

## **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) An 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) An 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 which every-one who is capable of working at the prevailing wage rate is capable of getting a job.

**OR:** It is a situation in which the rate of unemployment in an economy is less than 3% of labour force (that is the unemployed are jobless due to economic friction)

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

- Technological development/substitution of labour with machines. With increased use of machines some workers are laid off and therefore they become unemployed.
- Poor education system/poor man-power planning/limited labour skills. This releases people without practical skills and therefore they cannot create jobs after leaving school
- Poor land tenure system. Potential investors cannot easily acquire land which makes it difficult for them to set up firms and unable to create jobs.
- Discrimination in the labour market on the basis of gender, race ethnicity, religion, nationality, political affiliation. Those who are not favoured are denied jobs.
- Unfavourable changes in climatic. This limits economic activities in the agricultural sector rendering some people unemployed.
- High population growth rate. This leads high dependence burden which limits savings thus limiting the capacity to invest and hence limited job creation.
- Rural urban migration. This leads to many job seekers yet the jobs are few resulting in the open urban unemployment.
- Ignorance of labour about existing job opportunities. This makes such people to fail to apply for jobs since they don't know that such jobs exist and therefore remain unemployed.
- Physical and mental incapacitation. Such people are denied jobs by the employers thinking that they are not productive and efficient.
- Limited investment incentives. This leads to high cost of production which discourages investment and thus limiting job creation.
- Inadequate capital. /lack of capital. This limits acquisition of factor inputs making it hard to expand firms and even making new ones which limits job creation.

- Limited market/decline in demand for products for some firms. This limits large scale production for fear of making losses
- Retrenchment in order to cut cost. People are laid off which makes them to lose jobs
- Breakdown of firms/ breakdown of the production process. People are laid off because they are not needed any more.
- Underdeveloped infrastructure. This leads to high cost of production which limits investments and thus limited job creation.
- Limited of entrepreneurial skills. This limits inventions and inventions which limits investments and thus few jobs are created
- Large subsistence sector/ conservatism. This limits the level of production which leads to low job creation
- Low level of accountability. This limits the level of investment because potential investors are asked for bribes by government officials thus limiting job creation.

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

Unemployment refers to the failure to obtain a job at the ruling wage rate despite one's willingness to work i.e. one is willing to work but for one reason or the other cannot find a job.

### **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.

#### **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.** Such people decide to stay out of work simply because they do not want to engage in any kind of work
- **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 and demeaning to them.
- **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 are reluctant to give more hours of work in order to enjoy leisure.
- **Poor working conditions in the available employment opportunities.** People lose interest in the job because they cannot stand the harsh conditions.
- **High risks involved in the available jobs.** People decline to take on the jobs because they fear to be exposed to the dangers.
- **Low status esteem attached to the available jobs/jobs being socially unacceptable.** This makes people to decline taking on the available jobs because are demeaning.
- **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: (For explanation refer to the explanation on limitations to attainment of full employment)**

- Ignorance of labourers of existing job opportunities.
- Poor education system/ inappropriate education system/Limited skills.

- Discrimination in the labour market based on gender, age etc.
- Technological development/progress leading to substitution of labour with machines.
- The physical disabilities and mental incapacitation causing residual unemployment.
- Unfavourable change in climate/seasons.
- Decline/unfavourable change in demand.
- The high 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
- Retrenchment
- Underdeveloped infrastructure.
- High degree of specialisation.
- Limited/small market size
- Limited capital
- Poor land tenure system

#### **DEMERITS/ADVERSE 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.** This is 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.** This is because the unemployed people engage in criminal acts as a means of getting survival.
- **It encourages rural urban migration with its associated evils.** This is because 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 earn and therefore cannot pay direct taxes.
- **It leads to brain drain.** This is because 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 is so because the unemployed are unable to buy such goods and services since they don't earn any income.
- **It leads to high government expenditure.** The government spends a lot of money on employment creation campaigns.
- **It causes social unrest/instability in families.** Conflicts result because the unemployed members especially the men fail to provide for their families.
- **It leads to under utilisation of productive resources.** This because skills of the unemployed are not utilised in the production of goods and services.
- **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 and sometimes riot to express their dissatisfaction.

### **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 manpower planning.** This will help to train manpower according to the needs of the economy and thus avoid excess supply of labour 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 solutions to the cyclical unemployment:**

- Increase government expenditure.
- Provide incentives
- Reduce direct taxes/ taxes on incomes.
- Use expansionary monetary policy.
- Subsidise consumers.
- Increase wages/salaries.
- Encourage/Increase exports.
- Reduce/ discourage imports.

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

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.

**The causes of structural unemployment:**

- Changes in the demand or tastes/fashions
- Technological advancement
- Exhaustion of raw materials
- The long periods in training
- Labour immobility.
- The occurrence of a depression in the economy.
- Political unrest.
- retrenchment

**The Solutions to structural unemployment:**

- Undertake in-service training
- Adopt appropriate technology.
- Ensure political stability
- Provide investment incentives
- Ensure flexibility in production
- Import of raw materials
- Diversify production
- Widen market

**3. SEASONAL UNEMPLOYMENT:**

This is a type of unemployment where people are unemployed due to unfavourable change climatic changes which render people unemployed because they have no activity to do.

**Possible solutions to seasonal unemployment:**

- Modernise agriculture to minimise dependence on nature
- 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/SEARCH 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.
- 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.

**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.

**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 man power planning schemes.
- Discrimination in the labour market
- Desire to retain workforce for future use.
- Inadequate skills.
- Excess supply to an occupation

**Solutions to disguised unemployment:**

- Train/ retrain workers
- change the land tenure system.
- Advertise the jobs
- Avail affordable/cheap credit to individuals/firms
- Improve entrepreneurial ability/
- Control population growth rate

**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.



## 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

## 9. TECHNOLOGICAL UNEMPLOYMENT:

This is a form of unemployment where some workers are laid off due to increased use of machines

## 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
- Reduce the direct taxes on people's incomes.
- Use the expansionary monetary policy
- Subsidise consumers
- Encourage private investment

#### 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.