

Section 1: Labour and Its Importance

Overview

In this section, you will learn:

- to distinguish between economic resources (capital, natural, and labour resources) and consumer products (goods and services)
- the distinction between “wage” labour and other forms of labour
- the value that labour and other resources add to the economy in a year
- the meaning of the following terms: capital resources, good, labour, money, natural resources, productivity, salary, service, wage, wage labour

What is labour?

Since humans appeared on earth, we have had to work to secure what we needed to survive or to improve our standard of living. Needs are not satisfied without human effort that results in successful production. Our earliest ancestors had to gather, hunt, and farm successfully or die.

The term **labour** in its most general use, refers to productive human work. Through much of history, it was not treated as a commodity that was “paid for.” Our nomadic ancestors laboured together in the gathering, the hunt, and other tasks and collectively shared the results according to the customs of the time. Farmers grew their crops or raised their livestock and traded them for other goods or services using a barter system of exchange. A slave’s labour was forced, whereas that of many a peasant was exchanged for protection and the use of land. To the present day, much productive work is done without monetary payment.

As time passed and societies grew larger and more complex, labour became more specialized. Each person became an expert at doing just a few things or even just one thing. This specialization meant that workers became more productive. It often proved a mixed blessing. Workers could improve their standard of living if they were able to gain a share of the additional wealth they had helped produce. On the other hand, specialization could mean workers were “deskilled” and forced into repetitive work. It also meant that workers had to depend on others for the goods and services they needed but didn’t produce. This

increased trade between people, who gathered in places called markets to make their exchanges.

But, in the local market, it was difficult to trade a cow for a wagon wheel or protection from one's enemies. Eventually, labour exchanged its human effort for what we now call **money**, which could be used to buy whatever else was needed. For better and for worse, markets treat labour as just another commodity to be exchanged for a price.

This resource examines how labour markets work and the impact organized labour has on these markets. It will help clarify issues and analyze and evaluate alternatives by emphasizing the application of economic concepts and methods of inquiry. Labour, as the term will now be used, will refer to the economic resource that includes all forms of human effort that result in the production of a **good** or **service** in exchange for a **wage** or **salary**. This is sometimes referred to as **wage labour**, a concept that focuses on employees but leaves out the self-employed such as small business owners and entrepreneurs.

Before reading on, do Activity 1.1 on the next page.

What are the other economic resources?

Labour is not the only resource that is necessary to produce goods and services to satisfy our needs. Each society has its own unique store of resources that differ in type, quantity, and quality. Labour, in many cases, is the most plentiful resource, although many factors influence its **productivity**. The availability of the other resources is among the most important of these factors. These other resources are best known as **natural resources** and **capital resources**.

Natural resources are bestowed by nature and come with, or from, the land. Nomadic hunters spent their lives following the wildlife. Its flesh provided food. Its skin provided shelter and clothing, and its bones were shaped into various tools. Farmers relied on the climate and soil to sustain them. Canada has a splendid resource base, which includes everything from trees to arable land to minerals and oil and the largest supply of fresh water in the world. Much of Canada's economic history is the story of how labour transformed our natural resources into goods, services, and wealth.

Capital resources, on the other hand, must be made. Consumers do not purchase capital resources – producers do in order to be more productive. That means these producers can supply goods or services that satisfy consumer needs in greater quantity in less time. Capital resources include a wide variety of production equipment from the simplest tool to the most powerful computer network and from the smallest storage shed to the largest factory or office building.



Activity 1.1

Indicate which of the following are examples of (wage) labour and whether a good or service is being produced.

	Example of (wage) labour		Produces a good or service	
	Yes	No	Good	Service
(a) the retail clerk where you buy your CDs				
(b) a teacher in your school				
(c) the sidewalk vendor who sold you jewellery she made				
(d) the squeegee kid at the busy intersection				
(e) the homeless street person asking for money for food				
(f) the volunteer coach of the local gymnastics team				
(g) one of the players in the local bowling league				
(h) a player for the Edmonton Oilers				
(i) the winner of a lottery				
(j) the lead singer in your favourite musical group				
(k) the local Member of Parliament				
(l) investors who receive dividends and interest from stocks and bonds				
(m) a family member doing household tasks				

The production of capital resources does not satisfy consumer need right away. Individuals, producers, and societies must save in order to produce them. Ancient hunters, for example, had to satisfy their immediate need for food. Only then could they save the time and labour to devote to producing a better spear or trap. Today, producers must have enough revenue or income to pay their operating costs and to have some left over to save. Producers convert their savings or profits into capital resources through a process known as investment. Investment occurs when producers use their own savings or those of others to purchase capital resources.



Activity 1.2

Identify which of the following is a form of labour, natural resource, or capital resource. Be careful! Some may be a good or service and not a resource at all! Hint: Ask whether each item is owned by a producer and is being used to produce some other good or service that is sold. If so, it's a resource. If not, it's a consumer good or service.

	Labour	Natural resource	Capital resource
(a) the home computer you use to type essays and play games			
(b) the computer used to keep attendance records at work or school			
(c) a doctor			
(d) fish in the local stream, river, or lake			
(e) a fishing trawler			
(f) a fish dinner			
(g) your favourite professional athlete			
(h) a wilderness park			
(i) the corner store			
(j) pizza delivery			

If you have difficulty with this exercise, the following diagram may help you sort out terms:



Every item is either an Economic Resource OR a Consumer Product.

How important is labour?

One way to measure the relative importance of labour in Canada’s economic system is to compare what is paid to labour with what is received by the owners of capital and natural resources. Labour earns wages and salaries. The owners of capital – those persons with savings – earn interest, dividends, and profit. Individuals may own the surface of the land as private property. Those who lease it to others receive rent. In Canada, the community (that is, government) owns the natural resources such as water or mineral deposits on or beneath the surface. These natural resources may produce a flow of revenue for government in the form of various fees and royalties for their use or development.

Government transfers consists of mostly “unearned income” that is not received in exchange for the use of a resource. It takes the form of pensions to the elderly, sick, or disabled or income supplements for those with low income. Some of it, such as Employment Insurance and Canada Pension Plan income, may be considered a form of deferred income since workers contributed to these plans from their income.

Figure 1.1: Personal income, 2000
(\$ millions)

Source	Amount	% of Total
Labour Income (wages & salaries)	536,578	65
Unincorporated Business	65,216	8
Interest & Investments	114,134	14
Government Transfers	111,658	13
Miscellaneous	<u>3,171</u>	<u>--</u>
Total Personal Income	830,757	100

Source: Adapted from Statistics Canada. *Canadian Economic Observer, Statistical Supplement*. Catalogue No. 11-010, September 2001.

Figure 1.1 indicates that 65% of all personal income was earned in the form of a wage or salary paid to employees, who are the focus of this resource. It does not include the income earned by independent business operators, self-employed farmers, fishermen, professionals,

and landlords. This latter income is included in the Unincorporated Business category. Much of it could also be considered a payment for labour. The overwhelming importance of labour as a generator of personal income is beyond question.



Activity 1.3

How much money passes through your hands and how much of it is earned as a wage?

1. Make a chart with three columns. In the first column, list all the money you have received in the last week. Beside each amount, in the second column, note the source from which it came. In the third column, note which of the following four terms best describes it.
 - Wage: money received in return for one's labour; for something you did or made
 - Investment: money earned by one's savings in the form of interest or dividends
 - Transfer: money received as a gift, or an allowance received for nothing more than household chores
 - Capital gain: money received from the sale of a personal asset
2. Expand your list to include all your income from the last month and, finally, the last year. Add up all your income, deduct that portion that was received as a capital gain, and determine what percentage of the remainder was received in the form of wage, investment income, or transfer payment.
3. How does your current income pattern compare to the pattern of Canadian income in Figure 1.1?

Glossary

Capital resources (or capital goods): Economic resources (including everything from simple tools to commercial buildings) that have been produced by and sold to other producers who use them to produce something else.

Good: A tangible commodity such as clothing or a CD purchased by consumers rather than producers.

Intermediate good: A manufactured product that is purchased by a producer and quickly used up in the production, or even becomes a physical part, of another good or service (for example, sugar in a soft drink).

Labour: The economic resource that includes all forms of human effort that results in the production of a good or service in exchange for a wage or salary.

Money: A commodity (everything from seashells to cigarettes to our paper and metal currency) that is accepted as a medium of exchange to facilitate the purchase of products and payment of debts.

Natural resources: Economic resources provided by an economy's geography that include arable land, water, climate, flora, fauna, and mineral and other deposits.

Productivity: Units produced in a given amount of time; labour productivity is measured by the total output divided by the amount of labour used.

Salary: Payment for the use of labour calculated on a yearly rate.

Service: An action such as a haircut or medical care that is performed for a consumer.

Wage: Payment for the use of labour calculated on an hourly basis or units-produced rate.

Wage labour: Workers who are employees who receive a wage or salary.

