Unemployment

Unemployment occurs when someone is willing and able to work but does not have a paid job. The unemployment rate is the percentage of people in the labour force who are unemployed. Consequently, measuring the unemployment rate requires identifying who is in the labour force.

Unemployment is a term referring to individuals who are employable and actively seeking a job but are unable to find a job. Included in this group are those people in the workforce who are working but do not have an appropriate job.

Everyman's Dictionary of Economics defines unemployment as "involuntary idleness of a person willing to work at the prevailing rate of pay but unable to find it."
It implies that only those persons are to be regarded as unemployed who are prepared to work at the prevailing rate of pay but they do not find work.
Voluntarily unemployed persons who do not want to work like the idle rich, are not considered unemployed.

Types of Unemployment

Explanation the various types of unemployment, it is necessary to know the term *unemployment*.

1. **Frictional Unemployment.**

Frictional unemployment exists when there is lack of adjustment between demand for and supply of labour. This may be due to lack of knowledge on the part of employers about the availability of workers or on the part of workers that employment is available at a particular place. It is also caused by lack of necessary skillsfor a particular job, labour immobility, breakdowns of machinery, shortages of raw materials, etc. The period of unemployment between losing one job and finding another is also included under frictional unemployment.

2. **Seasonal Unemployment.**

Seasonal unemployment results from seasonal fluctuations in demand. Employment in ice factories is only for the summer. Similarly ice-cream sellers remain unemployed during winter and chestnut-sellers during summer. The same is the case with agricultural workers who remain employed during harvesting and sowing seasons and remain idle for the rest of the year.

3. **Cyclical Unemployment.**

Cyclical unemployment arises due to cyclical fluctuations in the economy. They may also be generated by international forces. A business cycle consists of alternating periods of booms and depressions. It is during the downswing of the business cycle that income and output fall leading to widespread unemployment.

4. **Structural Unemployment.**

Structural unemployment results from a variety of causes. It may be due to lack of the co-operant factors of production, or chages in the economic structure of the society. The word structural implies that "the economic changes are massive, extensive, deep-seated, amounting to transformation of an economic structure, *i.e.*, the production functions or labour supply distribution. More specifically, it refers to changes which are large in the particular area, industry or occupation." Shifting patterns in the demand for the products of various have also been responsible for this type of unemployment. There are, however, economists who argue that the higher unemployment in America since 1957 has been due to causes other than inadequate demand:

- A faster rate of technological change;
- A displaced worker remains unemployed for a number of days in finding a new job;
- Most of the unemployed workers belong to blue-collar groups.

The supporters of the structural transformation thesis hold that the number of vacancies is greater than or equal to the number of displaced workers due to structural changes in a particular area, industry or occupation, and that unemployment is not due to inadequacy of demand.

5. **Technological Unemployment.**

Keynes failed to take into account technological unemployment that has taken place more rapidly in the post war period. Modern production process is essentially dynamic where innovations lead to the adoption of new machineries and inventions thereby displacing existing workers leaving behind a trail of unemployment. When there is automation or displacement of old technology by a new one requiring less workers than before, there is technological unemployment. A special case of technological unemployment is that "which is not due to improvements in the technique of production but in the technique of *organisation*." It pertains to making management more efficient which may decide upon modernising existing facilities or closing down obsolete plants. In all such cases unemployment is bound to decrease.

In fact, there is little to distinguish between ***structural*** and ***technology*** unemployment. One of the causes of structural unemployment is technological change. Technological change itself causes obsolescence of skills thereby leading to structural unemployment. Further, both structural and technological unemployment are related to inadequate demand.

Technological change tends to increase output per man-hour which has the effect of raising the potential total output in the economy. If this *potential* growth in output is not matched by the *actual* growth in output, there will be unemployment in the economy due to deficiency in demand.

Therefore, modern economists are of the view that unemployment is caused by structural changes, technological changes and by inadequacy of demand taken together.

6. **Disguised Unemployment.**

Disguised or concealed unemployment or underemployment is a notable feature of underdeveloped countries. Such unemployment is not voluntary but involuntary. People are prepared to work but they are unable to find work throughout the year due to the lack of complementary factors. Such unemployment is found among rural landless and small farmers due to the seasonal nature of farm operations and inefficient land and equipment to keep them fully employed. A person is said to be disguised unemployed if his contribution to output is less than what he can produce by working for normal hours per day. His marginal productivity is nil or negligible, and by withdrawing such labourers, farm output can be increased. There are also other types of underemployed persons in such countries. A person is considered to be underemployed if he is forced by unemployment to take a job that he thinks is not adequate for his purpose, or not commensurate with his training. Further, there are those who work full time in terms of hours per day but earn very little to rise above the poverty level. They are hawkers, petty traders, rickshaw pullers, workers in hotels and restaurants and in repair shops, etc. in urban areas. Open and disguised unemployed in urban and rural areas are estimated at 30-35 per cent of the labour force in underdeveloped countries.

Full Employment

Full employment refers to a situation in which all those people, who are willing and able to work at the existing wage rate, get work without any undue difficulty. It also refers to employment of all the other available resources and factors of production for the production of optimum output.

Full employment is an economic situation in which all available labor resources are being used in the most efficient way possible. Full employment embodies the highest amount of skilled and unskilled labor that can be employed within an economy at any given time**.**

According to **Keynes**, full employment means the absence of involuntary unemployment. In other words, full employment is a situation in which everybody who wants to work gets work. Full employment so defined is consistent with frictional and voluntary unemployment. Keynes assumes that "with a given, equipment and technique, real wages and the volume of output (and hence of employment) are uniquely co-related, so that, in general, an increase in employment can only occur to the accompaniment of a decline in the rate of wages."

According to the **American Economic Association Committee**, "Full employment means that qualified poeple who seek jobs at prevailing rates can find them in productive activities without considerable delay. It means full time jobs for people who want to work full time. It does not mean people like house-wives and students are under pressure to take jobs when they don't want jobs or that workers are under pressure to put in undesired overtime. It does not means unemployment is ever zero"

On the view expressed by the **U.N. Experts** on *National and International Measures for Full Employment* that "full employment may be considered as a situation in which employment cannot be increased by an increase in effective demand and unemployment does not exceed the minimum allowances that must be made for the effects of frictional and seasonal factors."

Lord Beveridge in his book *Full Employment in a Free Society* defined it, "as a situation where there were more vacant jobs than employed men so that normal lag between losing one job and finding another will be very short."

Inflation

Inflation is a decrease in the purchasing power of money, reflected in a general increase in the prices of goods and services in an economy.

Inflation is the rate of increase in prices over a given period of time. Inflation is typically a broad measure, such as the overall increase in prices or the increase in the cost of living in a country.

Inflation is too much currency.

In the words of **Friedman**, "Inflation is always and everywhere a monetary Phenomenon and can be produced only by a more rapid increase in the quantity of money than output."

Johnson defines "inflation as a sustained rise" in prices.

Brooman defines it as "a continuing increase in the general price level."
Shapiro also defines inflation in a similar vein "as a persistent and appreciable rise in the general level of prices."

Dernberg and McDougall are more explicit when they write that "the term usually refers to a continuing rise in prices as measured by an index such as the consumer price index (CPI) or by the implicit price deflator for gross national product."

Sources of Inflation

There are two sources of inflation discussed as below:

Demand-Pull Inflation

An inflation that starts because aggregate demand increases is called demand-pull inflation. Demand pull inflation can be kicked off by *any* of the factors that change aggregate demand. Examples are a cut in the interest rate, an increase in the quantity of money, an increase in government expenditure, a tax cut, an increase in exports, or an increase in investment stimulated by an increase in expected future profits

Cost-Push Inflation

An inflation that is kicked off by an increase in costs is called cost-push inflation. The two main sources of cost increases are

- An increase in the money wage rate
- An increase in the money prices of raw materials

At a given price level, the higher the cost of production, the smaller is the amount that firms are willing to produce. So if the money wage rate rises or if the prices of raw materials (for example, oil) rise, firms decrease their supply of goods and services. Aggregate supply decreases, and the short-run aggregate supply curve shifts leftward. Let’s trace the effects of such a decrease in short-run aggregate supply on the price level and real GDP

Causes of Inflation

Inflation is caused when aggregate demand exceeds aggregate supply of goods and services. We analyse the factors which lead to increase in demand and shortage of supply.

- **Factors Affecting Demand**

Both Keynesians and monetarists believe that inflation is caused by increase in aggregate demand. They point toward the following factors which raise it.

1. **Increase in Money Supply.**

Inflation is caused by an increase in the supply of money which leads to increase in aggregate demand. The higher the growth rate of the nominal money supply, the higher is the rate of inflation. Modern quantity theorists do not believe that true inflation starts after the full employment level. This view is realistic because all advanced countries are faced with high levels of unemployment and high rates of inflation.

2. **Increase in Disposable Income.**

When the disposable income of the people increases, it raises their demand for goods and services. Disposable income may increase with the rise in national income or reduction in taxes or reduction in the saving of the people.

3. **Increase in Public Expenditure.**

Government activities have been expanding much with the result that government expenditure has also been increasing at a phenomenal rate, thereby raising aggregate demand for goods and services. Governments of both developed and developing countries are providing more facilities under public utilities and social services, and also nationalising industries and starting public enterprises with the result that they help in increasing aggregate demand.

4. **Increase in Consumer Spending.**

The demand for goods and services increases when consumer expenditure increases. Consumers may spend more due to conspicuous consumption or demonstration effect. They may also spend more when they are given credit facilities to buy goods on hire purchase and instalment basis.

5. **Cheap Monetary Policy.**

Cheap monetary policy or the policy of credit expansion also leads to increase in the money supply which raises the demand for goods and services in the economy. When credit expands, it raises the money income of the borrowers which, in turn, raises aggregate demand relative to supply, thereby leading to inflation. This is also known as ***credit-induced*** *inflation.*

6. **Deficit Financing.**

In order to meet its mounting expenses, the government resorts to deficit financing by borrowing from the public and even by printing more notes. This raises aggregate demand in relation to aggregate supply, thereby leading to inflationary rise in prices. This is also known as ***deficit-induced*** inflation.

7. **Expansion of the Private Sector.**

The expansion of the private sector also tends to raise the aggregate demand. For huge investments increase employment and income, thereby creating more demand for goods and services. But it takes time for the output to enter the market. This leads to rise in prices.

8. **Black Money.**

The existence of black money in all countries due to corruption, tax evasion etc. increases the aggregate demand. People spend such unearned money extravagantly, thereby creating unnecessary demand for commodities. This tends to raise the price level further.

9. **Repayment of Public Debt.**

Whenever the government repays its past internal debt to the public, it leads to increase in the money supply with the public. This tends to raise the aggregate demand for goods and services and to rise in prices.

10. **Increase in Exports.**

When the demand for domestically produced goods increases in foreign countries, this raises the earnings of industries producing export commodities. These, in turn, create more demand for goods and services within the economy, thereby leading to rise in the price level.

- **Factors Affecting Supply**

There are also certain factors which operate on the opposite side and tend to reduce the aggregate supply. Some of the factors are as follows:

1. **Shortage of Factors of Production.**

One of the important causes affecting the supplies of goods is the shortage of such factors as labour, raw materials, power supply, capital, etc. They lead to excess capacity and reduction in industrial production, thereby raising prices.

2. **Industrial Disputes.**

In countries where trade unions are powerful, they also help in curtailing production. Trade unions resort to strikes and if they happen to be unreasonable from the employers' viewpoint and are prolonged, they force the employers to declare lock-outs. In both cases. industiral production falls, thereby reducing supplies of goods. If the unions succeed in raising money wages of their members to a very high level than the productivity of labour, this also tends to reduce production and supplies of goods. Thus they tend to raise prices.

3. **Natural Calamities.**

Drought or floods is a factor which adversely affects the supplies of agricultural products. The latter, in turn, create shortages of food products and raw materials, thereby helping inflationary pressures.

4. **Artificial Scarcities.**

Artificial scarcities are created by hoarders and speculators who indulge in black marketing. Thus they are instrumental in reducing supplies of goods and raising their prices.

5. **Increase in Exports.**

When the country produces more goods for export than for domestic consumption, this creates shortages of goods in the domestic market. This leads to inflation in the economy.

6. **Lop-sided Production.**

If the stress is on the production of comfort, luxury, or basic products to the neglect of essential consumer goods in the country, this creates shortages or consumer goods. This again causes inflation.

7. **Law of Diminishing Returns.**

If industries in the country are using old machines and outmoded methods of production, the law of diminishing returns operates. This raises cost per unit of production, thereby raising the prices of products.

8. **International Factors.**

In modern times, inflation is a worldwide phenomenon. When prices rise in major industrial countries, their effects spread to almost all countries with which they have trade relations. Often the rise in the price of a basic raw material like petrol in the international market leads to rise in the prices of all related commodities in a country.

<u>Deflation</u>

The opposite of inflation is deflation.

Deflation is caused when prices are falling more than proportionately to the output of goods and services in the economy as a result of decrease in the money supply. Deflation is a situation when prices fall along with reduction in output and employment.

Deflation, on the other hand, is a situation when prices are reduced deliberately but output and employment remain unaffected.

It is “a state in which the value of money is rising i.e. prices are falling.”

It is usually associated with falling activity and employment.

As pointed out by **Coulborn**, “Involuntary unemployment is the hall-mark of deflation.”

According to **Coulborn**, “A lowering of prices, income, and expenditures, when they would be beneficial, woul be deflation.