

# Labour

Anything human effort which helps in the production of goods and services

## Demand for Labour

- **MRP and Demand Curve**

- The price of labour is determined by demand and supply. The demand curve for a factor of production is its marginal revenue product curve. Therefore the demand for labour is its MRP curve, which is downward sloping.



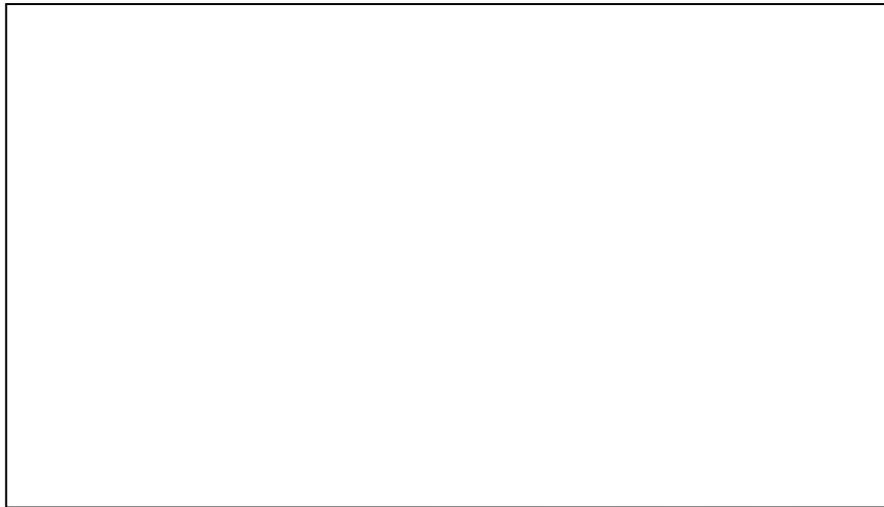
- **Factors affecting a firm's demand for labour**

- **Marginal revenue productivity of labour**
  - How productive is the worker? Will the worker generate more revenue than his wage rate?
- **(Minimum) Wage rate**
  - If the wage rate increases then this increases the costs for employers and may reduce their demand for labour.
- **Demand for output**
  - An increase in the demand for the firm's output may increase the demand for labour.
- **Price of other factors of production (including capital)**
  - Prior to employing more labour the firm would compare the cost of the additional labour with that of other factors of production available to determine which is the most competitive.
- **State subsidies**
  - If the state were paying subsidies for the hiring of additional labour then this may make it more attractive to employ additional labour.
- **Taxation Rates on the firm's profits**
  - If the profitability of a firm is reduced by higher tax on a firm's profits then this may affect a firm's decision to employ additional labour.
- **Payroll taxes / Employers rate of PRSI**

- If the rate of personal taxation increases then labour may seek a higher wage rate making the firm less competitive.
- Similarly if the rate of Employer's PRSI on labour increases this is an additional cost for the firm, which may reduce its demand for labour.
- **Availability of technology**
  - A firm's demand for labour will be affected by the availability of new technologies particularly if it helps to reduce costs.
- **Trade union involvement**
  - If a worker is a member of a trade union then the firm may not employ this worker. This applies to some firms in Ireland who prefer to operate without the involvement of trade unions.
- **Consequences of rising demand for labour**
  - **Pressure on wage levels to rise.**
    - Employers will be forced to increase wage levels in order to attract workers into those areas where shortages are occurring.
  - **Deterioration / Loss of services.**
    - Where workers are not available it will result in either a deterioration of services in those areas or a total loss of certain services.
  - **Loss of investment.**
    - Indigenous and foreign entrepreneurs may see such shortages of labour as a deterrent to investing and starting a business.
  - **Inflationary pressures.**
    - If wage levels increase such increases may be passed on to the final consumer in the form of higher prices.
  - **Immigration**
    - Shortages of labour in the Irish labour market are reported internationally. FAS has attempted to entice foreign workers to Ireland. The number of applications for refugees' status has also increased.
  - **Difficulty in attracting / keeping workers in some sectors.**
    - With current labour shortages and the attractiveness of higher pay in alternative employments certain sectors find it increasingly difficult to attract workers e.g. in the hotel, catering, tourism industries. May require state intervention for the re-training of workers to fill sectors with vacancies.
  - **Inability to maintain development of the state's infrastructure.**
    - Because of the shortage of workers, developing the infrastructure at the pace necessary to sustain economic growth is not possible and this may affect future investment.

## Supply of Labour

- **Supply Curve of Labour**

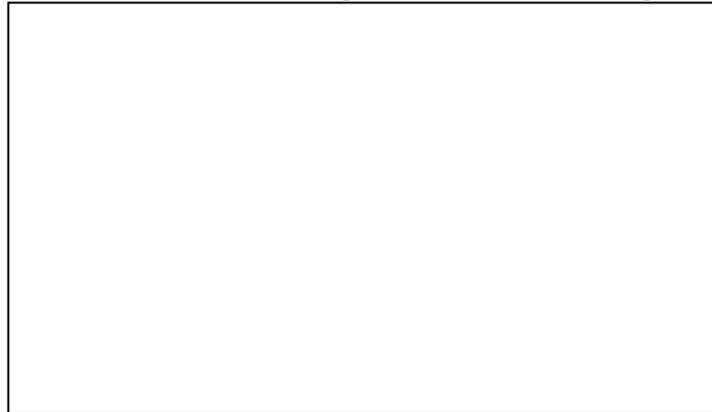


- As wages increase more labour will be supplied and vice versa
- (i) Workers shift their preference towards increased leisure time



- Workers will reduce the number of hours worked. Hence the supply curve of labour may:
  - (a) shift to the left, work less hours at all wage rates
  - (b) after a certain higher wage rate work less hours, the backward bending supply curve.

- (ii) The workers' trade union negotiates a minimum wage:



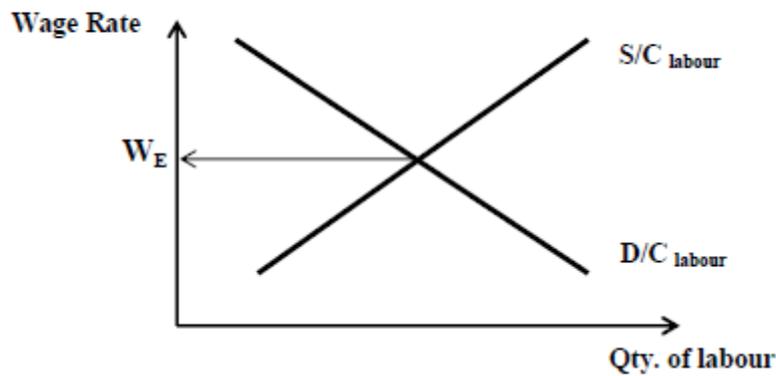
- If a minimum wage level is set at **We** then no labour will be supplied below this wage rate

- **Factors influencing the supply of labour**

- **Wage levels within the economy.**
  - Higher wage levels in recent years act as an incentive for more people to supply labour. However, recent wage restraint may see a fall in this figure.
- **Structure of population/ Size.**
  - Ireland's population has increased with more citizens within the working-age bracket. The size of the labour force increases, e.g. Ireland has a smaller population than France resulting in a smaller labour force.
- **Participation Rate.**
  - The number of people willing to work within the 16-65 age groups has increased. More women working/people who once retired are willing to take up part-time employment.
- **Rates of income tax within the economy.**
  - In the past a reduction in income tax rates acted as an incentive for people to join the workforce. In the 2009 budget the new 'Income Levy' could now act as a disincentive to work and negatively affect the size of the labour force.
- **Labour mobility.**
  - The workforce in Ireland has become more occupationally mobile: there are less barriers in place preventing the movement of workers. With EU enlargement, the free movement of labour is increasing. The recent down turn in the Irish economy may see many immigrants moving home and an increase in emigration of Irish citizens.
- **Government Policies.**
  - The government has moved to ease restrictions on the entry of immigrants to Ireland aiming to liberalise entry requirements into certain occupations e.g. pharmacies; hospital consultants.

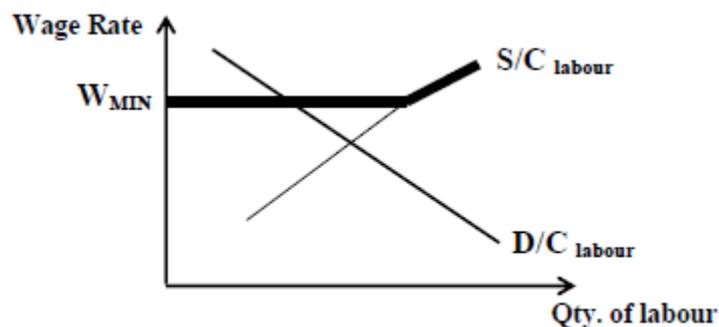
## Wages Rates

- Determining the Wage Rate
  - **Free Labour Market**



A free market is one where there are no restrictions on the demand and supply of labour. Where the demand for labour equals the supply of labour the equilibrium wage rate is set.

- **A labour market where a trade union has negotiated a minimum wage**



The trade union may negotiate a minimum wage rate: **this is set at  $W_{MIN}$** . No workers will be supplied below  $W_{MIN}$ .

- **Factors that influence wage rates**
  - **The Wage Rate**
    - If the wage rate the worker is seeking is higher than the revenue that the worker generates then this worker will not be demanded.
  - **Demand for output**
    - If demand for the firm's output increases then this may lead to an increased demand for labour.
  - **Price of other factors of production (including capital)**
    - Prior to employing more labour the firm would compare the cost of the additional labour with that of other factors of production available to determine which is the most competitive.
  - **State subsidies**
    - If the state were paying subsidies for the hiring of additional labour then this would make labour more competitive and increase demand.
  - **Taxation Rates on the firm's profits**
    - If the profitability of a firm is reduced by higher tax on companies' profits then this may affect a firm's decision to hire additional labour.
  - **Payroll taxes**
    - If the rate of personal taxation increases then labour may seek a higher wage rate and this makes labour less competitive. Similarly if the rate of PRSI on labour increases this is an additional cost for the firm, which may reduce their demand for labour.
- **Why different categories of workers receive different wages**
  - **Different Skills**
  - **Length of Training**
  - **Educational Qualifications**
  - **Nature of the Job**
  - **Tradition**
  - **Trade Union Influence**
  - **Non-monetary benefits**

- **Advantages of Reducing Minimum Wage**
  - **Lower labour costs**
    - Resulting in continued production and reduced risk of business closure.
  - **Lower selling prices**
    - With production costs falling this may lead to lower consumer prices and increased competition receipts.
  - **Increased demand / protection of jobs**
    - The lower wage rate leading to lower prices may lead to increased demand and hence greater demand for workers. Indigenous jobs are protected e.g. jobs in the tourism sector.
  - **Investment stimulus**
    - Reduced costs may lead to increased investment by entrepreneurs / increased foreign direct investment.
  - **Reduced risk of re-location**
    - Irish wage levels may fall more into line with other countries and this may result in less firms considering re-locating to countries outside Ireland.
- **Disadvantages of Reducing Minimum Wage**
  - **Discourage employment**
    - The reduction may not encourage people to join the workforce/ it may lead to a greater participation in the black economy.
  - **Reduced standard of living**
    - Workers will now receive lower income and so their standard of living will fall
  - **Reduced aggregate demand /spending**
    - Lower incomes will reduce spending and so the demand for goods and services may fall resulting in unemployment/less VAT
  - **Impact on general wage levels**
    - This reduction may indicate to employers that all wage levels should fall and this may result in a possible reduction in standard of living among the entire workforce.
  - **Workers on lower incomes suffer most**
    - If the reduction is confined to those on the minimum wage rate then the burden is not being shared equally within the workforce, which is not equitable.
- **Reasons for Gender Pay Gaps**
  - **Discrimination in the workplace**
    - Women and men may not be paid the same wages even though they do the same work due to illegal discrimination.
  - **Lack of enforcement by State agencies**
    - State agencies do not enforce the existing legislation or take legal action against offenders
  - **Balancing work and family responsibilities**
    - Women work shorter hours and often part-time to combine family responsibilities and paid work. Career progression can be interrupted by maternity leave.
  - **‘Glass ceiling’/fewer women in senior and leadership positions**

- Women are under-represented in most senior positions, in politics and in certain sectors within the economy such as on boards of management.
  - **Different jobs, different sectors**
    - Women and men carry out different jobs and often work in different sectors. In health and social work women make up 80% of workers.
  - **Undervaluing of women's work and skills**
    - Women's skills and competencies are often undervalued, especially in occupations where they are in the majority. This is reflected in lower rates of pay.
  - **Gender role of women / Tradition**
    - Some people may still consider that a woman's role in society is to stay in the home and rear children and this may still cause rates to be lower in some societies.
- **Reducing Gender Pay Gaps**
  - **Awareness - raising Campaign**
    - Governments could put in place measures to raise awareness on gender equality and company good practice. A widespread advertising campaign during 'European Equal Pay Day' might raise awareness of the gender pay gap and initiate change.
  - **Collective Agreements**
    - Social partners could make provisions in collective agreements on gender equality and require companies to report on salaries and plans to close the gender pay gap.
  - **Audits by companies**
    - Gender equality plans and audits enable companies to measure their progress in implementing gender equality and equal pay.
  - **Make pay systems transparent**
    - Transparent pay systems are very important in implementing equal pay e.g. software to help companies analyse pay and staffing structures and verify if equal pay exists.
  - **Implement / enforce existing laws**
    - Governments could also ensure that current laws are enforced by taking legal cases against offenders. .
- **Usefulness of MRP in the public sector**
  - Physical output is not always produced. Many jobs in public sector are services, so it is difficult to measure output, thus making it difficult to measure Marginal Physical Product (MPP) and consequently MRP.
  - The goods/services produced within public sector are often not sold on the open market or at market prices. It is therefore difficult to estimate price or marginal revenue.
  - When Capital and labour are used together it is difficult to estimate whether the extra productivity is due to labour or capital e.g. computerisation of government departments in the Civil Service.
- **Alternative method of calculating pay in the public sector**
  - Pay comparability/Benchmarking

- As productivity is difficult to measure then it may be best to compare those workers in the public sector with those workers in the private sector doing similar work / with similar qualifications.
- **Reducing the Public Sector Pay Bill**
  - Limit the numbers employed in the public sector e.g. ban on recruitment
  - Limit pay increases in the public sector e.g. benchmarking
  - Introduce a voluntary redundancy package in the public sector.
  - Privatised state companies
  - Reduce perks for state employees e.g. pension entitlements
- **Wage Drift**
  - When wage levels rise above the negotiated levels.

## **Mobility of Labour**

**Geographical** mobility of labour: The ability/ease of a worker to move from one location to another

**Occupational** mobility of labour: The ability/ease of a worker to move from one job to another

- **Government Policies that influence the Geographical Mobility of Labour**
  - **Housing**
    - Increase the availability of affordable housing in those areas of shortages.
  - **Educational facilities**
    - Improve the availability of educational facilities to ease concerns of parents.
  - **Social infrastructure.**
    - Improve the social infrastructure so as to make the areas more appealing for families e.g. shops, parks, leisure facilities.
  - **Supports by Government.**
    - The government might provide adequate supports so as to entice people to move e.g. help with re-location costs etc.
  - **Information / Knowledge**
    - Provide up-to-date information on the possibilities of moving. Improve knowledge on the opportunities available for mobility.
- **Factors that influence the Geographical Mobility of Labour**
  - Existing Social connections in the area
  - If the family has children
  - Cost of selling the family home
  - Inertia caused by age
- **Government Policies that Influence Occupational Mobility**
  - **Education/Training courses.**
    - Provide courses for further education opportunities and at costs accessible to workers.
    - Provide opportunities for training / retraining at times / costs suitable for workers.

- **Removal of Government Barriers**
  - Change regulations on work permits; on access; FAS Training schemes; remove unnecessary language / cultural barriers.
- **Trade Union Barriers.**
  - Reduce barriers to entry into occupations e.g. NUJ, Equity; Irish Hospital Consultants.
- **Factors that influence the Occupational Mobility of Labour**
  - If the worker has a very specific skill set
  - High costs associated with re-training
  - Some professions prevent entry to having difficult exams

## **Efficiency of Labour**

- **Factors Influencing the Efficiency of Labour**
  - **Education / Training / Qualifications:**
    - The better the quality of education / training / qualifications attained by the worker the more efficient / productive they may be.
  - **Degree of specialisation:**
    - By concentrating on performing a single task workers become faster and more skilful and therefore are more efficient.
  - **Innate / natural talent of the worker:**
    - Some workers may possess innate / natural talents making them highly efficient.
  - **Climatic conditions:**
    - If a place of work is too hot or too cold then this may affect the workers productivity.
  - **Quality of the other factors:**
    - The better the quality of the other factors which the worker uses then the more efficient the worker.
  - **Management expertise:**
    - Good managers can get the best out of their workforce, leading to efficiencies, improved staff morale/staff motivation, leading to increased output.
  - **Availability of other factors:**
    - Efficiency may be improved if the worker has a greater quantity of other factors of production available for use.
  - **Commitment of the worker:**
    - If workers are highly motivated and committed to work then they will operate more efficiently
  - **Living conditions of the workforce:**
    - If workers are healthy, well nourished and have decent accommodation then they will work in a more efficient manner.

## **Unemployment**

**Full Employment:** Where everyone who wants a job in an economy, has a job. Considered to be 4% unemployment in an Irish context.

- **Factors Resulting Layoffs**
  - **Demand for Pay increases.**

- If the workers are successful with such demands, costs of production will increase and profitability will fall. This may result in the firm having to make workers redundant.
- **Introduction of new technologies / mechanisation.**
  - Increased mechanisation of the production process / introduction of cost saving technologies will reduce the demand for labour.
- **Fall in demand for the firm's output.**
  - Any factors that causes a drop in the demand for the firm's output e.g. higher prices for the commodity, may lead to a reduction in demand for workers.
- **Government Policies.**
  - If the government pursued policies which make it more expensive to employ workers then the employer may reduce the workforce e.g. raising the minimum wage rate.
- **Increased competition on the market.**
  - If new firms enter the industry existing firms may suffer a reduction in demand, resulting in a loss of jobs in that particular firm e.g. opening of new supermarkets in many towns around the country.
- **Increases in the costs of production.**
  - Any factor which causes a firm to become less competitive will result in a loss of sales, leading to job losses. e.g. currently oil/petrol costs are increasing which may result in job losses.
- **Cause of rise in Unemployment in Ireland**
  - **Economic recession / cyclical unemployment.**
    - The current worldwide recession has resulted in a reduction in aggregate demand resulting in the closure of businesses and hence the lay-off of workers. This is not confined solely to Ireland as many firms worldwide have reduced their workforces.
  - **Re-location of industry.**
    - Businesses that need to reduce their costs and wish to survive have moved to lower cost locations e.g. Dell manufacturing moved to Poland resulting in job losses in Limerick. The loss of income results in a further job losses and jobs lost in firms who supply to these firms.
  - **Irish companies exporting to US and UK.**
    - The rise in the value of the euro against the UK pound sterling and US dollar resulted in a reduction in demand for their output and this resulted in job losses in export oriented industries e.g. Waterford Glass; loss of jobs in the hotel and catering industry.
  - **Banking crisis.**
    - The crisis in the banking sector has resulted in a major reduction in the availability of credit for businesses. This has meant that businesses are being forced to close with the resulting loss of jobs e.g. the closure of various restaurants in Dublin. Some banks may cause closures by foreclosing on those firms who are having difficulty repaying their loans.
  - **Uncertainty for the future.**

- With the downturn in economic activity and the severity of the recession people are fearful for the future. Many are reducing their spending and some are deferring spending. This further reduces demand and results in job losses e.g. the closure of firms in the retail sector and consequent job losses.
- **Reliance on construction sector / structural unemployment.**
  - Much of Ireland's economic growth relied on the development of this sector. With the downturn the immediate effect was the major loss of jobs in this sector with the accompanying loss of jobs in all allied trades / industries. This change resulted in significant job losses.
- **Policies to reduce Unemployment**
  - **Reduce taxation.**
    - If the government reduced rates of VAT this would remove the divergence between rates of VAT in the Republic and those in Northern Ireland. It would also help reduce prices. This may encourage people to spend, thereby increasing demand and leading to an increased demand for labour.
  - **Subsidise additional labour employed.**
    - If the government reduced the rates of PRSI on additional labour hired it would help reduce the cost of labour and may encourage employers to hire additional labour.
  - **Reduce costs for business.**
    - The government could, through regulation, force those firms supplying utilities to reduce their prices. This could reduce the costs for businesses, which may lead to a reduction in prices. Demand may increase resulting in an increased demand for labour. This may help decrease export prices thereby increasing aggregate demand, resulting in employment.
  - **Prudent management of the economy / improved regulatory framework.**
    - Many economic commentators suggest that the government needs to restore confidence in the public. If confidence is restored then people will start to spend, resulting in increased aggregate demand and boost employment. Thus prudent economic management of the economy is essential to restore confidence.
  - **Infrastructural development.**
    - Funding of improvements in the capital and social infrastructure directly leads to employment in the construction industry and, through the multiplier effect, leads to increasing spending and growth in employment.
  - **Maintain a low corporation profits tax base / attract high value added FDI.**
    - The low rate of CPT is seen as an essential element for Ireland to continue to attract mobile foreign direct investment. This can be used as part of the package used to attract companies to Ireland and so increase employment.
  - **Investment in education / training.**

- One of the factors which attracts companies to set up in Ireland is the availability of an educated, skilled workforce. To maintain this advantage the government must continue to invest in education and training. Investment will allow workers to up-skill and so acquire those skills in demand currently. Possible availability of EU funding for training and up-skilling workers.
- **Banking stability – availability of credit**
  - If the government can re-capitalise and rationalise the banks successfully then credit may become available which will boost investment, thereby encouraging economic growth and employment.
- **Measuring Unemployment**
- The live register is a monthly publication of all those under 65 who are in receipt of job seekers benefit and job seekers allowance
  - Live Register is not entirely accurate because the following are included on the register, but should **NOT** be:
    - It includes people who are legitimately working part time and signing on part time:
      - All those on Jobseekers Benefit (JB) - excluding systematic short-time workers
      - All those on Jobseekers Allowance (JA) - excluding smallholders/farm assists and self-employed persons
      - Part-time workers (those who work up to 3 days a week), seasonal and casual workers entitled to Jobseekers Allowance or Benefit.
    - It includes those people who may be drawing social welfare but who may also be working (in the black economy) at the same time.
    - It includes those people who may not be actively seeking employment.
    - It includes those signing on only for 'PRSI credits' and are not unemployed.
  - **Excluded but should NOT be:**
    - People who though unemployed and seeking employment are not on the live register (because they are not entitled to any benefits).
- The Quarterly National Household Survey (QNHS) began in September 1997. It is the official source for the production of quarterly labour force estimates. Information is collected continuously throughout the year, with 3,000 households surveyed each week to give a total sample of 39,000 households in each quarter. Households are asked to take part in the survey for five consecutive quarters.
  - The Quarterly National Household Survey provides a more accurate measurement of Irish unemployment because it **excludes**:
    - People 'signing on' who are actually working.
    - People who work Part-time (working up to 3 days per week), seasonal workers and casual workers (who are entitled to Unemployment Benefit / Unemployment Assistance if they meet the statutory requirements).

- People who claim UA / UB who are not seeking work /or are not available for work.
  - The QNHS includes those people who are unemployed, but for many reasons, may not draw the dole and do not sign on.
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- **Types of Unemployment**
    - **Structural Unemployment**
      - Structural unemployment arises from a change in the structure in an industry brought about by the changing pattern of demand in the economy / or increasing mechanisation (technical progress).
      - E.g. Waterford Crystal
    - **Cyclical Unemployment**
      - A factor of overall unemployment that relates to the cyclical trends in growth and production that occur within the business cycle. When business cycles are at their peak, cyclical unemployment will be low because total economic output is being maximized. When economic output falls, as measured by the gross domestic product (GDP), the business cycle is low and cyclical unemployment will rise.
      - E.g. Construction Industry
    - **Frictional Unemployment**
      - Frictional unemployment is the time period between jobs when a worker is searching for, or transitioning from one job to another.
    - **Seasonal Unemployment**
      - Where an individual becomes unemployed because the business they work in is only open during certain seasons.
      - E.g. Hotels, Ice cream parlours open during the summer months