LABOR MARKET ISSUES

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The definition of "labor market" is the market in which workers compete for jobs and employers compete for workers. In labor market, wages, benefits and responsibilities of workers are bought and sold. The differentiating issues of labor market from the other markets are the fact that supply and demand rule is not appropriate. In the old days, workers (slaves) were bought and sold just like products and therefore, labor market and product market showed major similarities. Since the rise of human rights, the slave issue has been solved and wages (and benefits) are used to compensate the hourly work of the worker. (Daniel, 1978)

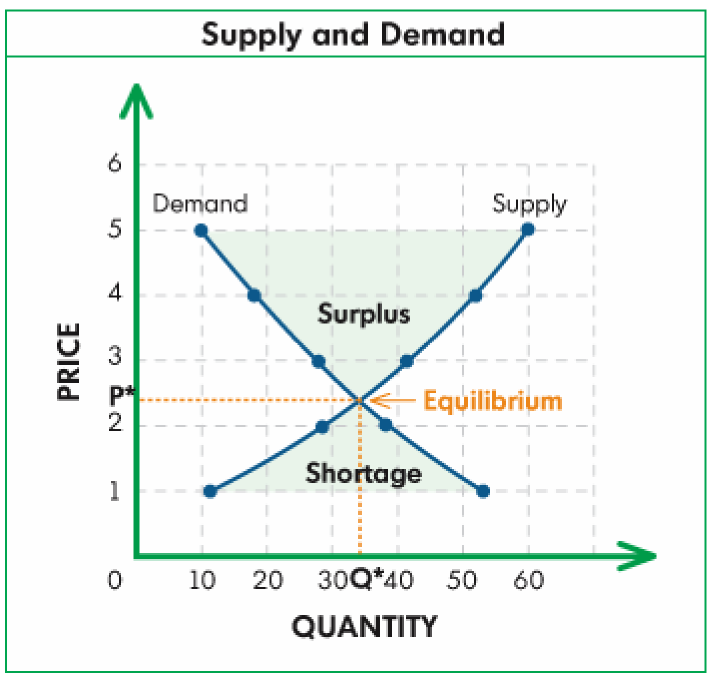
Demand and Supply

Demand is how much a person or group of people wants a particular commodity. Supply is the quantity of the particular goods. (David, 1989)

Relation between Supply and Demand

Supply and demand are very powerful factors in the economy. These two factors have perhaps the greatest effect on the price of a given commodity. A commodity is a material or article as opposed to a service. (Nelson, 1982)

While these two factors are not directly related, they are related in a way. They are related in the sense that they have a huge impact on the price of a commodity. If the demand of a commodity is higher, then the price will be high, but there is still that other factor to account for. If the demand is high but the supply is also high, then the price will usually be moderate but if the demand is high, but the supply is low, then the price will usually be ridiculously high. (David, 1989)



Source:http://www.trumpuniversity.com/learn/images/supply_and_demand.gif

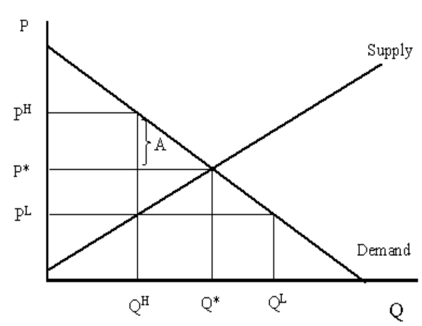
If the demand is low and the supply is high, then the price will usually be incredibly low, while if the demand is low and the supply is low, the price will usually be moderate.

Supply and demand is often used to determine what price is best at which to sell a particular commodity. One of the tools used to determine this is called a demand curve. A demand curve is plotted onto a graph using the supply of a commodity on one axis and the demand of the commodity on another axis. (Nelson, 1982)

Market demand

A market used to exchange the services of a factor of production: labor, capital, land, and entrepreneurship .For instance, the labor services of workers are swaped through factor markets NOT the actual workers. Buying and selling the actual workers are not only slavery (which is illegal) it's also the type of exchange that would take place through product markets, not factor markets. (Laurie, 1995)

Market equilibrium between demanders and suppliers



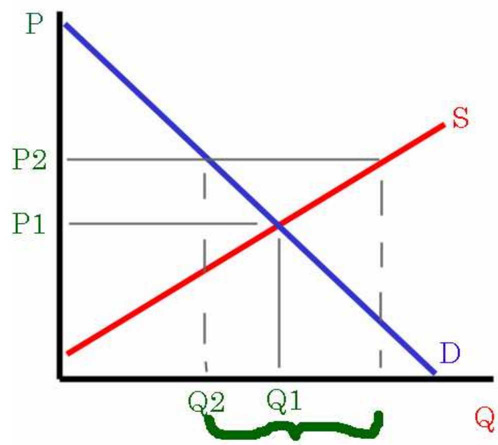
More realistically, capital and land are two resources than can be and are legally exchanged through product markets. The services of these resources, though, are exchanged from side to side factor markets. The assessment of the services exchanged through factor markets every year is measured as national income. (Daniel, 1978)

The market demand curve for labor will incline downward. The market curve for labor is not a simple horizontal summation of the labor demand curves of all the individual firms. Even if labor productivity is stable, the demand for labor depends on in cooperation the wage rate and the price of the final output. If all firms increase employment due to a decrease in wages, there is an increase in the product supply curve and the price of the product must fall. (David, 1989)

Labor Demand and Quantity

Labor demand curve is given by the marginal product of labor schedule faced by the firms. If a country experiences an increase of productivity, then the labor demand curve shifts to the right. (Elizabeth, 1994)

If the labor market is always in equilibrium, then it means that it jumps on to the new equilibrium at once where no unemployment is allowed. Thus, shift of labor demand schedule with fixed labor supply means that only real wages increase. (Laurie, 1995)



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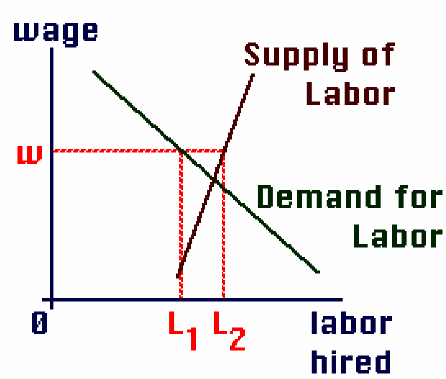
Labor markets, like other markets in the economy, are governed by the forces of supply and demand. Firms' beliefs that they may be unable to sell as much as they would like at the market price leads not only to a quantity spillover (even when prices are flexible) but also to a spillover of product demand elasticity onto the elasticity of labor demand. Hence, optimal firm behavior can be expected to produce a negative correlation between the (absolute value of) the wage elasticity and the unemployment rate. (Daniel, 1978)

Since the labor demand curve is a derived demand curve, the reduction in the price would reduce the demand for labor. Two immediate effects that follow a change in productivity that affect the business cycle are investment demand changes and changes in labor demand .e.g. a technology shock decreases investment which leads to fall in interest rate and increase in savings. This will move the economy into recession. (Colander, 2004)

Supply of Labor

The labor supply curve reflects how workers' decisions about the labor-leisure trade-off respond to changes in opportunity cost. An upward-sloping labor supply curve means that an increase in the wages induces workers to increase the quantity of labor they supply. (Elizabeth, 1994)



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The critical feature of labor market segmentation is that workers in the secondary sector tend to become stuck in that sector after a time, unable to bridge the gap and rise into the primary sector even as they continue to gain work experience. According to dual market theory, a barrier to movement is built into the structure of the labor market, making it difficult for long-term secondary workers to advance to the primary sector. Labor economists ask about the responsiveness of both supply and demand to changes in the wage rate. (Ely, 1992)

If these essential relationships are known quantitatively, most questions concerning the effect on wages and employment of factors of interest, such as public policy shifts, unionization of workers, changing demography, can be answered. Determining the essential relationships quantitatively, however, requires a great deal of data collection and statistical analysis that has yet to be undertaken for the social worker labor market. (Kevin, 1995)

Demand Affect Firms and Workers

Firms and workers are unable to quickly adjust real money wages to changes in aggregate demand. This leads to sticky wages. In this way the aggregate demand is affected by the misperceptions. Aggregate demand less than expected brings recession. Aggregate demand greater than expected brings expansion. (Nelson, 1982)

If the demand increases, because of, say, a decrease in the income taxes there'll be an increase in total spending, increase in the real GDP and a fall in the unemployment level. However, the prices won't be affected because the economy is in the range.

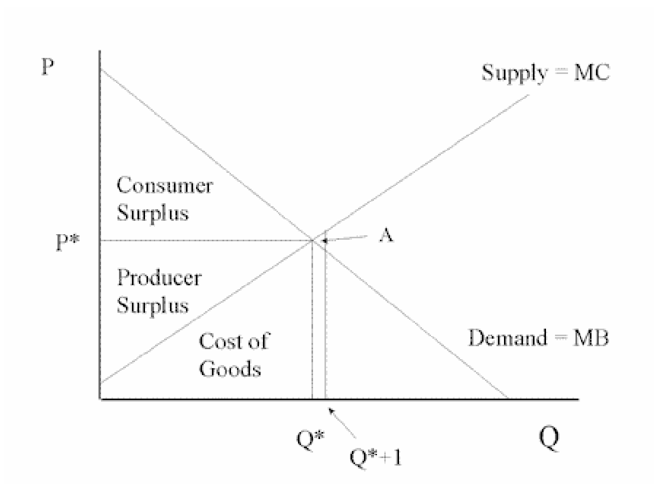
If there is further increase in the total output the economy would enter in the intermediate range. In this range firms will increase production to meet higher demand. But this may only be possible by incurring higher costs. (Ely, 1992)

As the real GDP increases, there will be an increase in the prices as well. The reason for this increase in prices is that firms have consumed all of their idle capacity and are moving towards potential output so to increase their output, the prices must also rise and cause per-unit production cost to increase. (Kevin, 1995)

If the total spending increases above the full-employment level then the economy is in the classical range. All the firms are operating at full-employment level in this range. They cannot increase their real output beyond this point. Any increase in demand will lead to a further increase in the price levels which might lead to hyper-inflation i.e. a very high increase in the general price level. (Colander, 2004)

MARKET EQUILIBRIUM LEVEL

The equilibrium between the advantages and disadvantages of the market economy are constantly changing, and if changes sometimes favor the advantages (not by making the disadvantages disappear, which is impossible, but by making them appear smaller), the movement toward economic crisis that is taking place in all market economies today makes it clear that it is the disadvantages associated with the market that are becoming its most prominent features. (Eugene, 1974)



In an efficient market, prices quickly and fully reflect all available information. Therefore, firms can work only if security markets are in some way inefficient. Numerous studies testing the efficacy of simple technical trading rules have failed to provide compelling evidence of superiority over a simple buy-and-hold strategy. (Kevin, 1995)

Labor Market Equilibrium

Consider the industry supply and demand for labor on a given coordinate system. The equilibrium wage rate and labor quantity will be determined at the intersection of these two curves. At any given wage rate above the equilibrium wage rate a surplus of labor exists. Buyers of labor are maximizing, but sellers are not. If sellers of labor are not maximizing, those who are unemployed (or marginally employed) will offer to work for less. Workers competing with each other for jobs will bid wage rates down toward the point of intersection. (Katherine, 1994)

In an economy, markets determine prices and quantities. In the labor market, prices refer to wages and quantity refers to the number of people employed. Relative wage levels are an extremely important device in our economy because of the way they allocate productive resources. The wage rate, in a free market would be determined by the forces of supply and demand. In the real world, this is not a realistic model as many of the assumptions are not accepted. (Christopher, 1985)

Wages

The influence that is potentially important is the share of labor cost to total cost. The wage paid to a social worker is one of the direct costs of producing social work services. The higher the share of the total cost, the more important a change in the social worker wage will be to the demand for social work services. In a private practice situation, social worker wages are likely to account for much of the total product cost. In a hospital context, the wage component of the total cost of providing social work services is likely a modest component of total cost. (Eugene, 1974)

Even so, study indicates that some hospitals have gone to considerable lengths to reduce the number of social workers--strongly suggesting that social workers constitute a material share of some cost category that is relevant when employment decisions are made (or that there is a different, but strong, reason to substitute against social workers). (Christopher, 1985)

UNION AND WAGES

Union Works

All manner of working people today belong to unions, whether employed or unemployed, from doctors to trash collectors, schoolteachers to secretaries, pilots to printers. Unions act as the voice of the workers. The sole existence of any union is to benefit its workers. Many people in the work force today belong to some form of a union. A union, is therefore a group of workers who join together to make their working' lives better. Sometimes unions are referred to as associations, federations, brotherhoods, societies, alliances, leagues or simply workers. (George, 1994)

The Union's interests are financial and ethical. The Union benefits by maintaining a large dues paying employee base to fund the activities of the Union. The Union must show its members that the Union is protecting the best interest of its members. The Union's has a right and ethical responsibility to its members to act in the interest of its members without financial gain. (Nelson, 1982)

Union strength and Weakness

Workers individually are powerless against the boss. Alone they are at the complete mercy of an employer who will exploit them to the hilt and put their health and their lives at risk to do so. It is their organization in trade unions, their unity the power of the collective that enables workers to withdraw their labor that gives workers the strength to defend their rights. (Katherine, 1994)

The negative side union is the fact that individual needs are not taken into consideration. An individual worker may not want to go to strike; however, if the union decides to go to strike, that individual is forced to stop working and earn wage. With union, monthly wage, benefits, working hours are set on the negotiation table. (George, 1994)

Another negative side of union is the fact that both parties are equipped with extremely strong weapons; strike and lock-out. Any party with unacceptable demands can end the negotiations and start the strike/lock-out phase. Another negative effect union is the fact if the union is strong, the union can gain very substantial gains compared to other unions in other industries. Also, unions have their own costs. The cost of unions and the collective bargaining is shared by both workers and employers. Every month, union fee is cut from employers. (Christopher, 1985)

Union and Wages

In the existing method, wages and benefits are calculated with collective bargaining. The monthly wage has nothing to do with the production that worker creates or all workers create. If inflation is excluded from the environment, an increase in wages should come from one of the places fundamentally. It can come from increased production or it can come from some redistribution of the existing output. If the workers/employers demand more, it has to be linked to one of the arguments above. Otherwise, the demand is meaningless. (Charles, 1990)

FOREIGN LABOR AND WAGES

Natives often fear labor market competition of foreigners, as they may induce declining wages and rising unemployment as in the case of natives and immigrants being substitutes. However, there is also the potential that they are complements, producing positive wage and employment effects. This issue is examined in a framework with two types of labor, such that low qualified native and immigrant workers (blue collar), although substitutes for one another, are potentially complements to high qualified native workers (white collar) (Nick, 1982). This is thought to accurately reflect the past West German immigration experience. Examining the wage functions of white and blue collar natives in a random effects panel model using a vast sample of micro data, we actually find that foreigners negatively affect the wages of Germans on the whole. Relatively small gains are made by white collar employees with less than 20 years experience, but these are outweighed by the larger negative effects experienced by blue collar employees. (Katherine, 1994)

Ultimately, foreign labor is necessary for many of the things that consumers rely on. To eliminate it, would drive up costs higher than many could afford. Audits done by impartial companies are the most effective measure at this time, especially when released to the public. (Jacqueline, 1987)

Competition of Labor

Foreign competition which has depressed some United States industries and increased unemployment. The evolution to post-industrial economy in the United States. Ever increasing numbers of workers are employed in service-providing businesses, such as hotels, restaurants and retail stores. Despite the decline in members, organized labor in the United States remains strong and conditions of America's labor force have steadily improved. The length of the work day has been shortened. Many agreements between employers and wage earners now call for less than 40 hours of work a week. Most agreements have generous 'fringe' benefits. These include and seasonal farm workers. (Nick, 1982)

Economists deemed that loss of manufacturing jobs in the U.S. because of foreign competition, cheap labor markets abroad, and automation. (Jacqueline, 1987)

Foreign wages and U.S Wages

The effects of competition from low-wage countries in international trade, including that such competition has significantly increased wages inequality in the U.S.

The low foreign wages has provided an unfair competitive advantage has been widely believed in the United States for at least 150 years. On the question of whether competition from low-wage countries is the cause of the widening income gap in the U.S., many agree that wage inequality reflects greater demand for skilled labor, as evidenced by the growing wage premium earned by college students. There are two possible causes of the increasing demand for more sophisticated skills:

international trade and skill-biased technological change. International trade does not increase the demand for relatively higher skilled labor, as would be expected from the theory of comparative advantage. But many studies of this issue conclude that trade with low-wage countries has played, at most, a secondary role in income inequality. (Jacqueline, 1987)

U.S Wages

The unemployment rate was high in Mexico in the 1960's. To fix this issue, the plan was to draw in American corporations that would build their companies in Mexico. In order to ascertain new businesses in this area, Mexico had to make changes that resulted in lower wages and a lower standard of living than the United States were accustomed to. This, Mexico hoped, would create enough of an incentive to draw in bigger corporations that would create new jobs. (Richard & Michael, 1988)

For the past 10 years North American Free Trade Agreement was being sold to the United States Congress and the public throughout Canada, Mexico, and United States. In the earlier 1990's its promoters promised a deal that would create hundreds of thousands of high-wages U.S. jobs, raise living standards in all three countries, improve environmental conditions, and transform Mexico from a poor developing country into a booming economy. Real-life damage to jobs, wages and environment after 10 years has made many people in North America furious about the trade policies the deal was to build upon policies that provide the foundation for subsequent agreements such as the Free Trade Americas. (Howard, 1987)

INTERNATIONAL TRADE AND LIBERAL IMMIGRATION

International Trade

International trade has become a significant part of mainstream business to day. Corporations have determined that outsourcing of merchandise is beneficial to the financial stability of the company. Natural resources that are readily abundant in one country may be in high demand for another country, therefore resulting in importation and exportation of goods and services. (Richard & Michael, 1988)

The International Trade Simulation was a learning experience that taught the advantages and disadvantages of trade between countries and the concept of comparative advantage. It is still amazing that countries refrain from developing Free Trade Agreements when most economists agree that it would result in a tremendous boon to all economies involved. However, it was most interesting that the comparative advantage applied to more than international trade; yet applied to every individual's life and common situations. (Charles, 1990)

Immigration policies

The United States government, through its policy of discouraging immigration, has only caused further misery to the immigrants longing to cross the Mexican American border in search of work. The United States has a border patrol whose sole purpose is to stop undocumented immigration across the US/Mexican border; however, this policy has hurt both the U.S. and Mexican economies. The United States government loses economically not only in its funding of the border patrol, but loses large tax revenues which could be generated if the Mexican worker were allowed to work legally rather than covertly. (Richard & Lowell, 1993)

By allowing for legal migration, the United States would be in the position of taxing the migrant worker, who would, in turn, make a decent wage, therefore keeping him from becoming a burden to our already exhausted system of social programs. The U.S. economy sees little profit from an entity which it cannot see; thus, illegal immigrants working and living outside of American society cannot offer any financial gain to this society. (Steve & Gary, 1989)

Immigration policies of the U.S. and Mexico have been a dismal failure which has hurt both economies. By creating a system of legal migration that fosters economic development for both nations, many of the problems along the border of each would dissolve. NAFTA, which offers some new hope to the misery of the Mexican/American interdependence, is not enough. It is time to reevaluate the failing migration laws and border policies in order to bring profit to both government, both peoples, and alleviate some of the misery along the border. (Howard, 1987)

Domestic Workers

A domestic worker, domestic, or servant is one who works, and often also lives, within the employer's household. They are distinguishable from serfs or slaves in that they are compensated, that is, they must receive payment (and, following labor reforms in the 20th Century, benefits) for their work. They are also free to leave their employment at any time, although foreign workers may find these freedoms restricted by, for example, visa regulations. In large households, there can be a large number of domestic workers doing different jobs, often as part of an elaborate hierarchy. However, most such employees work in middle class households, where they are the only servant. (Richard & Lowell, 1993)

Domestic workers take care of the household and its dependent members. They perform domestic chores such as washing, ironing, buying foods and drinks, accompanying the male or female head of the household for grocery shopping, cooking, and cleaning the house. They may also run errands and walk the family dog. For many domestic workers, a large part of their job is taking care of the children. If there are elderly or disabled people in the household, domestic workers may care for them as well. (Charles, 1990)

Liberal immigration policy

Liberal immigration policy brought hundreds of thousands of settlers to the western. It reduced postal rates, promoted the building of railroads needed for national expansion, and appointed a commission to regulate railroad rates. After 15 years in office his government was defeated, presumably on the issue of reciprocal trade with the United States. Prior to World War I, Laurier tried forcefully to support the formation of a Canadian navy. His own Liberal party defeated this measure, however, and Canada entered the war without a fleet of its own. (Howard, 1987)

Conclusion

The economy’s income is distributed in the markets for the factors of production. The three most important factors of production are labor, land, and capital. The demand for a factor, such as labor, is a derived demand that comes from firms that use the factors to produce goods and services.

Competitive, profit-maximizing firms hire each factor up to the point at which the value of the marginal product of the factor equals its price. The supply of labor arises from individuals' tradeoff between work and leisure. An upward-sloping labor supply curve means that people respond to an increase in the wage by enjoying less leisure and working more hours.

The price paid to each factor adjusts to balance the supply and demand for that factor. Because factor demand reflects the value of the marginal product of that factor, in equilibrium each factor is compensated according to its marginal contribution to the production of goods and services.

Because factors of production are used together, the marginal product of any one factor depends on the quantities of all factors that are available. As a result, a change in the supply of one factor alters the equilibrium earnings of all the factors.

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