

Factors of Production- Labour

4TH SEM, HONS, CC-9

PREPARED BY DR SURAJIT LET

(2) Labour:

Like land, labour is also a primary factor of production. The distinctive feature of the factor of production, called labour, is that it provides a human service. It refers to human effect of any kind—physical and mental— which is directed to the production of goods and services. ‘Labour’ is the collective name given to the productive services embodied in human physical effort, skill, intellectual powers, etc.

As such, there are different types of labour input, varying in effort and skill content, and in particular types of skill content. Thus, like ‘land’, labour is not homogeneous. The term covers clerical, managerial and administrative functions as well as skilled and unskilled manual work.

Land and Labour:

Labour differs from land in an important way. While land is a stock, labour is a flow. The term ‘labour’ is used to refer to the flow of labour service per unit of time. So labour is perishable. If we do not make use of today’s labour power, a correspondingly large amount is not made available tomorrow (and in future).

A related, but important point should be noted in this context. The worker sells his services in the market, but retains his capital (working ability). In other words, what is bought and sold is the service of labour, not labour itself. A firm cannot buy and sell labour in the same way that it can buy land and capital.

Dual Role:

Another important point to note is that labour is not only a factor of production. The supplier of labour—the worker—is also a consumer. Thus, labour plays a dual role in a modern economy. Labour is both the subject and the object of production.

This means two things:

(1) That the production of anything requires the use of labour as a factor, and

(2) That almost everything is produced to satisfy the needs of the workers, who are the main consumers. In fact, any economic activity takes place to satisfy the consumers. And, consumption demand provides the business people with the incentive to undertake production.

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Peculiarities of Labour as a Factor:

In examining labour markets, it is important to recognise that labour has a number of special characteristics which distinguish it from ordinary commodities.

1. First, labour market transactions are particularly significant for:

First, labour market transactions are particularly significant for the individual worker. Much of a person's life style and relations with other people depend on the job he or she does. Furthermore, the employment of labour involves a continuing personal relationship between employers and employees, whereas transactions in market for goods are often brief and impersonal.

2. Labour is an end and means in itself:

A commodity is only a means of production and the object of production is its consumption by labour. Labour, therefore, becomes a means to its own end.

3. Thirdly, the individual sells his services but not himself:

The employer, however, must be able to exert some control or authority over the actions of employees. This is not a very simple matter, which can be covered unambiguously by a contract of employment. A great deal of energy has been devoted to planning systems for the direction of employees, and even a brief examination of the state of industrial relations in most countries shows that still much remains to be done.

4. Labour is inseparable from the labourer:

In other words, labour and the labourer go together. When the seller sells a commodity he does not necessarily go with the commodity. But the labourer can supply his labour only when he goes with it. Moreover, when a seller sells a commodity he parts with it. But when a labourer sells his labour, he retains the quality with him. He may gain the satisfaction of his services, but he cannot be separated from the labour.

5. Fifthly, the individual must be present when the labour services are used and thus a fifth feature is that labour services are not transferable:

For example, a person who has agreed to carry out certain tasks cannot transfer his services to someone else to do the work, while he does something else. This contrasts with commodities which can be transferred among individuals.

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One consequence of having to 'deliver' the services personally is that employees have strong views on how their services should be used. Working conditions are of central importance to workers. It also means that workers must live near their place of work. The location may significantly affect labour market decisions.

6. Sixthly, labour services cannot be stored:

Labour cannot be 'saved' or stored for future use (although rest may enhance performance to some extent).

7. Labour is perishable:

A commodity, if it is not disposed off today, can be disposed off the next day and it may not lose its value. Labour, however, is perishable in this that if the labourer is not able to sell his services for a day he cannot get the value for that day. It is lost forever; it is because of this that labour has a weak bargaining power.

8. Labour is affected by surroundings:

A commodity is usually very much affected by its surrounding; a labourer is very much affected by the surroundings because he is a living being. Therefore, any change in atmosphere has an effect on his health feelings etc.

9. The supply of labour is independent of its demand:

In case of most commodities we see that supply usually varies with demand but in case of labour its supply is in no way related to demand. Both are determined by different factors.

10. Finally, labour services are enhanced by training:

Skill acquisition is often a lengthy and costly process. However, adjustments in the labour market, such as increasing the supply of a particular skill, often requires a long time. This also means that individuals do not usually train for more than one occupation as they only have a limited working life over which to justify the investment.

Mobility of Labour:

The mobility of labour has two aspects:

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(a) The spatial or geographical mobility of labour, which relates to the rate at which workers move between geographical areas and regions in response to differences in wages and job availability (e.g., a worker from West Bengal moving to Mumbai) and

(b) The occupational mobility of labour which relates to the extent to which workers change occupations or skills in response to differences in wages or job availability (e.g., a jute mill worker joining a tea garden).

It may apparently seem that labour is the most mobile of all factors—both occupationally and geographically. Workers can move both freely from one industry to another and from one region to another.

Reward:

The reward or price that is paid to labour in return for the services it performs is known as a wage or salary. A man's wages are associated with his productivity or efficiency and this, in its turn, depends on a variety of factors including the education and job training he has received, his innate skill and the extent to which he is motivated to put his best effort in the work he is doing.

In general, the supply of labour varies directly with wages and compensation. Normally, when wages are relatively low, increases in wages will tend to lead to an increase in the supply of labour. However, as wages continue to rise a stage ultimately comes when higher wages (incomes) make leisure more attractive.

When incomes are relatively high, therefore, higher wage rates may actually lead to a fall in the number of hours worked (and, thus, in the amount of labour offered by an individual worker.) This is why the supply curve of labour bends back to the left and this is often cited as an important exception to the (empirical) law of supply.