The Economics of Labor

Student's Name

Institution of Learning

The Economics of Labor

Labor, the productive activity for the sake of financial gain, is one of the basic concepts in economics and society in general. In the economy, labor is explained through the labor market that operates in terms of supply and demand. The ratio of supply and demand changes due to the impact of varying factors. Wages in the labor market are not fixed at the equilibrium due to the rules of supply and demand, and other factors, such as wage discrimination, monopsony, and the activity of union labors; in addition, a price floor concept of minimum wage plays a vital role in the labor market.

First and foremost, the economic mechanism of the labor market is based on the rules of supply and demand. Within the economy of labor, the employee serves as a supplier of labor, whereas the employer demands labor. Labor is based on the market economy principle of voluntary exchange because the employer agrees to pay a certain salary, and the employee accepts it. The price is measured by either an hourly wage, a monthly salary, or an annual salary. The wage that is offered by the employer has to cover the employee's opportunity cost, which is the value of the employee's lost free time and the hypothetical money he or she can earn elsewhere. The demand for labor is dependent on the demand for the firm’s output. The demand for goods and services is described by the term "derived demand" in the economy (Greenlaw & Taylor, 2018). If the derived demand for the product or good is high enough, businesses require additional workers to sustain it. If competing businesses end up hiring more workers as well, the increasing demand for workers is likely to make salaries in the field higher.

The difference in supply and demand explains the difference in salaries among various professions. Salaries are usually high in the professional fields where goods and services that are popular among customers are produced. They grow even higher if the supply of professionals in the field is limited due to the difficulties in obtaining a degree in the field. The difference in demand for various professionals is explained by the factors that shift demands, including the demand for output, the respective level of education and training, the technologies that substitute or complement labor, the number of companies on the market, and the government regulations for some professional fields such as health care (Greenlaw & Taylor, 2018). Shifts in supply, on the other hand, are explained by changing the number of workers, the levels of required education, and governmental policies. For example, the paradigm of supply and demand explains why engineering is a highly-paid job. First, the general public has a high demand for products produced by engineers. Second, obtaining a degree in engineering is quite difficult, which results in a limited supply. On the other hand, professionals with degrees in social science are relatively low-paid compared to engineers due to the low demand for their services and the high supply of professionals available for the job.

The level of wages on the labor market, however, does not merely depend on supply and demand exclusively. The employees are often subjected to wage discrimination, which is a phenomenon that describes a situation when the representatives of minority groups or disadvantaged non-minority groups, including women, people of a certain race or ethnic origin, are paid less than a white male for the same job despite having identical qualification levels. In the United States, female workers on average earn less than male workers, and black workers have lower salaries than white ones (Greenlaw & Taylor, 2018). Such discrimination most often occurs in the lower-paying positions in which employees are vulnerable and cannot fully execute available legal protections.

Salaries can also be made lower by monopsony—a phenomenon that stands for a situation when only one company is hiring employees, and the workers have no other choice. Monopsony can explain the lower wages in particular companies in small cities that occur if the company does not have rivals in its field. The evidence suggests that monopsony is quite pervasive, as it distorts the allocation of resources and transfers the income away from employees (Ashenfelter, Farber & Ransom, 2010). Monopsony disproportionately affects certain populations; while young skilled workers with no family or obligations can move to other cities or across states to pursue higher-paid jobs, workers with families are often less mobile.

Monopsony is even more complicated in case there is only one employer for a specific job in the entire country. Though these cases are rare, they do occur from time to time. For instance, the National Collegiate Athletic Association is an organization responsible for giving scholarships to college athletes. This organization can be considered a monopsony because it establishes low wages for athletes even though they generate significant incomes. The National Collegiate Athletic Association's status of a monopsony is exposed in the lawsuits filed by the former college athletes against the organization (O'Brien, 2014). Since the National Collegiate Athletic Association has no competitors, the athletes who are prohibited from skipping college by their respective associations are forced to accept low-quality scholarships while they are still in college.

At times, employers might willingly establish wages that are higher than the average wage for a particular profession in the market. Salaries can be made higher as a result of the activity of labor unions. These are collective organizations, the goal of which is to support the interests of workers. In the process of collective bargaining, the representatives of unions negotiate with employees for higher wages and increased working conditions. If the negotiations are unsuccessful, and the demands are not met, the workers are likely to participate in a strike that results in seizing the activity of production for some time, which in turn leads to a significant loss of profit for the company. Union members are usually paid more compared to non-members with similar education and experience (Greenlaw & Taylor, 2018). However, the benefits of union membership in the United States are decreasing at a rapid pace due to the fading role of unions in the economics of labor. The peak of unions' influence in the United States happened in the first half of the 20th century. Since then, the role of unions in labor regulation has radically declined because of greater competition in the globalizing world and changing laws (Greenlaw & Taylor, 2018). The decline of unions is also attributed to the rising power of corporations combined with some mistakes made by unions in the past. All in all, from the perspective of employee protection, the decreasing influence of labor unions is an unfortunate development.

The minimum wage serves as a crucial component of the labor economy that is considered an example of a price floor. The minimum wage is the minimum amount of money that an employer is obliged to pay to a worker based on legislation. The minimum wage cannot be compromised in individual contracts and agreements. The purpose of a minimum wage system is to protect employees against unreasonably low salaries; however, there are some conflicting views on whether the minimum wage is capable of effectively achieving this task. The critics of raising the minimum wage suggest that it hurts the market by reducing the amount of low-skilled employment (Greenlaw & Taylor, 2018). Another argument against raising the minimum wage per hour is that many minimum-wage workers do not work full-time, resulting in an unreasonable amount of money received for minimum working hours.

The negative impact of raising the minimum wage is not supported by all scholars. According to Schmitt, the evidence demonstrates that the minimum wage does not have a significant impact on the employment of low-wage workers (2013). Employers have other channels of adjustment other than the minimum wage, including prices and labor turnover. All in all, minimum wage as an instrument to support the interests of low-paid workers should be used in combination with other social policies that support and enforce their rights in order to be seen as an effective tool of protection of individuals from poverty.

To conclude, labor is a distinguishable concept within the modern economy that is determined by specific rules of the labor market, including supply, demand, and wage equilibrium. The economy of labor explains varying wages among different professions, and the concept of a minimum wage, among other labor-related concepts. All in all, it is safe to assume that the labor market economy tends to be balanced as a result of the interaction of various mechanisms.

References

Ashenfelter, O., Farber, H. S., & Ransom, M. R. (2010). Modern models of monopsony in labor markets: a brief survey. *IZA Discussion Paper No. 4915.*

Greenlaw, S., & Taylor, T. (2018). *Principles of Economics by OpenStax*. XanEdu Publishing Inc.

O'Brien, J. (2014). New class action claims NCAA has ‘monopsony’ over athletes. Retrieved from https://www.washingtonexaminer.com/new-class-action-claims-ncaa-has-8216-monopsony-8217-over-athletes

Schmitt, J. (2013). Why does the minimum wage have no discernible effect on employment. *Center for Economic and Policy Research*, *22*, 1-28.