

Labour markets introduction

Read definitions of key terms on pp.1-5 of the Study Guide.

Demographic changes in the UK

Currently in the UK we have a falling birth rate and death rate leading to an aging population. A smaller working population and a larger retired population will lead to an increased dependency ratio.

This causes a problem for the government with pension provision and payments from current workers are not sufficient to pay for pension provision. The government can therefore aim to lessen its burden by...

- Offer a means-tested pension so only a limited proportion of the retired population qualify.
- Lower pension payments.
- Increase the age of retirement to decrease the outflow of labour from the labour market.
- Increase taxes (note that New Labour has a policy against increasing direct taxes such as income tax so to fund pensions indirect taxes may have to be increased such as VAT, for example).
- Further problems are caused as the retired population is likely to use the services of the NHS to a greater extent so require further additional funding.
- Use of 'flexible labour market' to encourage participation ratio through schemes such as...
 - i. 'New deal' to improve participation within the workforce, particularly of women and skilled workers such as doctors who had previously left work.
 - ii. Offer minimum wage at a rate higher than benefits than those out of work receive.
 - iii. Flexi-time and part time work more prevalent so workers find work easier to combine with their other commitments.
 - iv. Flexible contracts for a given period of time, not for life. This leads to more efficient use of labour so workers move within the market to where they are needed.
 - v. Aimed to improve participation ratio of women in particular. Also those skilled workers who have left work.

Sectoral changes

Development can be measured by the size of the primary sector industry in an economy. In initial development economies move from primary production (agriculture) to secondary sector (industrial) then in further development to the tertiary sector (services).

All advanced economies are currently experiencing low unemployment and de-industrialisation (the decline of the manufacturing sector). This means many traditional industries are in decline. The UK, for example, has lost its comparative advantage in the production in areas such as ship building and coal mining. Those put out of work found it very hard to be retrained as they are occupationally immobile.

London is a major financial location globally and has seen some expansion as has low paid work such as distribution and restaurant work. However these industries face the threat of relocation where labour is cheaper, and costs of running the business cheaper. There is the increasing threat of relocation to economies like India.

Wage differentials

Where workers are paid different rates due to...

- Gender issues, though in 1978 the equal pay act made this illegal.
- Ethnic minorities, again illegal under the 1978 equal pay act though often this is due to social problems and poor education. All employers must offer equal opportunities to all suitably qualified.
- Regional inequalities (particularly the north-south divide in the UK).

Unit cost

The cost of labour for a given output can be calculated by

$$\text{productivity per worker} = \frac{\text{total output produced}}{\text{number of workers employed}}$$

$$\text{average cost per worker} = \frac{\text{total wages paid for}}{\text{number of workers employed}}$$

So as productivity increases the labour cost per worker decreases.

These notes are from a lesson on 24/11/2004.