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Demand of Labour

Demand for Labour:

The demand for labour is a **derived demand**. It is derived from demand for the commodities it helps to produce. The greater the consumers' demand for the product, the greater the producers' demand for the labour required in making it. Hence an expected increase in the demand for a commodity will increase the demand for the type of labour that produces this commodity.

The **elasticity of demand for labour** depends, therefore, on the elasticity of demand for its output. Demand for labour will generally be inelastic if their wages form only a small proportion of the total wages. The demand, on the other hand, will be elastic if the demand for the commodity it produces is elastic or if cheaper substitutes are available.

The demand for labour also depends on the **prices of the co-operating factors**. Suppose the machines are costly, as is the case in India, obviously more labour will be employed. The demand for labour will increase. Another factor that influences the demand for labour is the technical progress. In some cases, labour and machinery are used in a definite ratio. For instance, the introduction of automatic looms reduces the demand for labour.

After considering all relevant factors, e.g., demand for the products, technical conditions, and the prices of the co-operating factors, the wages are governed by one fundamental factor, viz., and **marginal productivity**. Just as there is a demand price of commodities, so there is a demand price for labour.

The demand for labour, under typical circumstances of a modern community, comes from the employer who employs labour and other factors of production for making profits out of his business. The demand price of labour, therefore, is the wage that an employer is willing to pay for that particular kind of labour.

Suppose an entrepreneur employs workers one by one. After a point, the law of diminishing marginal returns will come into operation. Every additional worker employed will add to the total net production at a decreasing rate. The employer will naturally stop employing additional workers at the point at which the cost of employing a worker just equals the addition made by him to the value of the total net product.

Thus, the wages that he will pay to such a worker (the **marginal unit of labour**) will be equal to the **value of this additional product or marginal productivity**. But since all the workers may be assumed to be of the same grade, what is paid to the marginal worker will be paid to all the workers employed. This is all about the demand side of labour. Now let us consider the supply side.