HUMAN CAPITAL AND THE LABOR MARKET
WHAT IS HUMAN CAPITAL?

- Human capital is the knowledge and skills that people gain from education, on-the-job training, and other experiences.

- On the whole, people with more knowledge and skills are more productive workers.
WHY IS IT IMPORTANT TO DEVELOP ONE’S HUMAN CAPITAL?

- The more training, education and job experience that you have, the more you have to offer to prospective employers.
- Employers are more likely to want a better-educated, experienced and dependable employee than someone who has fewer of these qualities.
- The more in demand are your services, the greater the likelihood that you will be better paid.
- There are other, less work-related benefits to developing one’s human capital also.
HOW DOES ONE DEVELOP ONE’S HUMAN CAPITAL?

• FURTHER YOUR EDUCATION AND LEVEL OF TRAINING!
• LEARN NEW SKILLS!
• GAIN WORK EXPERIENCE!
• INCREASE YOUR PRODUCTIVITY!
• DEVELOP CONTACTS (I.E., BUILD A PERSONAL AND PROFESSIONAL SOCIAL NETWORK – SEE LINKEDIN, ETC.)!
• GET INVOLVED IN COMMUNITY AFFAIRS, VOLUNTEER AS A COACH FOR A SPORTS TEAM, PARTICIPATE IN CHURCH/MOSQUE/TEMPLE ACTIVITIES, ETC.!
DEVELOPING ONE’S HUMAN CAPITAL IS ESPECIALLY IMPORTANT IN TODAY’S KNOWLEDGE-BASED ECONOMY. THERE ARE FEWER JOBS REQUIRING LITTLE OR NO SKILLS THAN EVER BEFORE. PARTICIPATING IN TODAY’S LABOR FORCE DEMANDS INCREASING LEVELS OF TRAINING AND EDUCATION.
WHAT IS THE LABOR FORCE? HOW DO WE DEFINE IT?

• THE LABOR FORCE CONSISTS OF THOSE PEOPLE AGE 16 AND OVER WHO HAVE JOBS OR WHO ARE ACTIVELY LOOKING FOR WORK.

• IT DOES NOT INCLUDE PEOPLE WHO ARE RETIRED, HOMEMAKERS (STAY-AT-HOME MOMS, FOR INSTANCE), FULL-TIME STUDENTS, PEOPLE IN PRISON, OR PEOPLE IN THE MILITARY.
HOW IS THE LABOR-FORCE PARTICIPATION RATE DETERMINED?

- THE BUREAU OF LABOR STATISTICS (BLS), PART OF THE DEPARTMENT OF LABOR, CALCULATES IT AS FOLLOWS:

  \[
  \text{Labor Force Participation Rate} = \frac{\text{labor force}}{\text{adult population}} \times 100
  \]
LABOR MARKETS

• THE SUPPLY OF LABOR BY WORKERS AND THE DEMAND FOR LABOR BY FIRMS ESTABLISH WAGES AND EMPLOYMENT LEVELS MUCH LIKE SUPPLY AND DEMAND DETERMINE PRICES AND QUANTITIES IN MARKETS FOR GOODS.

• DIFFERENT LABOR MARKETS EXIST FOR WORKERS WITH DIFFERENT SKILLS.
SOME FURTHER OBSERVATIONS ON LABOR

• **The market Demand Curve** for labor shows the total quantity of labor the employers in a labor market would hire at each hourly wage rate.

• **The market Supply Curve** for labor shows the total number of hours workers would be willing to supply at each wage rate.

• **The value of the marginal product** of an input, such as labor, is the marginal product of that input multiplied by the price of the input being produced. This value indicates the additional revenue gained from hiring one more unit of that input.

• **The demand for labor** is a derived demand, meaning that it is derived from the demand for the output being produced. In other words, the demand for additional workers is derived from consumer demand for the products those additional workers would produce.
HOW ARE WAGES DETERMINED?

• MUCH HAS TO DO WITH THE LAWS OF SUPPLY AND DEMAND

• THOSE JOBS WHICH ARE MUCH IN DEMAND AND FOR WHICH SPECIALIZED SKILLS AND/OR TRAINING IS REQUIRED, GENERALLY PAY MORE.

• OTHER FACTORS ARE AT PLAY ALSO. CONSIDER FOR EXAMPLE THE NEED TO PAY SOMEONE EXTRA TO DO MORE DANGEROUS OR DEMANDING WORK. THE PREMIUM OR EXTRA AMOUNT OF MONEY PAID TO PERSUADE SOMEONE TO WORK IN UNDESIRABLE CIRCUMSTANCES IS CALLED A COMPENSATING WAGE DIFFERENTIAL.
EQUILIBRIUM WAGE

• AN EQUILIBRIUM WAGE DESCRIBES THE RATE OF PAY THAT RESULTS IN NEITHER A SURPLUS NOR A SHORTAGE OF LABOR; A WAGE RATE THAT IS TOO HIGH WILL ATTRACT TOO MANY WORKERS, WHEREAS A RATE THAT IS TOO LOW WILL ATTRACT TOO FEW
A MINIMUM WAGE AND ITS EFFECTS

• **THE MINIMUM WAGE IS THE LOWEST HOURLY RATE, OR WAGE, THAT EMPLOYERS CAN LEGALLY PAY THEIR EMPLOYEES; IT NORMALLY REPRESENTS A PRICE FLOOR ON WAGES**

• **MANY ECONOMISTS BELIEVE THAT A MINIMUM WAGE WILL LEAD TO A DISEQUILIBRIUM IN THE LABOR MARKET. WHY?**
EFFICIENCY WAGES

• Efficiency wages also distort labor markets.

• Efficiency wages can be defined as above-average wages paid to workers to increase worker efficiency.

• Some businesses feel it is in their best interest to pay more than the equilibrium wage. Why?

• There are various theories or reasons.

  1) They may want to reduce turnover. Recruiting and vetting new employees can be costly. Training them can be expensive also.

  2) They may want attract a better-quality workforce. Paying a higher wage may cause a better pool of workers to apply for its jobs.

  3) Businesses may want to give employees more reason to support the firm. Higher wages make workers more eager to keep their jobs and more likely to put forth their best effort.

Efficiency Wages at Ford Motor Company

• Labor turnover at Ford
  - 1913: 380%
  - 1914: 1000%
    • Initial average pay = $2 - $3
    • Ford increased pay to $5
• Results
  - Productivity increased 51%
  - Absenteeism was halved
  - Profitability rose from $30 million in 1914 to $60 million in 1916.
THE WAGE GAP REFERS TO A DIFFERENCE IN THE WAGES EARNED BY VARIOUS GROUPS IN SOCIETY, SUCH AS BETWEEN MEN AND WOMEN OR BETWEEN WHITE AMERICANS AND BLACK AMERICANS.

CRITICS OF THE WAGE GAP CLAIM THAT IT REFLECTS DISCRIMINATION RATHER THAN DIFFERENCES IN SKILL, EXPERIENCE OR EDUCATION; THIS IS DISCUSSED PARTICULARLY IN CONNECTION WITH DIFFERENT PAY LEVELS FOR SIMILAR WORK.

“Another day, another eighty cents.”
OUTSOURCING

- **OUTSOURCING IS A BUSINESS PRACTICE IN WHICH WORK THAT WAS ONCE DONE WITHIN THE COMPANY BY STAFF IS SENT TO OUTSIDE CONTRACTORS**

- **COMPANIES DO THIS IN ORDER TO REDUCE EXPENSES, OBTAIN MORE SPECIALIZED SERVICES, ETC.**

- **SINCE THE 1990S, THE FEDERAL GOVERNMENT HAS OUTSOURCED MUCH OF ITS WORK ALSO.**
OFFSHORING

• OFFSHORING IS THE PRACTICE OF RELOCATING WORK AND JOBS TO ANOTHER COUNTRY

• OFFSHORING OCCURS BECAUSE BUSINESSES BELIEVE THEY CAN OBTAIN CHEAPER LABOR COSTS OR LESS REGULATION OR OTHER ADVANTAGES BY MOVING SOME OR ALL OF THEIR BUSINESS OPERATIONS OVERSEAS

• INSHORING IS THE REVERSE PHENOMENON.
COLLECTIVE BARGAINING

COLLECTIVE BARGAINING refers to negotiations between an employer and a group of employees, usually represented by a labor union, to determine the conditions of employment and/or the pay.

Collective bargaining first developed on a large-scale in the U.S. in the late 19th century.
TWO LAWS IN THE 20TH CENTURY HAD A SIGNIFICANT EFFECT ON COLLECTIVE BARGAINING IN THE U.S.

- **THE WAGNER ACT** (1935).
  - Passed with FDR's backing.
  - Also known as the National Labor Relations Act, this law guaranteed workers “the right to self-organization, to form, join, or assist labor organizations, [and] to bargain collectively …”

- **THE TAFT-HARTLEY ACT** (1947).
  - Passed despite Truman's veto.
  - This law outlawed the closed shop (a business that will only hire workers that are already union members) and placed limits on the power of workers to unionize and strike.
  - This law did, however, allow the union shop (where workers are required to join the union after being hired).
RIGHT-TO-WORK LAWS

- RIGHT-TO-WORK LAWS MAKE IT ILLEGAL TO REQUIRE WORKERS TO JOIN A UNION AS A CONDITION OF THEIR EMPLOYMENT, EITHER BEFORE OR AFTER HIRING (THIS CONCERNS BOTH THE SO-CALLED CLOSED SHOP AND THE UNION SHOP).

- CURRENTLY THERE ARE MORE THAN 20 RIGHT-TO-WORK STATES (MOST OF WHICH ARE IN THE SOUTH AND WEST).
THE 24 STATES WITH RIGHT-TO-WORK LAWS ARE IN RED