

# Chapter 11

## Labour Market

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### INTRODUCTION

In economics, there are different kinds of markets, namely; the commodity or goods market, the money market where money is the object of trade and the labour market where human skills are being bought and sold. The latter is the subject of interest in this chapter and it is an important aspect of economic activities. In this chapter, students shall be exposed to basic concepts and terms of labour market, features of the labour market, concept of labour force and factors affecting its size, efficiency and mobility of labour and determinants of mobility of labour.

### OBJECTIVES

*At the end of this chapter, students should be able to:*

- ◆ Identify the factors that influence the supply and demand for labour;
- ◆ Explain the different kinds of unemployment, causes, effects and solutions;
- ◆ Give the meaning of the term 'labour market';
- ◆ Mention and explain the characteristics of the labour market;
- ◆ Explain the concept of labour force;
- ◆ State the reasons for the differences in wages and salaries of labour.

#### 11.1 Meaning and Definition of Labour Market

The labour market is a form of market where people trade their acquired skills. Also, it is an arrangement or institution which brings job seekers and employers of labour together within a particular geographical region.

##### Characteristics or features of the labour market

- (a) Unlike the goods market, both the employees and employers of labour can negotiate their prices either through their unions or by themselves.
- (b) The labour market is not located in a fixed place.
- (c) In the product market physical or tangible products are traded on, while services or acquired skills are traded for in the labour market.
- (d) There is a continuous interaction between the labour and the employer of labour within the labour market.
- (e) In the labour market either parties (labour or employer of labour) could decide to withdraw from an existing relationship.
- (f) The process involved in the sale and purchase in the labour market is usually longer than that of the product market.

#### 11.2 Concept of Labour Force

The labour force in a particular population refers to those segments of the population that are more active and are more economically productive. It could also be defined as the total number of capable men and women between the ages of 16 and 65 years in a given population, often referred

to as the working population. It is the number of people that are by law allowed to work and are willing and able to work. Other group below or above this productive group is known as the dependent population. In most developing countries, the size of the dependent population is usually larger than the active population. The larger the labour force of a country, the better for that country because the active labour force constitutes huge source of revenue to the country once they are productively employed. But it could also be very dangerous if there is a high level of unemployment in a country, where there is large number of labour force that are not productively engaged in places of work, as self-employed or in paid employment.

#### **Factors affecting the size of labour force**

**(a) The structure of the population:** The composition of different age groups in a population determines the size of the labour force. For instance, if there are more children and the elderly within a population, there will be less of the labour force. If on the other hand, there are more young people in that population, the implication is that, there will be more labour force available for employment.

**(b) The size of the population:** A population with a higher figure is likely to have more people within the labour force group than a population with fewer people. For instance, Nigeria with a population of 140 million people is likely going to have more people in the labour force than a country like Ghana with about 76 million people.

**(c) Sex structure:** If a population has more males than females, the labour force is likely going to be higher than that with more female population.

**(d) The level of workers remuneration:** A workforce with higher wages and other compensation will provide more services than that of a lower remuneration or compensation.

**(e) Economic situation:** An economy that is buoyant will have more supply of labour than that undergoing recession.

**(f) The health condition:** Generally, the well-being of labour force measured in terms of the physical health determines the number of workers that will be available for work. If that workforce is unhealthy and sick, it may not be able to supply itself for work.

**(g) The education level:** This is an important determinant of the supply of labour in a population. The extent to which the educational institutions are able to turnout graduates will determine the number of labour force (particularly the skilled and knowledgeable) that will be made available for work in that population.

### **11.3 Efficiency of Labour**

Efficiency of labour refers to the productive capacity of labour. It is also the ability or capability of a worker to produce maximum output with a given quantity of input within a given period of time. Thus, the efficiency of labour implies the capacity or ability of labour to do better work at a given point in time. We can compare the efficiency of a particular workforce with another if both of them are working under the same condition.

#### **Factors affecting efficiency of labour**

- The personal qualities of the worker
- The working condition
- The social, political and economic conditions and
- The relationship between the employees and the employers

**(a) Personal qualities of employees:** The personal qualities of an employee such as his/her level of education, intelligence, resourcefulness and mental alertness can contribute to the efficiency level of a worker.

**(b) The working conditions:** The condition under which a worker works can influence his efficiency level. If, for instance, he is working under the heat of the sun or furnace, his/her productivity level will be negatively affected.

**(c) The efficiency of other factors of production:** An agricultural land that is more fertile will yield more than the harsh unfertile land, if different labours of the same capacity are to cultivate the two types of land. It is most certain that the labourer in the fertilized land will be more productive.

**(d) Social, political and economic factors:** These include such determinants as the climate, social class, political stability, and so on. Workers working under harsh climate, discriminating environment and unstable political conditions will certainly be less efficient than those with better situation or conditions.

**(e) Employer–employee relation:** The level of understanding and relationship between the employer and employee goes a long way in determining the efficiency of the labour force. If

both parties have a friendly and cordial relationship, efficiency will be high. If on the other hand, there is a hostile relationship, the efficiency of labour will reduce.

## 11.4 Mobility of Labour

Mobility of labour refers to the ease and ability with which labour moves from one place or occupation or job or industry to another.

### Types of mobility of labour

**(a) Geographical mobility:** When a worker moves from one place to another within a country or outside a country this is referred to as geographical mobility of labour. An example is when a worker moves from Benin to Lagos or from Nigeria to Canada.

**(b) Occupational mobility of labour:** This is a type of labour mobility where it is possible for a particular worker to move from one employment to another with ease. For instance, it is easy for a mechanic to take to driving work as an employment or a clerical assistant to be employed as a waiter in a hotel. But it is not easy for that clerical officer to take up employment as a surgeon or an engineer. It must take long additional training for him to be able to work as a medical doctor or an engineer. Occupational mobility could be in the form of either *vertical* or *horizontal* mobility.

**Vertical mobility** occurs when a worker of a lower level moves or changes his job from one occupation to a higher level of employment. For instance, a classroom teacher becoming a school principal, a university professor becoming a vice chancellor or a bank cashier moving up to become an accountant in the bank.

**Horizontal mobility** is a situation where a worker moves from one organisation to another type and still maintains the same level. For instance, a bank clerk leaves the bank employment to join a textile firm as an accounts clerk. A school driver changes his job to a bank as a driver.

**(c) Industrial mobility:** This type of labour mobility occurs when employees move from one industry to another industry. For instance, a mechanic moving from a steel rolling mill to take up another employment in an automobile industry.

## 11.5 Causes of Differences in Wages

**(a) The forces of demand and supply of labour:** If the demand for a particular type of labour skill is high than its supply it will cause an increase in the wage for such labour and vice versa. For example, an increase in the demand for medical doctors would lead to increase in their wages.

**(b) Difference in the level of education and training:** The time and differences in education level of an employee will determine the wage difference of the employee. For instance, a surgeon's level of education is quite higher than that of the school teacher. This will cause a difference in their salaries.

**(c) The length of time spent to acquire a particular skill:** This will cause a difference in the salaries / wages of employees. For instance, it takes more time to train a pilot than a bus driver or tailor.

**(d) The level of worker's productivity:** A more productive employee in terms of the output per time will determine how much the employee will earn. A lazy employee will certainly be less productive and will also most likely earn less especially if such employment is based on output per time. For instance, workers in the factory may earn more than the civil servants who just keep files in the office.

**(e) The nature of the job:** The role involved in a particular job is a determinant of the differences in the employee's salaries. For instance, it is more risky to work as a pilot than a teacher. An oil company engineer who works in the drilling rig is more at risk than the accounting officer in the office. Thus, the risks attached to a particular job will determine the wage level. The higher the risk involved in a certain job, the higher the salary attached.

**(f) The social importance of an employee's job determines the amount of salary he may enjoy:** For instance, a clergy man is seen as performing a very important function of counselling and guidance and thus helps in reducing the crime level in a society. This will attract higher compensation for such clergy when compared with the man who carries wheelbarrow on the street or even above a university lecturer.

## 11.6 Determinants of Labour Mobility

**(a) Education and training:** The more a person is educated, the greater his chances of moving from one employment to another.

**(b) The outlook of the worker:** The ambition or urge of a worker to rise in life determines his mobility. If a worker is hopeful and broad-minded such a worker may defy all barriers such as language, race and religion just to achieve his ambition.

**(c) Caste system:** A society that is rooted in caste system may find it difficult to move from one place to another. But a free society will easily move from one place to another.

**(d) Means of transport:** A well-developed transport system, for example, rail system and good road network will encourage a prospective labourer to move from one place to another.  
**(e) Industrialisation:** The extent of the level of development will influence the level of the mobility of labour in that economy.

Industrialisation also leads to urbanisation, a situation where the labour force moves from rural area to the industrial urban centres.

**(f) Development of business and trade:** The development of business and trade will have an influence on the level of people's movement. Workers move from one location/occupation to another where trade and business are available.

**(g) Advertisements:** Job adverts in the newspapers and other media serve as a information source to prospective labour. Consequently, workers move from one place to another where their labour skills are demanded.

**(h) The extent of peace and security:** The level of the existence of peace and security among the population determines their mobility level. If, for instance, there is breakdown of law and order in a certain place, labour mobility will be rare. If on the other hand there is peace and security, labour force is most likely going to be mobile.

## Summary

- The chapter discussed the features of labour market, concept of labour force, factors affecting the size of labour force, efficiency of labour and mobility of labour.
- It also discussed causes of differences in wages and determinants of labour mobility.

### Class Activity

The students and the teachers should visit state ministry of labour and employment to get data on number of workers employed and those unemployed for discussion in the class.

## Revision Questions

### Objective Questions

- Wages are, to some extent, determined by the
  - Marginal utility of labour
  - Average utility of labour
  - Marginal productivity of labour
  - Total output of labour (**SSCE 2000**)
- Which of the following could be used to measure the efficiency of labour?
  - Education and training
  - Rate of inflation
  - Level of unemployment
  - Input-output ratio (**SSCE 2003**)
- One of the following is not a factor that could affect the size of labour force
  - The structure of the population
  - The size of the population
  - Sex structure
  - Labour force of geographical location
- Factors affecting efficiency of labour include the following except
  - Personal qualities of the workers
  - Working condition
  - Population size
  - Social, political and economic condition
- The type of mobility of labour that a worker moves from one place to another within a country or outside a country is referred to as
  - Geographical mobility
  - Occupational mobility

- c) Industrial mobility
- d) Vertical mobility

## **Essay Questions**

1. What do you understand by the term “labour market”? Distinguish between the labour market and the product market.
  2. Explain the reason for the differences in wages of employees.
  3. Explain the concepts of labour force. What are the implications of decreasing the labour force?
- 4 a. Define labour
- b. Give four factors that affect the efficiency of labour in your country (**SSCE 2009**)

## **Glossary**

**Labour market:** A situation which brings together the buyers and sellers of labour skills.

**Labour force:** This is the age group that is willing, able and ready to work in a given population.

**Workers' remuneration:** Payments (salaries, wages) made to workers as a result of their productive labour effort.

**Efficiency of labour:** Is the ability and capability of a worker to produce maximum output with a given input.

**Mobility of labour:** The ease with which labour moves from one place to another.