

Labour market

[Business](#), [Marketing](#)



In the economic theory, the key factors of production are land, labour and capital. The key incomes from the factors of production are rent, wages, and profits. Therefore, for labour, the major income is the wages. In other words, pay is the main source of income for workers. It is an interesting topic for everyone and the level of pay, its make-up, and determination are worthy of study. There are three main forces related to the determination of relative wages: labour market, state regulation, and pay structures, payment systems inside the firm.

This essay is proposed to explain how these factors cause the relative wages. Firstly, the labour market will be introduced, including neo-classical theory, market forces (derived demand, human capital theory, non-competing groups, balkanization), and non-market forces (personal characteristics-age, sex, race; institutional factors-the state, trade unions, large employers). Secondly, this essay will introduce the state regulation, including direct forces in laws (National Minimum Wages, anti-discrimination); and indirect forces in public sector, and the knock on effect-domino effect-into the private sector.

Finally, pay structures (job evaluation), payment systems (payment by results, performance related pay) inside the firm will be introduced. Labour Market In the neo-classical theory of labour market, the labour price will be equilibrium. It is determined by the forces of supply and demand. Though there may be short-term variations, finally it will reach the balance. Therefore, according to this neo-classical market economics approach, wages should be equal (Rose, 2004: 315). However, the theory doesn't work because of many complicated factors. It causes the relative wages.

There is evidence from the Annual Survey of Hours and Earnings (ASHE) about the relative wages. For example, in the occupation of business and public service professionals, the lowest 10% gross weekly pay is 307.4 pounds. However, the highest 10% gross weekly pay is 1076.7 pounds. In the same occupation, there is big range of wages between the bottom 10% pay and the top 10% pay. This is because that the occupation group is badly defined, and in the private sector, there is no strong national bargaining; only enterprise-level bargaining. Why are there wage differentials? There are two main parts of factors.

One is market forces, and the other is non-market forces. In the market forces, the first factor is the derived demand. According to Burchill (1997: 12), he stated that "the demand for labour is determined by its product". For example, "if the demand for labour increases, as a result, of increased demand for its product, and therefore increased prices for the product, then wages will rise" (ibid). The second factor is the human capital theory. Human capital is a return on the investment in education and training. People can invest in themselves by formal education, training, and work experience.

They impose costs to obtain knowledge and skills. It can help them secure advantages in the future (ibid: 15). Therefore, people can benefit from the human capital to get higher wages at work. The third factor is the non-competing groups. People have their own different talents. Some people are more brilliant; some people are more athletic; others are better at manual skills. According to their intelligence, abilities, skills, they can be separated

into different non-competing groups in the segmented labour market.

Therefore, it causes the wage differentials (Lipsey and Chrystal, 1999: 240).

The fourth factor is the balkanization. Some occupations have their own protectionism and set specific qualifications to form their occupation groups. For example, people who want to be doctors in UK are not easily to become doctors. This is because that there are strict requirements and doctors have the power to control the supply of labour. Therefore, it causes the balkanization in the labour market. In addition, there are non-market forces to cause the wage differentials. The first factor is the personal characteristics, such as age, sex, race etc. According to Lipsey and Chrystal (1999: 239), " Incomes vary with age.

Average earnings rise until a person's mid-40s and fall thereafter". They also stated that " Incomes vary with sex and race. On average, men earn more than women, and members of some minority ethnic groups earn less than members of majority groups-even when differences in education and experience are allowed for" (ibid). For example, from ASHE, in the same occupation like business and public service associate professionals, the mean of the gross weekly pay for male employees is 598. 6 pounds. However, the mean of the gross weekly pay for female employees is 436 pounds.

Therefore, men always earn more than women because they always work longer hours than women who have family responsibility and can't work as many hours as men do. The second factor is the institutional barriers to free market, such as the state, trade unions, large employers etc. The state has

the national influence on the regulation of wages and so on. This will be discussed more in the next part. Trade unions are the monopolist in the labour market. They can control the supply of the labour and use collective bargaining approach to push wage up.

According to Lipsey and Chrystal (1999: 239), " Workers who sell their labour in markets dominated by unions often earn more than similar persons who sell their labour in more competitive markets". Besides, large employers can be the monopsonist in the labour market. According to Brown, Marginson, and Walsh (2003: 192), a single employer can exercise monopsony power to pay less than the competitive rate. Since large employers are the only one buyer of labour in the local labour market, they can pay less without losing the workforce to competitors. Therefore, large employers can also cause the wage differentials.