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## SUB-TOPIC1: EMPLOYMENT:

**Employment is the relationship** between two parties usually based on a contract where work is paid for and where one party is the employer and the other is the employee.

Employment is typically governed by employment laws or regulations or legal contract

**Note: (i)** Employee is an individual who works part-time or fulltime under a contract of employment whether oral or written and has recognised rights and duties.

**(ii)** Employer is a legal entity that controls and directs a worker under an implied contract of employment and pays him or her salary or wage in compensation.

## THE CONCEPT OF FULL EMPLOYMENT:

Full employment is a situation where all people/factors of production that are willing to work can get work.

**OR:** It is a situation where the number of unfulfilled vacancies is equal to the number of job seekers.

**OR** It is where everybody who is capable and willing to work at the acceptable wage rate is able to get work.

## Reasons why it is difficult to attain full employment in an economy/ Limitations to the attainment of full employment in the economy

- **Employment of inappropriate technology/ Use of inappropriate technology.** Inappropriate technology cannot make best use of available local resources and becomes socially irrelevant to the people thus failure to attain full employment.
- **Existence of rapid/high population growth rate.** Rapid population growth rate cannot match with a few existing job vacancies thus failure to attain full employment of labour.
- **Shortage of co-operant factors of production.** There is shortage of those factors that labour needs to become busy such as land and capital hence failure to attain full employment especially in economies of developing countries.
- **Existence of inappropriate or defective education system.** Defective education system emphasizes training of job seekers rather than job makers in a country thus failure to attain full employment of labour.
- **Immobility of factors of production between jobs and locations/ Immobility of some factors of production** . Factors of production especially labour and capital tend to be immobile due to high level of specificity/specialization yet they are under employed hence failure to attain full employment level.
- **Rural urban migration.** The massive rural urban migration especially in economies of developing countries causes a mismatch between supply of labour in urban centers and demand for labour leading to open urban unemployment hence failure to attain full employment.
- **Limited domestic and foreign markets.** This makes firms to produce below the optimum level leaving many resources underutilized thus failure to attain full employment level.

- **High dependence on natural factors.** The heavy dependence on natural factors especially in the pre-dominant agricultural sector leads to seasonal unemployment thus a failure to attain full employment.
- **High capital outflow especially in form of profit repatriation.** The heavy capital outflow in form of profit repatriation limits investment in the economy thus failure to attain full employment.
- **Political instability.** This disrupts economic activities in the country since people fear to lose their lives and property , thus failure to attain full employment
- **Limited investment incentives.** This limits the level of economic activities in the country due to high costs of production and thus low level of job creation, thus failure to attain full employment.

#### **Measures to attain full employment in an economy**

- Encourage investment in private sector through reduced interest rates on borrowed capital from financial institutions.
- Reduce direct taxes on people's income so as to increase consumption expenditure on goods and services produced by firms.
- Expand markets for output of goods and services for example by joining regional economic integration. This will lead to increased resource exploitation and thus creating more employment opportunities.
- Increase government expenditure in the public sector by establishment of public enterprises so as to generate more employment opportunities.
- Create conducive investment climate for both domestic and foreign investors through tax incentives and provision of subsidies.
- Employ appropriate technology to promote use of locally available resources, increase output and employment of labour.
- Control population growth rate. This will encourage savings which will avail funds for investment and thus creating more employment opportunities.
- Encourage education reforms and in-service training with much emphasis on training people to become job makers; this will make such people get fully employed.
- Develop and rehabilitate economic infrastructure especially in rural areas in form of roads, electricity distribution to boost the level of economic activities. This will enable many people to get fully employed and thus attaining full employment.

#### **SUB- TOPIC 2: UNEMPLOYMENT:**

Unemployment refers to the failure to obtain a job at the ruling wage rate despite ones willingness to work i.e. one is willing to work but for one reason or the other cannot find a job. In other words unemployment is a situation where people who make up a country's labour force do not have work at the going wage rate.

The unemployment rate of an economy (**rate of unemployment**) is the Percentage of total work force that is unemployed and is looking for jobs.

It is measured as the number of the unemployed divided by the total number of the labour force times 100.

$$\text{Unemployment rate} = \frac{\text{Number of unemployed}}{\text{Number of the labour force}} \times 100 \%$$

For example, if out of 20 million people in the labour force, 5 million people are unemployed; the unemployment rate in this country is calculated as below

$$\frac{5,000,000}{20,000,000} \times 100\% = 25\%$$

## **DIFFERENCE BETWEEN UNEMPLOYMENT AND UNDER EMPLOYMENT**

### **THE CONCEPT OF UNDER EMPLOYMENT:**

**UNDER EMPLOYMENT:** This is the under utilisation of labour force where labour is working less time than desired or engaging in jobs far below their skills.

Under-employment of labour exists in the following ways;

- Labour is working fewer hours than they wish or working less than the official full time working hours.
- People working in jobs whose requirements are below their qualifications. i.e. they are over qualified for their current jobs.
- People work full time but in less productive tasks than they are capable of performing, that is, when workers do not exert themselves to the best of their ability.
- Labour is working full time but on socially unacceptable jobs such as prostitution.
- Highly skilled workers are working in low paying jobs.
- Individuals working in part time jobs yet they would have preferred to be full-time

### **Causes of under employment include the following:**

- Shortage of co-operant factors of production that labour needs to be kept busy e.g. capital and land.
- Poor land tenure system which limits certain communities from accessing enough land especially for commercial agricultural practices.
- Political instability which negatively affects the level of economic activities.
- Ignorance of people about availability of jobs in the job market.
- Poor attitude of people towards work caused by high preference for leisure.
- Limited skills possessed by labour force.
- Seasonal variations for example in agricultural sector where farmers are kept busy during planting and harvesting while remaining under employed in the post harvest and pre-sowing seasons.
- Rural urban migration leading to under employment in urban areas.
- High population growth rate compared to limited resource availability in an area.
- Discrimination in the labour market based on gender, race and religion.
- Poor manpower planning causing mismatch between labour demand and labour supply.
- Limited market size for the output produced especially in agricultural sector.
- Desire to retain labour force by trade unions and employers for future use

## THE NATURE OF UNEMPLOYMENT:

**Voluntary unemployment:** This is a situation in which people who **are able** are not willing to work at the ongoing wage rate yet employment opportunities exist.

### Causes of Voluntary Unemployment:

- **Laziness/ Some people of working age are too lazy to work.** Such people decide to stay out of work simply because they do not want to engage in any kind of work due to laziness
- **The desire by the unemployed to live on past savings.** This forces some people to stay out of employment because they see no reason to work as they have accumulated wealth to live on.
- **Low wages/remuneration in the available jobs.** Some people desire to remain unemployed when the prevailing wage rate is too low and unacceptable to them. In such a case, labour would rather not offer its services.
- **The preference to live on others income/handouts.** Some people are reluctant to take the available jobs because they are able to survive on other people's incomes.
- **Expectation of better jobs in future.** Some people may be expecting to get employment in a better paying job than what is currently available; therefore labour prefers to remain temporarily unemployed expecting employment in a better job in the near future.
- **The unemployed being too qualified for the available jobs.** This makes them to undermine the existing jobs and thus decide to remain unemployed.
- **Preference for leisure.** Some individuals remain unemployed due to their desire for leisure instead of work. Therefore, they spend their time on leisure activities.
- **Poor working conditions in the available employment opportunities.** The poor working conditions discourage some people from taking on those jobs, and prefer to remain unemployed rather than suffer the poor conditions at work, such as working for long hours, high levels of stress and noise, limited protective gears etc.
- **High risks involved in the available jobs.** The existing jobs may be too risky that individuals would rather stay unemployed than take on such jobs since such jobs exposes a person to dangers that cause harm, damage or injury.
- **Low status esteem attached to the available jobs/jobs being socially unacceptable.** The available jobs may be perceived to be socially unacceptable or below ones qualification. So one opts to remain unemployed rather than take on such jobs, this is because taking on such a job would demean such a person in society.
- **Social restrictions.** Some traditions prohibit people from doing certain jobs e.g. Muslims decline jobs in a bar.
- **Social ties.** People get tied to families and cannot take jobs far away from their family members.
- **Unfavourable geographical location of jobs.** One declines a job in an area with conditions that threaten their health e.g. an asthmatic person fears to go to cold places.
- **Good economic background.** Some people come from families that are economically well off and therefore are reluctant to acquire employment because they have means of survival.

## INVOLUNTARY UNEMPLOYMENT:

This refers to a situation in which people who **are able** and willing to work at the current wage rate are unable to find jobs.

### **The causes of (involuntary) unemployment:**

- **Ignorance of labourers of existing job opportunities.** Some people remain unemployed because they cannot seek for the jobs available in the market since they are not aware of their existence hence remain unemployed.
- **Poor education system/ inappropriate education system/Limited skills.** The education system in most developing countries trains more job seekers than job creators. Therefore many school leavers remain unemployed because of the lack of qualifications for the existing jobs.
- **Discrimination in the labour market based on gender, age etc.** This deprives some people of jobs. Some people are blocked from accessing employment because of nepotism and other forms of discrimination existing in the job market.
- **Technological development/progress leading to substitution of labour with machines.** This results into technological unemployment because there is displacement of labour by machines leaving labour unemployed.
- **The physical disabilities and mental incapacitation causing residual unemployment.** Persons that are disabled cannot find employment mainly because employers are unwilling to take them on due to the fear that they cannot efficiently perform duties.
- **Unfavourable change in climate/seasons.** This is common in the agricultural sector where economic activities depend on changes in climate/seasons, farmers become unemployed after the harvesting season as they wait for the next planting season.
- **Decline/unfavourable change in demand.** This leads to changes in demand for factors of production resulting in unemployment of some category of labour and other factors because they become irrelevant due to the shift in demand in favour of other factors. For example, typists are laid off due to the onset of the computer age while some firms whose services or products are no longer on demand close down, resulting in unemployment of those people previously employed in those firms
- **The high population growth rate compared to job creation.** This leads to excess supply of labour relative to the available job opportunities thus leading to unemployment..
- **Political instability.** This causes disruptions of economic activities in the economy and thus discourages investment since investors fear to lose their lives and property. This prevents creation of job opportunities for the available labour force in the areas experiencing political instability.
- **Rural urban migration causing open urban unemployment.** Rural urban migration results in excess labour supply in the urban areas leading to open urban unemployment.
- **The process of changing jobs which leads to temporary/ causal/frictional unemployment.** This is brought about when labourers are switching from one employment to another due to time lag between leaving one job and obtaining another.
- **Limited co-operant factors of production** that combine with labour in the production process such as capital and land reduces the demand for labour, which causes unemployment of labour because it is difficult to use labour without the co-operant factors.

- **Structural adjustment programmes e.g. retrenchment, privatisation**, which includes laying-off of labour regarded excess or unproductive to increase efficiency in the civil service rendering those laid off unemployed.
- **Poor manpower planning causing excess labour supply in some sectors**. This causes unemployment for labour that is in excess supply relative to its demand.
- **Underdeveloped infrastructure**. This limits the ability of labour to move from one geographical area to another rendering such labour unemployed.
- **High degree of specialisation**. This makes such people fail to easily switch from one industry to another in case the job he/ she specialised in is no longer there.

### **MEASURES THAT CAN BE TAKEN TO REDUCE THE UNEMPLOYMENT PROBLEM IN DEVELOPING COUNTRIES:**

- **Provide tax incentives to investors**. This will attract more investment in the economy by both the local and foreign investors due to reduced cost of doing business and thus help to create a number of employment opportunities in the economy.
- **Undertake diversification of the economy**. This will lead to increased level of economic activities in many sectors of the economy hence creating a variety of job opportunities.
- **Undertake liberalisation of the economy**. This will encourage a big number of both local and foreign investors in the economy due to reduced restrictions of doing economic activities; this will raise the level of employment in the long run.
- **Encourage further privatisation of the state/public enterprises**. This will lead to increased efficiency in production, which will lead to increased scale of production in the long run and thus creating more jobs.
- **Undertake control of the population growth rate**. This will help to avoid surplus labour force so that the number of job seekers does not exceed the available job opportunities.
- **Provide credit facilities/ Startup capital for investment**. Such credit facilities will enable the unemployed people to start up income generating activities finance income which will enable them to create jobs for themselves and others.
- **Undertake education reforms**. This will enable the school leavers to acquire practical skills which enable them to create their own jobs instead of seeking for them.
- **Undertake agricultural modernisation**. This will reduce dependence on nature and ensure production throughout the year hence controlling seasonal unemployment.
- **Encourage use of appropriate technology**. This will ensure adoption methods of production which suits the prevailing conditions in the economy and thus avoid technological unemployment.
- **Advertise the existing job opportunities**. This will create awareness about the existing job opportunities among the unemployed and thus apply for them and be able to take on such jobs.
- **Reform the land tenure system**. This will ensure that people have easy access to land to engage in productive activities which will help to generate employment opportunities in the economy.

- **Improve the political atmosphere.** This will instill confidence among the potential investors to establish more economic activities since investors are not scared of losing lives and property. This will generate employment opportunities in the economy.
- **Develop/Improve infrastructure.** This will reduce the costs of doing business thus expand economic activities due to increased profits hence creating more job opportunities.
- **Widen the market.** This will lead increased investment in the economy due to increased profitability of doing business and thus creating more employment opportunities in the economy.
- **Undertake proper man power planning.** This will help to train manpower according the needs of the economy and thus avoid excess supply of labour and some sectors and shortages of labour in others.
- **Export the surplus labour to other countries.** This will give an opportunity to the unemployed in the country to get jobs in foreign countries which require their labour services.
- **Provide special programmes for the persons with disabilities/special needs..** This will provide special skills to such people and thus enable them to participate in production and thus reduce residual unemployment.
- **Promote industrialisation.** This will lead to increased demand for labour because the industrialists will need people to perform different industrial processes.

#### **TYPES OF UNEMPLOYMENT:**

##### **1. CYCLICAL/MASS/GENERAL/KEYNESIAN UNEMPLOYMENT:**

This is one that arises due to deficiency in effective/ aggregate demand for final goods and services especially in times of economic recession or depression.

##### **The causes of cyclical unemployment:**

- A fall in the level of investment in an economy which reduces the demand for labour leading to mass unemployment.
- The decrease in income level in the economy which results in a decrease in aggregate demand, which leads to a fall in investment expenditure hence a reduction in demand for labour leading to mass unemployment.
- Decrease in the general price level. This discourages investment in the economy, which reduces demand for labour hence mass unemployment.
- A fall in the level of savings in the economy which reduces the level of investment and demand for labour leading to mass unemployment.
- Decrease in the level of interest rates in the economy. This reduces supply of credit for investment hence a reduction in demand for labour.
- A fall in the level of exports of an economy leads to mass unemployment because it discourages investment in the economy and causes a reduction in the demand for labour.
- High level of importation in the economy leads to mass unemployment because it reduces the level of aggregate demand for the domestically produced goods hence discouraging domestic production and reduces the demand for labour.
- Reduced government expenditure on supportive such as power dam projects leads to mass unemployment because it reduces the level of economic activities in the economy, which reduces the demand for labour.

### **The solutions to the cyclical unemployment:**

- Increase government expenditure. This will increase aggregate demand for goods and services in the economy due to increased amount of money in circulation. This will lead to an increase in the level of investment and thus more employment opportunities.
- Provide incentives such as tax holidays, subsidies. This will promote investment due to reduced cost of production and thus generate more employment opportunities.
- Reduce direct taxes/ taxes on incomes. This will lead to an increase in the level of disposable income which will stimulate aggregate demand and thus attract more investment and employment opportunities.
- Use expansionary monetary policy. This will lead to increased money supply which will lead to increased aggregate demand and thus increased investment, leading to more jobs being created.
- Subsidise consumers. This will lead to increased aggregate demand which will lead to increased investment and thus more jobs being created.
- Increase wages/salaries. This will to increase in aggregate demand, attracting more investment and thus more jobs being created.
- Encourage/Increase exports. This will lead to increased aggregate demand, which will boost investment and thus create employment opportunities.
- Reduce/ discourage imports. This will help to preserve domestic market for local producers, leading to increased production and thus create more employment opportunities.

### **2. STRUCTURAL/ (MARXIAN) UNEEMPLOYMENT:**

This is unemployment due to changes in demand and supply patterns in the economy such that the skills of the available labour force are no longer relevant in the job market hence becoming unemployed.

For example, a fall in demand for cotton clothes in preference for silk, results in closure of cotton textile industries and subsequent unemployment of those originally employed to produce the cotton clothes and do not have the skills to work in the new silk industry.

Alternatively, the introduction of new technology such as computer technology, resulting in unemployment of labour that lacks the skills required in using the new technology.

### **The causes of structural unemployment:**

- Changes in the demand or tastes/fashions make labour redundant when an industry closes. For example, the switch from using manual typewriters to computers renders those initially employed in the typewriter industry jobless.
- Technological advancement results into a fall in demand for labour that does not have appropriate skills for the new technology, which results into unemployment.
- Exhaustion of raw materials in the economy results into unemployment of the labour that was employed to extract and use these resources.
- The long periods in training of labour prevents labour from acquiring the necessary skills currently needed in the labour market hence resulting into structural unemployment.
- Labour immobility. The labour remains unemployed due to the inability to move and get employment in the available jobs.



- The occurrence of a depression in the economy results in structural unemployment. A depression is a period of low economic activity leading to mass unemployment due to low demand for labour.
- Political unrest reduces demand for labour due to the low levels of investment in the areas that are politically unstable.
- Government policy of retrenchment which involves laying off surplus labour rendering them unemployed.

#### **The Solutions to structural unemployment:**

- Undertake in-service training and retraining of workers to obtain new skills needed for the new job market.
- Adopt appropriate technology. E.g. labour intensive technology.
- Ensure political stability to avoid disruptions in economic activity.
- Provide investment incentives in the economy to raise the level of employment opportunities.
- Ensure flexibility in production to allow industries to change with changes in tastes and fashion.
- Equip workers with multiple skills to ensure that labour can easily find jobs in alternative employment.
- Ensure proper manpower planning to ensure that training of labour is in line with the type of labour demanded.
- Ensure importation of raw materials to alleviate the shortage of raw materials in the economy to enable industries to keep in operation, which allows workers in these industries to remain employed.
- Diversify production to absorb most of the workers with different kinds of skills
- Widen market through regional co-operation/ integration to increase demand for labour.

### **3. SEASONAL UNEMPLOYMENT:**

This is a type of unemployment where people are unemployed due to climatic changes/changes in weather which affect commercial activities/ agricultural activities.

Seasonal unemployment in developing countries is primarily associated with agricultural sector, since agricultural work depends upon nature, therefore, in the season between planting and harvesting period of the year the farmers are employed, while becoming unemployed in the season between the post-harvest and pre sowing season.

#### **The causes of seasonal unemployment:**

- Climatic changes in case of agricultural sector.
- Periodic changes in demand for particular goods such that labour becomes redundant during other seasons when demand for these goods is not available.
- Dependence on nature for production such that people are active during the season when conditions are favourable and become idle during the period when the conditions are unfavourable.
- Individual workers have limited skills making it difficult for them to find alternative employment during unfavourable seasons.

- Dependence on a few crops makes farmers unemployed during the season they are not active with their crops.
- Limited diversification or dependence on one sector or job leads to seasonal unemployment because workers remain idle during the season they are not active in the jobs of their specialty.

#### **Possible solutions to seasonal unemployment:**

- Modernise agriculture to minimise dependence on nature to produce. For example, use of irrigation in the dry seasons.
- Diversify the economy such that labour does not rely on one employment only.
- Acquire multiple skills so that labour is able to switch jobs in different seasons.
- Diversify agricultural activities to ensure that labour remains active in all seasons of the year.

#### **4. FRICTIONAL/NORMAL UNEMPLOYMENT**

This is a kind of unemployment which occurs as a result of labour switching from one job to another.

##### **Causes of Frictional unemployment:**

- It is mainly caused by inadequate information about the availability of jobs in the labour market.
- Lack of the necessary skills for a particular job.
- Breakdown of machinery
- Shortage of raw materials.

##### **Solutions to frictional unemployment:**

- Advertise the existing jobs in the labour market
- Undertake retraining of labour to enable workers acquire new skills.
- Subsidise transport for workers to ease movement from one place to another so as to acquire the jobs.
- Ensure proper manpower planning so that people train according the labour demands of the country.

#### **5. CAUSAUL UNEMPOYMENT:**

This refers to a situation where workers are employed on temporary basis and as soon as their contract/work/ season is over they become unemployed.

#### **6. DISGUISED:**

This refers to the type of unemployment where labour seems to be involved in the production process but when its marginal product is very low, zero or even negative.

It arises where the work available is insufficient to fully occupy labour and thus even when some labour is withdrawn, the output may not reduce but instead may rise especially when marginal product is negative.

### **Causes of disguised unemployment**

- Limited capital to expand production
- Poor land tenure system/ shortage of land in some parts of the country.
- High population growth rates
- Lack of information about other existing jobs
- Poor and un-coordinated manpower planning schemes.
- Discrimination in the labour market e.g. nepotism causing over recruitment or over enrolment.
- Desire to retain workforce for future use.
- Inadequate skills.
- Excess supply to an occupation

### **Solutions to disguised unemployment:**

- Train/ retrain workers to increase labour productivity at their places of work, or enable them qualify for the employment in the available jobs.
- There is need to change the land tenure system. An effective land reform policy can redistribute land to those willing to put it to effective use to create jobs and minimise overcrowding on land.
- Advertise jobs to enable workers find other jobs that are within their qualification as well as reducing congestion in some other jobs.
- The government should avail affordable/cheap credit to individuals/firms to enable them expand investment to avail employment opportunities to the surplus labour, thereby reducing overcrowding of labour in a few jobs.
- Improve entrepreneurial ability/development of entrepreneurship in the economy to improve management of the production to increase marginal productivity of labour, as well as increasing the level of investment and job creation in the economy.
- Control population growth rate to avoid excess labour supply, so as avoid overcrowding of labour in the few jobs available.
- There should be development of infrastructure to support production.
- There should be economic diversification to expand employment in all sectors of the economy.
- Undertake proper labour planning to avoid excess labour supply in particular sectors as well as ensuring that labour attains relevant skills needed in the job market

### **7. OPEN-URBAN UNEMPLOYMENT:**

This is a type of unemployment that arises out of an excess supply of labour relative to its demand in the urban areas mainly arising out of rapid increase in the urban population.

#### **CAUSES OF OPEN-URBAN UNEMPLOYMENT:**

- Rural-urban migration. This results in excess labour supply in urban areas relative to the available jobs.

- The inappropriate education system. This causes high unemployment in urban areas because people are trained to seek for white color jobs which are found in urban areas. At the same time it equips people with inappropriate skills which are not demanded by the firms in the urban centers.
- Rapid population growth rate. This results into open urban unemployment because it leads to oversupply of labour in urban areas since many people move to urban areas in search for better living conditions.
- Low rate of industrialisation in the economy. This leads to open urban unemployment because the industries are still few and their rate of growth is low.
- The use of inappropriate technology by the firms in urban areas. This leads to open urban unemployment because it reduces job opportunities in the urban areas since the firms use capital intensive techniques of production which lowers the labour employed.

#### **The Solutions to the open urban unemployment:**

- Reform the education system. This will ensure that school leavers acquire practical skills that will enable them to create employment for themselves or to acquire the skills required by the industrialists.
- Control population growth rate. This will help to avoid excess labour supply in the urban areas.
- Expand the industrial sector. This will create employment opportunities for the many unemployed people in the urban areas.

### **8. RESIDUAL UNEMPLOYMENT:**

Residual unemployment is a situation where individuals remain without work even in cases of full employment due to their physical or mental disabilities.

#### **CAUSES OF RESIDUAL UNEMPLOYMENT:**

- Physical or mental incapacitation makes such people unemployable. The employers are unwilling to take on employ such people due to their physical disabilities or impairment.
- The disabled usually fail to acquire the education and training for the available jobs.

#### **SOLUTIONS TO RESIDUAL UNEMPOLYMENT:**

- Put in place specialised education and training programs to enable the disabled to acquire education and skills to qualify for employment for the available job opportunities.
- Offer credit facilities to the disabled people at low interest rate. This will enable them to establish income generating activities.
- Fight prejudice/bias of employers against employing the disabled
- Offer incentives to employers are ready to offer jobs to the disabled people.

### **9. TECHNOLOGICAL UNEMPLOYMENT:**

This is a form of unemployment that results from changes in the techniques of production where machines replace labour at work. For example, the introduction of computer technology results in displacement of workers by computers, robots replacing porters, all leading to technological unemployment

## **THEORIES OF UNEMPLOYMENT:**

### **1. THE KEYNESIAN THEORY OF UNEMPLOYMENT:**

John Maynard Keynes developed the Keynesian theory of unemployment during the great depression of the 1930s.

The Keynesian theory of Unemployment states that ‘unemployment arises due to the deficiency in **effective/ aggregate demand** for final goods and services especially in times of economic depression’, that is to say due to low demand for final products firms reduce output, income levels fall and investment is discouraged and thus less capital and labour are employed.

The major remedy according to Keynes is increasing aggregate demand.

This is done through:

- Increasing government expenditure so to increase the money in circulation, hence increasing income that raises aggregate demand for goods and services in the economy in order to increase the level of investment and employment.
- Reducing the direct taxes on people's incomes so to leave the public with adequate disposable income to purchase goods and services produced to promote investment and employment.
- Using the expansionary monetary policy to increase the amount of money in the hands of the public, therefore, increasing the effective demand for goods and services hence increasing the level of investment and employment.
- Subsidisation of consumers spending to induce the demand for goods and services in the economy that induces investment and employment in the economy.
- Encouraging private investment by putting in place investment incentives such as reduction in interest rate on credit and tax holidays for investors to increase employment in the economy.

### **Assumptions of the Keynesian theory of unemployment:**

- The theory assumes a closed economy therefore, not influenced by external forces.
- The theory assumes a highly industrialised economy with elastic job creation to be able to increase or reduce output depending on the level of aggregate demand.
- It assumes functional or operating product, factor and money markets.
- It assumes the existence of a large private sector i.e. a strong and responsive private sector.
- It assumes a highly monetised economy
- It assumes the possibility of full employment of resources.
- It assumes a functional investment multiplier.

### **Relevance/applicability of the Keynesian theory of unemployment to developing economies**

**Note:** The Keynesian theory of unemployment is relevant to developing countries only to a small extent in the following ways;

- At times unemployment in developing countries arises due to **fall** in aggregate demand, both domestically and externally that results in low level of investment leading to unemployment and this is in line with the theory, which states that unemployment is due to low aggregate demand.
- In developing countries there is an element of industrialisation hence the theory may not be ruled out in the industrial sector/ theory may be applicable to the industrial sector.
- The theory becomes more relevant in the long run as supply of co-operant factors for labour such as land and Capital increases which helps to increase the level of investment in the economy thereby increasing the demand for labour in the economy hence eliminating mass unemployment as suggested by Keynes.
- The investment climate affects employment level in developing economies and therefore improvement of the investment climate can increase the level of investment leading to increased employment opportunities in the economy as suggested by Keynes.
- Keynes suggests an expansionary monetary policy to increase purchasing power, which many developing countries employ to increase employment levels.
- The reduction in taxes in developing countries helps to increase the level of investment and leaves the people with enough disposable income, which increases both aggregate demand and investment and increase employment levels.
- Increase in government expenditure helps to increase the level of aggregate demand that stimulates production and employment as suggested by the theory.

### **Irrelevancies/Limitations/inapplicability/Criticisms:**

**Note:** To a larger extent, the Keynesian theory of unemployment is inapplicable to developing countries; this is because of the following reasons;

- It is mainly concerned with demand deficiency, yet in developing countries, unemployment largely arises from the supply side, such as shortage of co operant factors, inadequate skills and ignorance of existing job opportunities.
- Keynes based his theory on industrialised economies where the fall in demand for final goods has a direct effect on investment level and employment yet developing countries are mostly agro-based economies/countries with small industrial sectors where changes in aggregate demand has negligible impact on employment.
- The theory is applicable under conditions of full employment, which conditions are not found in developing countries.
- As a solution to unemployment, Keynes prescribes policies which increase levels of aggregate demand but these policies are inflationary, this is so because they lead to an increase in money supply leading to idle money balances due to the low absorptive capacity of these economies.
- Keynesian theory is based on existence of a big and strong private sector yet in developing countries, the private sector is small and weak which makes the theory inapplicable such countries.

- The product, factor, and money markets in developing countries are not as functional as in the developed countries and hardly react to changes in aggregate demand, which limits the impact of aggregate demand on employment, therefore, rendering the theory irrelevant to developing countries.
- Firms in developing countries tend not to respond quickly and efficiently to increases in demand for goods and services on implementation of the measures suggested by the theory to revive effective demand. This is due to structural difficulties such as poor infrastructure and political instability in these economies that prevent investors to increase investment expenditure.
- The theory emphasises the investment multiplier as a contributor to employment yet in most developing countries, the export multiplier is more relevant because these countries depend so much on exportation of primary goods employing most people.
- Keynes based his theory on a closed economy yet most economies of developing countries are open economies, which makes the theory inapplicable in developing countries.
- The High marginal propensity to import in developing countries reduces aggregate demand in the economy for the domestically produced goods; therefore, improvement in investment climate to increase the level of investment and demand for labour as suggested by the Keynesian theory may not solve the unemployment problem in these economies
- The theory emphasises investment multiplier as a contributor to employment, yet in most developing countries it is the export multiplier.

## **2. RURAL URBAN MIGRATION THEORY OF UNEMPLOYMENT:**

This is a theory which explains the movement of people from rural to urban areas, where they expect to get jobs but in the end they do not.

The rural-urban migration appears to be the result of the push factors from the population pressure and the pull factors from the uncertainties of high urban earnings supplemented by the effects of formal education and aspirations of young people again inducing them to seek their fortunes in towns/urban areas.

### **CAUSES OF RURAL- URBAN UNEMPLOYMENT:**

- The large wage gap between rural and urban areas. Normally in most countries there is a wage gap between the rural and urban areas. This gap tends to attract people from rural to urban areas so that they can get attractive and better paying. However such people may not be having the required skills to make them get employment. These end up being unemployed.
- Search for white collar jobs. In this case people tend to move from rural to urban areas so as to get white collar jobs instead of poorly manual heavy jobs, but those white collar jobs are not readily available in urban areas hence the young people end up being unemployed.
- The general attractive and excitement of urban life, the existence of better social services in urban areas e.g. good hospitals, schools, recreational centers etc, they can not readily find jobs hence contributing to unemployment problem
- The circumstances prevailing in the rural areas, where some people lack land to carry out agriculture, the general backwardness in terms of roads, schools, communication facilities etc. All these make people to move from rural to urban areas, they fail to get jobs again contributing to unemployment in an economy.

### **MEASURES TO CONTROL RURAL URBAN UNEMPLOYMENT:**

- Government should formulate measures aimed at bridging/closing the gap between rural and urban dwellers. This can be done by increasing the wages for the rural dwellers and also increasing prices for the agricultural products.
- Government should formulate policies aimed at encouraging creation of employment opportunities in rural areas through encouraging development of small scale industries/ cottage industries e.g. brick making, carpentry, poultry keeping, craft work etc.
- Improve educational facilities in rural areas to match with those in urban areas. In addition recreation facilities and other social amenities should also be developed in rural areas such that people in rural areas see no reason for going to urban areas in order to enjoy such facilities.

### **CAUSES OF UNEMPLOYMENT IN UGANDA:**

- Ignorance of labourers of existing employment opportunities
- Poor education system/ inappropriate education system/Limited skills.
- Discrimination in the labour market based on gender, age etc.
- Technological progress/development leading to substitution of labour
- The physical and mental incapacitation causing residual unemployment.
- Unfavourable change in climate/ seasons
- Unfavourable changes in demand for products of some firms.
- The rapid population growth rate compared to job creation
- Political instability. .
- Rural urban migration causing open urban unemployment
- The process of changing jobs which leads to temporary/ causal/frictional unemployment.
- Limited co-operant factors of production
- Structural adjustment programmes e.g. retrenchment, privatisation,
- Poor manpower planning causing excess labour supply in some sectors.
- The poor land tenure system
- High degree of specialisation of labour
- Underdeveloped infrastructure

### **POCLICY MEASURES THE GOVERNMENT IS TAKING TO REDUECE UNEMPLOYMENT IN UGANDA:**

- Providing tax incentives to investors.
- Undertaking diversification of the economy.
- Undertaking liberalisation of the economy.
- Encouraging further privatisation of the economy.
- Undertaking control of the population growth rate.
- Providing affordable credit facilities/ Startup capital.
- Undertaking education reforms.
- Undertaking agricultural modernisation. .
- Encouraging use of appropriate technology.
- Advertising the existing job opportunities.
- Reforming the land tenure system.
- Improving the political atmosphere.



- Developing/Improving infrastructure.
- Widening the market.
- Providing special programmes for persons with disabilities
- Promoting industrialisation
- Undertaking proper man power planning.

#### **DISADVANTAGES/ EFFECTS/COSTS OF UNEMPLOYMENT:**

- It leads to misery and low levels of living. It causes human suffering because the unemployed cannot afford the basic necessities of life.
- It leads to high dependence burden. This is so because the unemployed depend on the few relatives who are employed
- It results into low production/retards economic growth rate because of the reduction in the output since the unemployed are not productive
- It increases the level of immorality/Leads to social evils such as high crime rate like prostitution, robbery etc.
- It encourages rural urban migration with its associated evils as rural people who are unemployed migrate to urban areas in anticipation of getting jobs. Unfortunately, most of such people do not have the required skills to take on jobs in towns and yet they are not willing to go back to the rural areas and hence cause congestion and other social evils.
- It leads to low government revenue/limits government revenue/narrows the tax base. This is so because the unemployed people do not pay taxes especially the direct taxes.
- It leads to brain drain as highly skilled labour that is unemployed leave the country for other countries in order to secure jobs, this deprives the donor economy of the highly skilled labour force that is very necessary for her economic development
- It leads to decline in the level of acquired skills. The longer the individuals remain unemployed the more they lose their skills because they have no jobs to implement them.
- It worsens income and wealth inequality between the unemployed and the employed. This arises because the unemployed are deprived of income and yet the employed earn income from their employment.
- It leads to low aggregate demand for goods and services, this so because the unemployed are unable to buy such goods and services, this discourages investment in the economy.
- It leads to high/increased government expenditure. The government increases her expenditure to provide social services to the unemployed.
- It causes social unrest/instability in families. This is because the bread winners in the family do not have source of income to enable them meet the basic necessities, which results into conflicts in the family.
- It leads to under utilisation of productive resources, due to high levels of unemployment many resources such as land remain under utilised thus leading to resource wastage
- Discourages investment in education. This is so because many people do not realise the financial benefit in acquiring education, as majority of the educated cannot find employment.
- Creates political tension/instability/unrest. This is so because the unemployed feel that the government is not concerned about their plight and this results into resentment of the government