LABOUR MARKET ANALYSIS AND RESEARCH

CHAPTER: I

I. Concept of Labour Market

Labour Market is an important aspect of modern economy. It represents the interaction of demands and supplies of various categories of labour through which prices of these categories of labour, i.e., wage rates are determined. Theoretically, the concept of labour market, like that of the markets for capital and commodities, does not necessarily refer to any physical place, but represents an abstraction of a system allocating and rewarding labour. Since labour differs from capital and commodities due to human element involved therein, the concept of labour market incorporates considerations of the complex of economic and social forces influencing the process through which employers recruit workers and workers seek employment.

Although labour market, like markets for commodities, existed since almost the beginning of exchange economy, its distinct identity came to be recognised only in recent stages of the evolution of economic thinking. In early stages of exchange economy, with self-sufficient household units, however, the distinction between the consumer and producer roles of an individual was very narrow and therefore labour market
did not attain a separate identity in the same sense in which it operates in modern industrial economy. The treatment of 'labour market' in early classical writings reflects this tendency, where labour market is treated analogous to the markets for capital and commodities. In Post-Keynesian macroeconomics, labour market is treated as a distinct market for analytical purposes. Indeed, Keynesian revolution has assigned 'labour market' a meaningful significance in economic literature. The emergence of the concept of labour market reflects growing need of human resource allocation for the maximisation of economic welfare which is consistent with optimum production structure.

The main components of labour market are, the demand for labour, the supply of labour and the wage determination. *Prima facie*, they seem analogous to that of the markets for capital and commodities, but in fact, there are marked differences in their nature and responsiveness. For instance, the law of supply that if price increases supply also increases holds good only upto certain extent in the case of labour. The phenomenon of backward bending supply curve is observed to be valid to a larger extent in case of labour than in cases of commodities and other inputs. In the same way, demand for commodities is generally for direct consumption purposes, while that for labour, except in case of some personal services, is not for the direct consumption purpose. Demand for commodities influences the investment decisions and the technology
in production process which in turn determines demand for labour, reflecting the derived nature of demand for labour.

Since the main function of labour market is to match workers and jobs and to fix remuneration in a manner that ensures required quantity as well as quality of labour supply, its performance is judged by the efficiency with which labour market processes perform this function. The functioning of labour market thus depends upon the efficiency with which allocation of labour among industries, regions and occupations takes place. This is analysed through the nature of occupational, industrial and regional wage differentials existing in the market and the nature and patterns of mobility and migrations. The information channels about the job vacancies and availability of workers play vital role in bringing the supply and demand for labour in equilibrium. In economic theory, market processes have been viewed differently in different theoretical frameworks. Therefore, a brief analysis of the alternative theoretical models is attempted in the following section.

II. Theoretical Approaches for Labour Market Analysis

The history of economic theory signified three theoretical strands in the analysis of labour market behaviour.

These involve more or less simplified outlines of the principal variables and relationships that characterize the marketing process and correspond with three important theoretical approaches which have evolved through time viz., classical, Neoclassical and Institutional.

A. The Classical Approach

The classical model give no special treatment to labour market, because it was considered analogous to the markets for capital and commodities. The classical thesis with respect to the distribution of workers among employments was only a specific application of the general principle which the classical economists understood to govern the distribution of all resources among uses. Thus, the model merely applied price determination analysis of demand and supply as a special case to the wage determination.

In the short-run, supply of labour was assumed to be constant. Therefore, demand for labour became decisive factor in the analysis. It was also assumed that the entrepreneurs had certain amount of investible funds in a given period as a result of the past savings i.e., profits and these funds would be invested in purchasing the factors of production. These wage-funds constitute demand for labour. If the entrepreneurs had relatively low wage-fund, demand for labour would be less and wage would be determined at low level.

In the long-run however, there would be factor substitution possibilities in response to the changes in factor prices. Thus, if labour continued to be available in excess to its demand even at lower wage rate, there would be tendency to shift to more labour intensive techniques of production. Cut in money wages was therefore, considered by this model as a solution to unemployment problem. However, the lowest extent of wages was assumed to be consistent with subsistent level of workers. Thus in the long-run analysis, supply of labour was assumed to be determined by the subsistence theory.

Since conditions of perfect competition were assumed no problems of wage differentials existed because of assumed homogeneity of labour. Therefore occupational and industrial wage differentials of the short-run analysis were removed in the long-run analysis under the assumptions of perfect information, perfect mobility and zero cost of transfer. Therefore, there was no unemployment and no uncertainty in labour market in the long-run.

However, Adam Smith made allowance for the continuation of occupational wage differentials due to non-economic factors like easiness or hardship, cleanliness or dirtiness, honourableness or dishonourableness, probability of success etc., involved in the occupation; which is called 'compensating' wage differences as a function of differences in the nonwage qualities of different jobs; and 'real' wage differences as a
function of restrictions on freedom of occupational choice.¹
But, in the analysis, these were treated as exceptions tending
to change with the changes in social outlook. In other words,
human element and other non-economic factors effecting workers'
behaviour in labour market were considered in economic thinking
of classical economists but they were not incorporated in the
general analysis of wage determination.

Thus, the classical model has three main limitations.
First, it is based mainly on aggregative analysis without
incorporating unit level analysis. Secondly, it analyses the
process of labour market on the basis of unrealistic assump­tions i.e., perfect competition, perfect information and homo­geneity of labour. And, thirdly, it does not consider character­istics of labour as a human factor of production while
analysing the labour market processes. For example, mobility
is restricted by social factors like age, sex, family size etc.,
and many times workers do not move even if there exist occupa­tional, industrial and regional wage differentials. These
limitations make this approach unable to bring out meaningful
results from the analysis of labour market processes.² Perhaps

1. Adam Smith, *An Inquiry into the Nature and Causes of the
   New York, 1937, Please see, Chapter 10 of book 1, 'Of Wages
   and Profit in the Different Employment of Labour and Stock.'

2. There is some element of realism in Rottenberg's contention
   in defence of classical Theory of Labour Market that, "Some
   however, have charged the theory with errors it does not contain', 'Op.cit', p. 49. However, the attempt here is only
to highlight some basic limitations of classical analysis
of labour market processes.
because of these limitations Marshall had admitted the influence of unemployment; a permanent excess of supply to the demand for labour in wage determination. Similarly, Hicks categorically stated that in reality, labour market is scarcely ever in equilibrium.

B. The Basic Neo-classical Approach

Severe criticism of the unrealistic assumptions of the competitive approach gave rise to neo-classical approach, "wherein the focus of attention is on the labour market process, including the action of individual employers and firms and individual workers and their unions." The basic Neo-classical approach has its roots in the economic thinking of 1870s which is known as 'marginal revolution' in the history of economic thought. It was a new kind of static micro-economic analysis forwarded by Jevons, Mengers and Walras. However, Marshall and Hicks are more prominent

4. Please see, "The turning point in the early development of economics, which marked the transition from classical to neo-classical economics, appears to be the independent discovery by, Menger, Jevons and Walras, that the most important concepts of classical economics could be expressed in terms of the theory of incremental values", C.A. Pissarides, Labour Market Adjustment: Micro-economic Foundations of Short-run Neo-Classical and Keynesian Dynamics, Cambridge University Press, London, 1976, p. 1.
names in regard to wage discussions. In classical approach, the accent was on the capital accumulation and economic growth in the context of private enterprise economy and free competition was thought to be desirable because it tended to expand the area of market by bringing about an improved division of labour. In the new approach, i.e., the marginal analysis, the essence of the economic problem was the search for the conditions under which given productive services were allocated with optimal results among competing uses. Thus, the classical approach to economic development was replaced by the concept of general equilibrium within an essentially static framework.¹

Retaining the principle of maximizing behaviour and applying it to the firm level analysis, two more aspects were incorporated in this approach, namely, factor substitutability and marginal productivity theory of input pricing. The possibility of substituting one factor of production by another put forward various combinations of production functions for a firm to choose from. Firm would choose the combinations keeping in view the cost constraints. The relative cost of factors would be determined by their respective marginal productivities.

Thus the Theory of Marginal Productivity was propounded by the neo-classists to explain the price determination of production inputs. The demand for labour in a firm would be up to the point where the value of marginal product of labour equals its price i.e., wage. In other words, a firm would employ an additional unit of labour if the value of its marginal product is greater than the wage rate. Thus, the probability that with the technological changes and shifts in production functions productivity also may increase and result in a pattern of higher wage-rates was explored and incorporated in the analysis.

Retaining the principle of maximization, the theory explains short-run fluctuations in labour market prices resulting from the combination of employers' estimates of workers productivity and employees' offer to sell their services. The former determine the demand for labour and the latter constitute the supply of labour. Under the assumption of diminishing returns, the marginal productivity would diminish and there would be downward sloping demand curve for labour. The supply curve of labour would be generally upward sloping unless there is a union adopting restricted supply policy. Thus, in the short-run, if the prevailing wage rate is higher than the expected rate/value of marginal productivity of labour by the employer, demand would reduce resulting in unemployment. However, in the long-run the interaction between the supply of labour and the supply of
capital would exert more influence on the decision of employer, because, though capital and labour are substitute, they are complementary also and the employer must have both for the maximisation of profits.

The theory made an easy headway in explaining the rising wage trend as the new natural resources and supply of capital had increased productivity. But this phenomenon, along with interfirm and inter-industry wage differentials, revealed that there was a case for bargaining for higher wages by the unions. And that gave rise to the bargaining theories and so-called 'Institutionalist' theories.

The main attack of the critiques of neo-classical approach was on the marginal productivity theory. It was argued that in practice, it is almost impossible to determine marginal productivity of any single factor of production because it is a complex process involving interactions of all the factors of production.\(^1\) Even in the case of agricultural production, which is a favourite example of neo-classicists to explain marginal productivity theory, the theory did not hold good in reality.\(^2\) Moreover, in industrial sector, it was

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1. The Hobson objection stated by Mark Blaug, op. cit., p. 459.
argued that "there is a labour recruitment process and a wage
determination process; each influenced by its own set of factors
and usually without strong connections between the two."\(^1\)

Most of the criticisms seemed to be based on the fact that
early neo-classical economists used it as the condition deter-
mining the level of employment i.e., equilibrium in the labour
market. However, it was realised much later that as a condi-
tion of equilibrium, the theory followed logically from a set
of more primitive assumptions.\(^2\) The fact that factor combi-
nation is fixed in the short-run and there exists imperfect
information about workers' reservation wages and in some cases
about their efficiency imply that firms are not price takers
in the labour market implying a serious limitation of the
theory.\(^3\)

It can be said therefore that, the basic neo-classical
approach had the same limitations from which the classical
approach suffered i.e., the approach based on unrealistic
assumptions of perfect competition and perfect information,
maximizing behaviour and lack of consideration of human element
in labour market process. The neglect of human element in
labour market behaviour has led Gunnar Myrdal to characteristic

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p. 267, For his comments on Marginal Productivity Theory
of Wages, Please see pp. 278 to 280.

2. C.A. Pissarides, *Labour Market Adjustment: Micro economic
Foundations of Short-run Neo-classical and Keynesian Dynamics*,

3. Ibid, p. 27
liberal economic theory, encompassing both classical and neo-classical versions, by mercantalist mode of thinking in all aspects of economic analysis including labour market.  

One limitation of this approach has been that the supply function has been pushed out of the analytical system.  

Though labour mobility from low to high wage occupations, industries and regions was assumed for long-run equilibrium; the approach is silent as to which factors affect supply of labour and what is the responsiveness of labour supply to wage rate changes. Any scientific approach would take into account both the sets of factors that affect demand for as well as supply of labour. It is in this context that J. T. Dunlop contended that, the pivotal task of wage theory is to formulate an acceptable theory on the supply side. It is argued that if wage differentials are explained in terms of productivity differences then even demand considerations are

1. For example, while discussing the employment problem Gunnar Myrdal observed "This liberal economic theory, which in its classical and neo-classical versioned remained the type of thinking that mainly rationalized and greatly influenced public policy until recent decades, was less purged of mercantalist ideas in its approach to foreign trade and the regulation of internal production and commerce", *Asian Drama*, Vol. II, Part V, in 21, Pantheon, New York, 1968, p. 987.


redundant; because, changes in demand for different levels of skills will determine the level of employment in each skill category, but the wage differentials between different skills and occupational categories should be explicable purely in terms of the relative costs of skill acquisition.¹

In other words, the factors governing the supply decision is more important even in productivity differentials explanation. Moreover, the classical and Neo-classical approaches experienced serious difficulty in explaining the persistence of discrimination by sex and race in the labour market.²

These limitations gave rise to the belief that the analysis of economic factors alone is not sufficient to explain the labour market processes.

C. The Institutionalist Approach

The quest for factors, other than purely economic, affecting labour market processes gave rise to the institutional approach.³ It was observed that some social, political

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and psychological factors are effectively influencing decisions of workers regarding labour supply. Lester observed that firms do not lay more stress on wages as a factor in determining the volume of employment; instead, they consider market (demand) for their product as a more important factor in determining the volume of employment.\(^1\) Reynold's study of U.S. labour market in the late 1940s is considered to be the model attempt by an economist to incorporate a sociological approach into his research.\(^2\) He observed that 'demand' concerns not the quality (productivity) of workers but their (employers') preferences.\(^3\) The tendency for 'better' job to be filled by 'better' workers has also been revealed in economists' researches. It is found that employers have their own 'indexes' to decide workers' quality.\(^4\) Firm's practice to retain experienced


labour market, wage rate would have positive effect on labour supply; while for those who are already in the labour market, wage rate may or may not have positive effect.¹ This theoretical discussion is important as it makes it clear that behaviour of workers in the labour market is not the same for both the types of workers. The workers who are already in the labour market are less likely to respond to changes in wage rates. It has been observed in various studies that only a small minority of employed workers between 10 to 20% were responding to changes in wage rates in the labour markets.²

It has also been observed that workers usually possess very incomplete knowledge about wage offers of different firms in the labour market and hardly they are able to compare between different wage offers and other rewards.³ Workers


do not 'shop around' between many companies, making comparisons between them. Rather, they accept the first job offered to them provided it is minimally acceptable to them.¹ Workers have their own conceptions of 'satisfactory jobs' in relation to their socio-economic status and education and training. Therefore, not much percentage of voluntary movers are found who had 'satisfactory jobs'.² Voluntary job changes have been found to decline with advancing age of the workers.³

Thus, the conclusions regarding the firm's behaviour for demand for labour and worker's behaviour for supply of labour are quite different in reality than those propounded by the neo-classical theory. The findings that wages are neither determined by the forces of labour supply and demand alone nor there is a tendency of equalizing occupational and regional wages have set the background for researchers to apply the institutional approach to explain labour market processes.


The institutionalists highlighted the fact of the existence of multiple labour markets as against the single labour market of Classical and Neo-classical setting under the influence of competitive forces. Cairnes maintained the existence of 'non-competing groups', stating that the average workman, from whatever rank he was taken, finds his power of competition limited, for practical purposes, to a certain range of occupations; so that however high the rate of remuneration may rise in those occupations which lie beyond his power of competition, he is excluded from joining shorting them. The existence of different types of labour markets separated by occupational, regional and industrial characteristics, was thus recognised. Kerr, emphasised local labour market stating that the natural market for labour is quite different from that recognised so far. The average worker has a narrowly confined view of the market and is not an alert participant in it. Reynolds argued that labour is not homogeneous even within broad occupational groups.


The employers and workers do not interact in accordance with assumptions of atomistic competition, but through institutional arrangements. The employers typically exercise a certain degree of control over the labour market through the tacit collusion. The effects of trade unions is introduced bargaining into the wage determination process; in which, unions use the threat of strike to raise the earnings of their members. "Consequently, the job market alone does not set the upper and the lower limits for wage determination. The single price does usually exist but as a consequence of policy and not the operation of market forces."2

Growing evidence on the existence of segmentation in labour market gave rise to the literature on 'dual labour markets' which emphasizes the distinction between a primary labour market or formal labour market, consisting of firms with structured employment relationships of a promotional ladder type internal labour markets; and a secondary or informal labour market, where labour productivity and earning are low and employment relationships is close to that of a casual labour markets.3 It is claimed that the wage structure even in primary labour market is not determined by efficiency (productivity) criterion but rather by customs and habits. Therefore, the distribution of jobs and income in the primary sector is not dictated by ability and human capital but by customs and institutional practices.

Institutionalists thus reject abstract general theories and advocate an inductive and inter-disciplinary approach to labour market research. However, in absence of any general theory, it is almost difficult to put the findings of this approach in a coherent manner. In fact, findings are so varied and contradictory that it is almost impossible to bring out any general statement out of it. The institutionalists' claim on the existence of dual labour market and emphasize on structured relationships in primary labour market due to internal promotional ladder. But it becomes weak as the contrary evidences are found. For example "ports of entry" existed at every skill level\(^1\) and that, internal labour market normally co-exists with the external labour market. Therefore, the firms' behaviour is not so effectively altered as to render neo-classical theory ineffective in providing explanation.\(^2\)

It is also found that evidence for workers' ignorance is mostly impressionistic and worker's knowledge is not 'tested' by researchers.\(^3\)


It thus became eventually clear that independently this approach is not capable of generating testable prepositions; and need was increasingly felt by the researchers to construct a theoretical framework which combines the neo-classical theory with the findings of institutionalists.

III. Synthetic Approaches

The onslaught of institutionalists on basic classical and Neo-classical theoretical edifice led to several forms of reactions. Some economists attempted solutions to institutionalists' problems within the neo-classical framework, and to some extent succeeded in demolishing their base. For example, the argument that the supply curve is backward bending indicating socio-cultural effects and therefore rendering it useless to analyse supply function in economic frame has been successfully turned-down by G.S. Becker. He forwarded a "Theory of Allocation of Time", explaining that, labour supply is the outcome of house-hold decision making and must be treated integrally with consumption behaviour. It has become possible thereby to bring several aspects of non-economic phenomena including job preferences by workers and discrimination by unions within the ambit of neo-classical theory. One off-shoot has been the, "Theory of Investment in Human Capital", which shows how net or observed pay levels may include elements of current and past outlays on human capital formation during some phases of the worker's life cycle.\(^2\)

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theory does not permit consideration of such investment.

The developments in Neo-classical Theory led E.S. Phelps and his associates to develop "Micro-Economic Foundations of Employment and Inflation Theory", which when applied to labour market considers the role of the accumulation of knowledge about the job opportunities and job offers and the prices attached to them in the market. Consequently, the Marshallian equilibrium analysis is replaced by a disequilibrium analysis involving the role of expectations and adjustment processes in search behaviour under conditions of incomplete knowledge and interdependent decision making by the employees and employers in the market. These theoretical developments attempt to incorporate the effect of the so-called non-economic influences, highlighted by the institutionalists' contribution, on the labour market in the modified neo-classical frame work. A detailed analysis of labour market behaviour under this approach is undertaken by Pissarides, who attempted to provide analytical solution to the problem of coordination in the labour market over-time when households and firms engage in trading on the basis of expectation formed under the conditions of incomplete knowledge.


A wide range of empirical studies followed broadly this framework of analysis. Some studies focused on supply side, while others considered demand side of labour market in this context. Reynolds and Shister, for instance, attempted a study on the attitudes of workers towards different jobs and relative importance of wage and other 'economic' attractions over the 'non-economic' attractions on the selection of jobs. They concluded that the displaced workers give more weight to economic factors than human relation factors. Thus, the quality of human relations in industry apparently seems to be less important than "a steady job at good wages."\(^1\)

Lewis also studied the same aspect in the form of "Hours of work and hours of Leisure". He found that, although, evidence reveals that as a result of operation of non-economic forces the long run supply curve seems to be negatively stopped, the same is not the case for the short-run. It is the short-run curve that directly relates the response of labour supplied to a specific wage increase, thereby reducing the importance of non-economic factors.\(^2\) Myers and McLaurin attempted some questions on labour mobility,\(^3\) but Hunter and Reid say that, actual movement between employers is only

one aspect. The ability to move, i.e., the possession of relevant skills which are not specific to any one form and the willingness to move are perhaps more important.¹

Killingsworth studied the affects of automation on the labour market.² He argued that, the fundamental effect of automation on labour market is to 'twist' the pattern of demand. It phases down the demand for workers with little education and training while pushing up the demand for workers with large amount of education and training. In general, he found inverse relation between educational attainment and the rate of unemployment. As against this, Mackay finds in his study that most technical changes place premium on speed, dexterity and adaptability rather than on experience and skill.³ Walter·Oi has pointed out one important aspect in the context of firm's demand for labour and labour mobility. He observed that, workers are trained by individual firms for their specific operations in various fields and this cost can no longer be treated as firm's variable costs; and such trained labour is a quasifixed factor of production.⁴

This proposition gave rise to number of studies on firm's specific training and general training aspects and their influences on labour market processes.¹

Thus the various theoretical and empirical studies have shown that the modified neo-classical framework is capable of analysing so called institutional factors and that, it can be considered as the only testable version of trade union bargaining power.²

IV. Labour Market and Development Process

The theoretical approaches explaining labour market behaviour are the abstractions of the labour market process operating in reality. It is not surprising therefore, that the form in which labour market processes actually take place differs considerably from its theoretical abstractions.

Most of the discussion of theoretical approaches attempted in the previous section is based on the studies of labour markets in developed countries. It has also been mentioned how the existing labour markets in developed countries do not conform to the theoretical paradigm. For example, the existence of non-competing groups and internal labour markets does not conform with the basic assumption of competition in the labour Markets. The existence of discriminative hiring

practices by the employers on the basis of sex, race, religion, nationality etc., do not conform with assumption of hiring practices based on labour productivity. And, the fact that employers rate such workers at discount restricts the mobility of workers and shaking thereby the very base of theoretical edifice i.e., equilization of wage-rate principle. More recently, even in developed countries therefore, the stress is not much on highlighting such differences as that on finding out the peculiarities of labour market process in the regional and national context with a view to find out alternative solutions for channelizing the processes in the desired direction. For example, in USA, it is found that the composition of labour force is rapidly changing as more women and students come forward to join labour market and that the automation in industries is changing the pattern of demand for labour and the benefits of a decline in the overall rate of unemployment appear to be quite unevenly distributed among different educational attainment groups. A wide range of such studies have been reviewed by Marshall and Perlman\(^1\) on the basis of which some broad characteristics of labour markets of developed countries can be described as following:

(1) The extent of unorganised sector labour market is limited, but the quantum of casual type of labour is increasing as students are always ready to be in the

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labour market to meet with their learning expenditure.

(2) Sex composition of labour market is rapidly changing as women come forward to join the labour market.

(3) There is increasing use of formal information sources for employment search.

(4) The widening productivity spread and the constant (relative) wage spread (the social-minimum wage) have caused the creeping unemployment and labour force replacement.

Though these characteristics are quite commonly observed in labour markets of developed countries, there are wide variations among countries and among geographical regions within countries. It is because, although logic of industrialism is same, the process of industrialization differs from one situation to another leading to differences in nature of labour market process.¹

The labour markets in developing countries differ from the corresponding markets in developed countries because of the different socio-cultural setting and different level of economic development and industrialization.² As a result labour markets in these countries are likely to have greater extent of unorganised (informal) sector and limited

¹ See, Clark Kerr, et.al., Industrialism and Industrial Man, Harvard University Press, Cambridge, 1960, Ch.2 and Ch.4. Also Walter Galenson, Edt., Labour in Developing Economics, Institute of Industrial Relations, University of California Press, 1963, Vol.III.

extent of the use of formal channels for the flow of information about job availability and recruitment. The search behaviour of employers and employees regarding personnel and jobs in turn is governed by traditional and informal methods. Except in service sector of some urban centres, no significant change in sex-composition in industrial labour force is seen. The pattern of industrial development is so uneven that the relation between the level of education and the rate of unemployment has not yet clearly established as in the case of developed countries.¹ The problem of sectoral transfer of labour from agriculture to industry on a permanent basis is still unresolved in developing countries as the industrial workers are not completely detached of their agricultural and rural links. The importance of formal education and training in demand for labour is also not clearly established and the functional requirements from the different occupational categories are almost unspecified.

From the above discussion it may be stated that labour markets in developing countries are in transit and they are likely to imbibe developed countries labour market characteristics as they gradually industrialize. However, hypotheses emerging from such characteristics differences

and also from those emerging from the set of factors that effects labour market process in developing countries have been tested by various researchers. These studies reveal that the institutions and practices of the labour market adopted in various countries show great diversity. Whatever uniformities have been discerned, are more in the nature of tendencies rather than exact theoretical results. These tendencies provide a frame work which can be used to study institutional and functional similarities and diversities of labour markets of different countries as well as of the areas with different countries as well as of the] areas with different development stages in a country like India.

V. Labour Market Analysis in India

Studies on Labour Market in India were initiated in sociological and industrial relations background. These came to incorporate problems of manpower planning in the later stage and gradually turned to analytical issues relating to such aspects of labour market behaviour as wage structure, mobility, job search behaviour and investment in human capital. A brief review of Indian labour market research is attempted here.

The study like 'Social Implications of Industrialization' attempted the problem of labour commitment in the light of urbanization and social changes, 'Workers, Factories and social changes in India', viewed the process of industrialization in India through a movement of the Indian society from pre-industrialist traditional to industrial-modern stage. 'Jobs and workers in India', provided a review of Indian labour situation but its wide coverage made it too general. 'Industrial relations in India', is another of this kind emphasizing the rural origin of the workers and their absenteeism. Both these studies maintained that the rural link of the workers has kept their level of commitment low. Moreover, this 'village-nexus' thesis has not been supported by other studies. Some pioneering work has also been done in this connection. James Ralp, for example, presented for the first time the problem of casual labour in Indian industry in his paper, 'The Casual Labour Problem in Indian Manufacturing'. He also attempted a

verification of Hicksian proposition that a casual labour market tends to accumulate labour in quantities larger than demand; and found it true in Indian case. Danial Thorner attempted for the first time the question whether employers ever try to value a stable and committed labour force and if so, did they succeed.¹ He found that, when the employers in India wanted to have a permanent labour force, and when this desire has been more than a verbal expression, they have not found it difficult to get one. On the contrary, workers are willing to continue in one industry if they are provided subsistence wages, social security and housing facility. But as Mukerjee has said, the employers themselves preferred constant change in work force with a view to reducing wage-bill.² Morris attempted to examine the commitment problem in the context of cotton textile industry and also analysed the trends in the supply of labour to Indian industry. He brought the term 'labour market' in currency in the Indian context.³


The aspect of manpower planning came to be studied at economy-wide level as well as for some specific occupations, in national and regional contexts. With this end in view Research Programmes Committee of Planning Commission sponsored some labour market studies at city level. 'The Future Manpower situation in India' is an example of national level study. 'Engineering Manpower - A Study of our Resources and Requirements', 'Job Outlook for Managerial Personnel in India - A Study of Requirements for IV and V Plans', and 'Supply of and Demand for secondary and higher educated Manpower, 1960-61 to 1975-76' are some representative instances of occupational manpower studies. Most of the studies upto early sixties followed the Institutionalist approach and were descriptive in nature. The studies


attempts to examine labour market processes in analytical frame work are not many. Among the first of its kind is a study by Laxminarayan, who attempted 'the study of the Indian labour market and its Impact on Regional Wage Differentials.' He explained the regional wage differentials in terms of the differences in labour supply conditions. Singh studied the wage patterns, mobility and saving of workers in Kanpur Cotton Industry, with emphasis on sources of labour supply, recruitment processes and their impact upon the wage structure. Papola studied the criteria of wage determination in cotton textile industry in India, with reference to Ahmedabad, Bombay and Kanpur textile markets. It was the first study of its kind in the form of inter-regional labour market comparison of a well established and large employment providing cotton textile industry in India. He evaluated the role of market forces in determining wages and geographical wage differentials in this industry. Using secondary data from Annual Survey Industries, he also studied various aspects of wage


structure in relation to labour market efficiency. Besides, a number of other studies also dealt with the wage structure issues in the industrial labour market context.

The studies examining the role of labour market on wages and wage variations have taken demand for labour as generally indicated by actual employment implying the assumption that there are no unfilled vacancies. The estimation of labour supply with the help of the general concept of labour force has also limitations particularly when the study is specifically concerned with manpower planning relating to some area, industry or occupation. This practice raises some important issues in labour market analysis.


For instance, how to take account of unfilled vacancies in general and in particular skilled or semi-skilled occupations? Studies in manpower demand attempt this question assuming that demand for labour is based on technological changes and project demand for labour over a period on the basis of investment and technology used in industries. Such projected demand is examined in relation to the supply of labour projected with the help of available training facilities for skilled or semi-skilled occupations and the gap between the two is considered as shortage occupation.

An example of the study of demand for labour is the study of manpower requirement in industries in GIDC Industrial Estate, Ankleshwar by the Directorate of Employment and Manpower Training, Gujarat State, Ahmedabad.\(^1\) With a view to organise training programmes for providing skilled and semi-skilled labour to these industries, the directorate surveyed the industries on sample basis and estimated the future requirement of workers. An example of the study of demand for labour and supply of labour is

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1. The Directorate of Employment and Manpower Training, Gujarat State, Ahmedabad, Manpower Requirement for Industries in GIDC, Ankleshwar, Departmental Report: 1979-80, for the use of the department only.
of information in the labour market. Many studies have
criticised the working of the Employment Exchanges on
the ground that they do not attempt to play as catalytic
in the matching process in labour market. Agrawal and
Rajagopalan have provided a review of Labour market
information in India.¹

Studies following the view that informal information
sources play important role in the matching and allocating
function of labour market examine its intensity and extent
in area and industry specific labour market. For example,
Papola and Subrahmanian have examined this aspect in
"Wage Structure and Labour Mobility in a Local Labour
Market: A Study in Ahmedabad."² It found the informal
information source almost the main source and that the
extent of geographical mobility in the sense of inter-
state mobility is low and getting lower over the years.
Inter-plant job changes are not as frequent as inter-
industry ones. Vijay and Heather Joshi³ studied migra-
tion aspect in the Bombay labour market analysing the
1961 and 1971 census data of migrants and selected basis
of analysis the linguistic group structure of migrants in

¹. B.L. Agrawal and V.K. Rajagopalan, 'Labour Market
Information in India', Manpower Journal, Vol. XV,
April-June, 1979, pp. 21-34; Please see Balbirsingh.
'Employment Exchanges in changing Economy of India,
Ph.D. Thesis, Meerut University, 1974-73.

². T.S. Papola and K.K. Subrahmanian, "Wage Structure and
Labour Mobility in Local Labour Market: A Study in

³. Vijay Joshi and Heather Joshi, "Surplus Labour and the
the light of market information. They also considered informal sector aspect of the market. They found that some language-groups of migrants had better access into the labour market due to the informal channel of information resulting in pre-arranged job migration and some job and industry specific migration. The mobility aspect in relation to the processes of labour allocation among new and old industries in a newly industrialized region has been studied by Johri and Misra. They studied this aspect with reference to the five most important industries by employment in the Union Territory of Delhi, Western U.P. and Haryana. The study examined the extent and pattern of labour mobility, measured its determinants and analysed the process of inter-industry labour allocation of workers in those industries. They found the personal factors such as age, non-earning dependents, skill and average monthly income more important in explaining voluntary mobility differentials than the institutional factors such as, industry, size of firms, workers within or outside the region and rural/urban backgrounds of the workers. The relation between the location variable and mobility was found more complex.

However, all these studies seem to have examined the matching function from the demand for labour side and avoid looking from the supply side of labour. The studies that

examine the matching function from the supply of labour side maintain that the inflow of labour into the market by mobility and migration exert greater pressure on labour market process and along with the imperfections caused by union activities and high extent of use of informal channel in recruitment give rise to a sector called the informal sector. It is believed that, despite high rates of industrial development and overall modernisation, the urban economics in most developing countries continue to have an increasingly large part of their activities in the non-organised or informal sector. The extent of employment in this sector is considerably large in many developing countries. In India, for instance, this aspect has been studied in relation to Calcutta, Bombay and Ahmedabad. It has been found that this sector reveals certain positive features in regard to the capacity to generate employment and equitable pattern of distribution. The growth pattern based on an emphasis on this sector is, therefore, likely to be more effective in reducing poverty in urban area.


5. Ibid, p. 2.
In a study of informal sector, following the classification between formal and informal sector provided by Jhon Weeks on the basis of exchange relationship between the enterprise and the state, Hein Streekerk has considered the informal sector as represented by the small scale industries, named by him as 'light industries,' and has studied the employment, working conditions and labour relations in small scale industries in rural South Gujarat. His study gives some interesting insights in the labour market processes in this sector. He has found that the temporary workers were not really temporary in the sense that they were not attached to the factory; but their names were listed in the different sections or departments of the factory at different times to avoid strict observance of the factory-rules. He observes that, the reason for the 'Light-industries' remaining light for ever is the attitude of the owner-entrepreneurs to take maximum advantages from the government in the form of subsidies, tax holidays etc., and to take minimum responsibilities towards labour in the form of avoidance of observance of the factory-rules.

1. Ibid, p. 9.

VI. Need for Further Study

Thus, though the analytical studies in labour market have gained recently, these are still few in number. In most of the studies, social background, language, rural link and labour commitment and social barriers to mobility have received the top most attention of researchers. The sociological aspects of labour market have been so much emphasised that, "we have Literature on much of 'Sociology of labour markets' but relatively very little on the 'economics of labour market.'"¹ This is not to deny the importance of social aspects in labour market analysis but to indicate that it constitutes only one fourth aspect of the labour market-studies.² The need is therefore to study labour market at sub-national or regional level which is more amenable to analytical treatment and can land itself to the use of primary sources of information enabling the analysis more realistic. The present study therefore attempts to undertake an analysis of the local labour market in the context of developing industrial centres of a backward area.

(a) the nature and source of labour supply and mobility,
(b) the nature of demand, its quantity, quality and concentration,
(c) elements of competition or monopoly both in case of labour supply and demand and
(d) other institutional and social factors that influence the operations of labour market and determine the dominance or otherwise of economic factors."