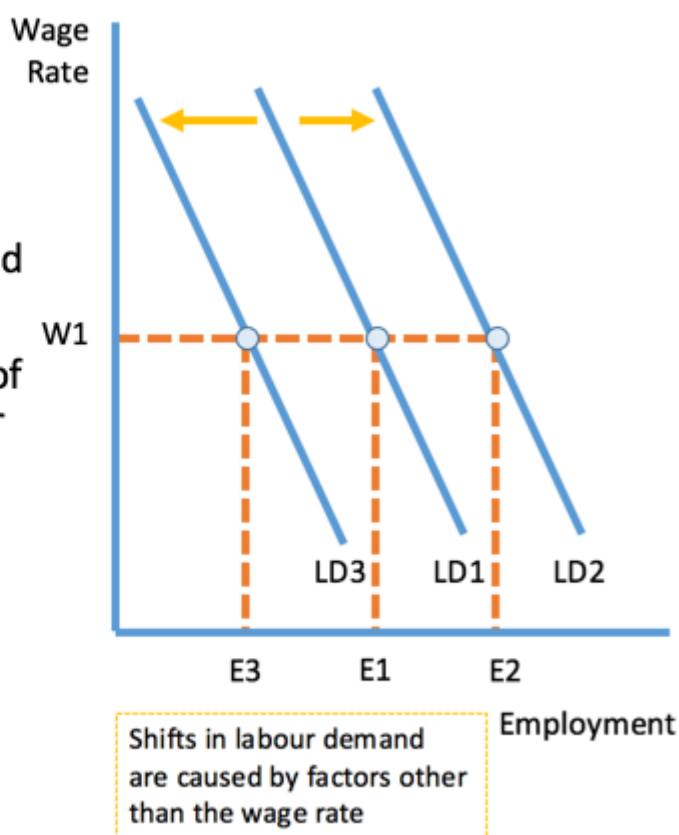
- A rise in the level of consumer demand for a product which means that a business needs to take on more workers (see below on the concept of derived demand)
- An increase in the productivity of labour which makes using labour more cost efficient than using capital equipment
- A government employment subsidy which allows a business to employ more workers

The labour demand curve would shift inwards during a recession when sales of goods and services are in decline, business profits are falling and many employers cannot afford to keep on their payrolls as many workers. The result is often labour redundancies and an overall decline in the demand for labour at each wage rate.

Shifts in the Labour Demand curve

- Causes of shifts include:

1. A rise in consumer demand which means that a business needs to take on more workers
2. A change in the price of the good or service that labour is making
3. An increase in the productivity of labour which then makes labour more cost efficient than capital
4. An employment subsidy which cuts costs and allows a business to employ more workers
5. A change in the cost of capital equipment (a substitute for labour) e.g. consider the effects of robotic technologies



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Shifts in labour demand

Labour as a Derived Demand

- The demand for all factor inputs, including labour, is a **derived demand** i.e. the demand depends on the demand for the products they produce
- When the economy is expanding, we see a rise in **demand for labour** providing that the rise in output is greater than the increase in labour productivity
- During a recession or a slowdown, the aggregate demand for labour will decline as businesses look to cut their operations costs and scale back on production.
- In a recession, business failures, plant closures and short term redundancies lead to a reduction in the derived demand for labour.

- In fast-growing markets, there is often a strong rise in demand for labour – for example an increase in demand for new apps for smart phones and tablets causes an increase in labour demand and then higher wage rates for app programmers

1. Nature of goods:

Elasticity of demand depends on the nature of goods. The elasticity of demand for a commodity depends upon the necessity of it for a human life. Goods may be necessary for human life, comfort or luxurious. Necessary goods are extremely essential so the demand for these goods is inelastic.

But the consumption of comfort and luxury goods enhances man's efficiency and social prestige. So their consumption is less important and can be very well postponed. Thus the elasticity of demand for such commodities is elastic.

2. Availability of substitutes:

The demand for a commodity having perfect substitute is relatively more elastic. If a flood gives the same pleasure and satisfaction in place of the consumption of another commodity, it is called a substitute commodity. A substitute may be close and remote.

Close substitute has got more elastic demand and remote substitute has less elastic demand. Tea and coffee are substitute commodities. Both can be used in absence of another. Thus the demand for tea and coffee is elastic.

3. Alternative use:

The demand for those goods having more than one use is said to be elastic. In other words goods having alternative uses are elastic. All the uses are not of same importance. As the commodities are put to certain less urgent needs or uses as a result of fall in price their demand raises. People use those commodities for certain urgent use in response to a rise in price.

For example electricity can be used for a number of purposes like heating, lighting, cooking, cooling etc. If the electricity bill increases people utilise electricity for certain important urgent purpose and if the bill falls people use electricity for a number of other unimportant uses. Thus the demand for electricity is elastic.

4. Possibility of postponing consumption:

The demand for those goods whose consumption can be postponed for sometime is said to be elastic. On the other hand if the commodities cannot be postponed and need to be fulfilled the demand for them is inelastic.

Medicine for a patient, books for a student and milk for a child cannot be postponed. They are to be satisfied first. That is why the demand for those commodities is inelastic.

5. Proportion of income spent:

Elasticity of demand also depends on the proportion of income spent on different goods. The demand for those goods on which a negligible amount of the total income of the consumer is spent is said to be inelastic.

Salt, edible oil, match box, soap etc account for a very negligible amount of the consumer income. That is why their demand is inelastic.

6. Price-level:

The demand for high priced commodities is elastic. On the other hand the low priced goods is said to have inelastic demand. High priced commodities are luxurious goods and low priced goods are necessities. Luxurious goods are mainly consumed by the people of high income brackets. For example if the price of a colour TV falls from Rs 15000 to Rs 5000 the price comes to the reach of the people who were unable to buy at the old price.

Now they rush to buy colour TV. Thus with a rise or fall in price the amount demanded of colour TV remarkably falls or rises. But if the price of salt rises from Rs 2.00 to Rs 5.00 it accounts for no such remarkable fall in the quantity demanded of salt.

7. Force of habit:

A repeated and constant use of a commodity by a person forms habit. A habit can't be avoided. Thus in such a case the consumption of the commodity can't be abstained in spite of the rise in price.

The consumer has to satisfy his habit regardless of change in price. Thus the demand for habitual commodities is fairly inelastic.

8. Durability of Commodities:

The demand for durable commodities is elastic whereas the demand for less durable commodity is inelastic. Durable commodity is used over a long period of time. The utility of a durable good is destroyed continuously. Once a durable good is bought the buyer feels no want of it for a long period of time. Thus the change (rise or fall) in price can't influence the demand.

Thus the demand becomes elastic. On the other hand less durable or perishable goods are consumed repeatedly. Any change in price affects the demand. Thus the demand for perishable goods is less elastic.

9. Income level:

Elasticity of demand depends on income level. The rich and the poor are not equally affected at the change in price. Poor people are more affected than the rich. Because of high income rich people buy the same amount of an expensive commodity in response to a rise in price.

For example with a rise in price of Horlicks, poor people buy other milk powder relatively cheaper than Horlicks. Thus for rich people the demand for Horlicks is inelastic whereas for poor people the demand for the Horlicks is elastic.

10. What are the main determinants of elasticity of demand for labour?

Some of the main determinants of elasticity of demand for labour are as follows:

The proportion of labour costs in total costs:

If labour costs form a large proportion of total costs, a change in wages would have a significant impact on costs and hence demand would be elastic.

The ease with which labour can be substituted by capital:

If it is easy to replace workers with machines, demand would again be elastic.

The elasticity of demand for the product produced:

A rise in wages increases costs of production which, in turn, raise the price of the product. This causes demand for the product to contract and demand for labour to fall. The more elastic the demand for the product is, the greater the fall in demand for it and hence for workers – making demand for labour elastic.

The time period:

Demand for labour is usually more elastic in the long run as there is more time for firms to change their methods of production.

The qualifications and skills required:

The more qualifications and skills needed, the more inelastic supply will be. For instance, a large increase in the wage paid to brain surgeons will not have much effect on the supply of labour. This is especially true in the short run, as it will take years to gain the requisite qualifications and experience.

The length of training period:

A long period of training may put some people off the occupation. It will also mean that there will be a delay before those who are willing to take it up are fully qualified to join the labour force. Both effects make the supply of labour inelastic.

The level of employment:

If most workers are employed already, the supply of labour to any particular occupation is likely to be inelastic. An employer may have to raise the wage rate quite significantly to attract more workers and encourage the workers employed in other occupations to switch jobs.

The mobility of labour:

The easier workers find it to change jobs or to move from one area to another, the easier it will be for an employer to recruit more labour by raising the wage rate. Thus, higher mobility makes the supply elastic.

The degree of vocation:

The stronger the attachment of workers to their jobs, the more inelastic supply tends to be in case of a decrease in wage rate.

The time period:

As with demand, supply of labour tends to become more elastic over time. This is because it gives workers more time to notice wage changes and to gain any qualifications or undertake any training needed for a new job.

However, availability of capital in the form of machines that are close substitutes for labour will reduce the bargaining power of trade unions considerably. A rise in wages will induce employers to mechanize. A substantial wage increase can thus lead to a shortfall in the demand for unionized labour.

While highlighting the importance of substitute inputs economists often make a comparison of the experiences of elevator operators and airline pilots. It is normally observed that when elevator operators of many multi-storeyed buildings form unions and negotiate substantial wage increases, their gains are short-lived.

Residents of such houses turn to automated elevators and the employment of elevator operators fall suddenly. In contrast, airplane pilots are able to maintain wages above the free-market levels without much substitution in production. While people do not normally object to riding an automated elevator, they are unlikely to tolerate an automated aircraft.

Elasticity of Demand for the Products of Unionized Firms:

If the demand for the good produced by union labour is inelastic, the output produced by unionized firm will not fall much if the union pushes up wages (and costs). Thus if a union is going to have a significant impact on wages, its workers must produce a good for which demand is inelastic (such as bread).

The Proportion of Labour Cost in Total Cost:

If the wage bill of the unionized labour is a very small proportion of total production cost, demand for minimised labour will tend to be relatively inelastic.

For example, since the wages of carpenters and airplane pilots are a very small proportion of the total cost of production in the housing and air travel industries, respectively, a doubling or even tripling of the wages of carpenters or airline pilots would result in only a 1% or 2% increase in the cost of housing or air travel.

Thus a substantial increase in the price of such factors is likely to have little, if any, impact on product price, output, and employment. This factor has been called by Milton Friedman 'the importance of being unimportant' because it is an important determinant of the strength of the union.

The Elasticity of Supply of Substitute Inputs:

We have just noted that if wage rates in the unionized sector are pushed upward, firms will look for substitute inputs. Consequently the demand for such inputs will increase. If the supply of such substitutes (such as non-union labour) is inelastic, however, their price will rise sharply in response to an increase in demand.

The higher price will reduce the attractiveness of the substitutes. An inelastic supply of substitutes will thus strengthen the bargaining power of the union by making the demand for union labour more inelastic.

11. Discuss the labour market theories learnt giving examples

A **labor market** is a market where people offer their skills to employers in exchange for wages, salaries and other forms of compensation. Participants in the labor market include any person who is seeking to work for compensation and any person or organization that is looking for people to perform labor.

A **labour market** is the place where workers and employees interact with each other. In the **labour market**, employers compete to hire the best, and the workers compete for the best satisfying job.

Another definition of Labour Markets is that **Labour markets or job markets** function through the interaction of workers and employers. Labour economics looks at the suppliers of labour services (workers), the demands of labour services (employers), and attempts to understand the resulting pattern of wages, employment, and income.

The labour and capital market offers the input that firms need for productions while the product market provide the avenue for firm's products to be sold. In analyzing how the labour market works, the demand for and the supply of labour must be studied in association with the conditions of demand and supply of labour.

Labour market theories

Most labour market theory explained how labour is compensated and what constitute labour. Examples of labour market theories include of the Neo classical labour market theory, Labour market segmentation theory, Labour market theory of poverty, Dual labour market theory, the human capital theory and Theory of Labour Discrimination

The Role and Assumption of Labour Market Theory:

Under the standard labour market theory, labour is like any other resource. Generally speaking, the market determines the allocation of labour and its costs. In other words, the market determines where people will work and how much they will get paid. Let's take a look at the **theory of labour market allocation**.

Assumptions:

Labour market theory is a model, and a model is a simplification of reality that we use to try to understand a complex concept. A model will make some assumptions to make things simple. The labour market theory is no different, and it makes a few important assumptions:

- The most important motivation in the labour market for people is a wage or other monetary compensation.
- Workers are pretty much fungible - you can substitute one for another and it makes little difference.
- Workers are mobile - they can move to where there is a demand for work.
- Wages are flexible - they can go up or down.

Now that we have our assumptions, it's time to see how sellers (people seeking employment) and buyers (employers) behave in the labour market under these assumptions. But always keep in mind that these assumptions oversimplify reality so that we can understand the way things work in general.

If the assumptions are not true for a particular set of circumstances, the model will not predict the correct outcome. For example, some people consider the nature of the work more important than the compensation being offered and may actually choose a lower paying offer.

Types of labour market theories

- 1. Neo classical labour market theory** – This is otherwise known as the orthodox labour market theory. It states that employers act to maximize their profit by paying low wages for the workers' skill they need as they can, workers also want to maximize their gain by insisting on the highest pay for the job for which they have the required essential or dispensable skill.
- 2. Labour Market Segmentation Theory** – This theory states that the labour market consists of various subgroups with little or no capability to cross over from one group to another. It describes a situation where different groups or individuals receive different wages or compensations for the same work. The theory explains economic marginalization due to racial, ethnic or political reasons. Segmentation can result in different groups, for example men and women, receiving different wages.

The 19th-century Irish political economist John Elliott Cairnes referred to this phenomenon as that of "noncompeting groups". Modern labor market segmentation theory arose in the early 1960s. It changed the view of many economists who saw the labor market as just a market of individuals with different characteristics of education and motivation, as well as technology, playing a major factor in terms of producing output.

- 3. Labour Market Theory of Poverty** – This states that because wages are sticky downwards, most rigid firms that want to remain in business have the only option of laying off workers during economic downturns. Such action adversely affects employment and income distribution and increases the number of households in the poverty bracket.
- 4. The Dual Labour Market Theory** – The theory states that there are two groups within the labour market, the primary market and the secondary market, characterized by high income, fringe benefits, job

security and a high prospect of upward mobility. However, as the word "dual" implies, a DLM usually refers to two parallel markets.

The labour market consists of two tiers. Workers in the upper tier enjoy high wages, good benefits, and employment security, and they are often unionized. Workers in the lower tier experience low wages, high turnover, job insecurity, and little chance of promotion. Until now, dual labour market theory has focused mainly on microeconomic factors such as discrimination, poverty, and public welfare. Dual Labour Markets considers the macroeconomic implications of the dual market.

Theoretical models from research of over six years were used to analyse such policy issues as; the level and persistence of unemployment, the level of real wages, the accumulation of human capital, and the political viability of labour market reform.

There are two key sectors of Dual labor market: primary and secondary sector.

- a. In a **primary sector** the workforce as a whole is motivated to serve their employer because of wages, health benefit, pension and job security. The job market consists of a majority of blue collar and white collar jobs. The primary sector generally contains the higher-grade, higher-status, and better-paid jobs, with employers who offer the best terms and conditions.

These jobs are usually considered to be the occupational labor-markets and some industrial labor-markets. The primary sector is sometimes sub-divided into an upper and lower level. The primary workers are trying to prove themselves to their employers by portraying their skills and educational credentials.

- In a **secondary sector**, job management is entitled to complete control because there is a larger turnout. Many in this job type either leave or are replaced quickly. These jobs give low emphasis on job morale and their workers lack motivation. The secondary jobs are mostly low-skilled, they require relatively little training, and can be learned relatively quickly on the job.

There are few barriers to job mobility within the secondary sector. This is because the jobs are unattractive, there is little incentive to stay, and there are high levels of labor turnover, with workers moving on to other jobs or employers. Wages are low, and the terms and conditions of the job are poor.

5. Human Capital Theory – This theory state that human capital is the stock of competency (knowledge, skill) and attribute (creativity, ingenuity) contained in the ability of a worker to perform labour services so as to produce expected economic value. This theory actually defined what labour is all about.

Theory of Labour Discrimination – Discrimination in the labour market exists if individuals who have identical productive characteristics are treated differently because of the demographic groups to which they belong. This is the valuation, in the market place, of personal characteristics of workers that are unrelated to workers' productivity such as colour, race, gender/sex, marital status, generation, Ethnic, etc.

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