

## **Unemployment**

Unemployment generally refers to a state/situation where factors of production (resources) are readily available and capable of being utilized at the ruling market returns/rewards but they are either underemployed or completely unengaged.

When referring to labour, unemployment is considered to be a situation where there are people ready, willing and able to work at the going market wage rate but they cannot get jobs. This definition focuses only on those who are involuntarily not employed. It is noteworthy to mention here that all countries suffer unemployment but most developing countries experience it at relatively higher degree, and the following can be some of the causes.

### **Types of unemployment**

1) **Frictional unemployment** : Frictional unemployment is a kind of unemployment that occurs when people are “between jobs” or are looking for their first jobs. It is a kind of unemployment that occurs when the economy is trying to match people and jobs correctly. So, if you get fired for poor work, if you quit because you dislike your job, or if you are just looking for your first job, you are frictionally unemployed.

2) **Seasonal unemployment** : Seasonal unemployment occurs when people are not working because their jobs only exist at some times of the year. Agricultural and construction workers are examples of this type of unemployment.

3) **Structural unemployment** Structural unemployment occurs when a given set of skills is no longer needed in a given economy. For example, E.g. closure of mines, left many miners struggling to find suitable work. For example, there may be jobs available in the service sector, but unemployed miners don't have the relevant skills to be able to take the jobs

4) **Cyclical unemployment** : Cyclical unemployment, which economists say is the worst kind. In this kind of unemployment, people are out of work because the economy has slowed and there is no demand for whatever the workers make. This sort of unemployment occurs during recessions.

5) **Voluntary unemployment:** is a situation when a person is unemployed because of not being able to find employment of his/her own choice. It is a situation when a person is unemployed. Sometimes people reject employment opportunities if they do not receive desired wages or if they are not offered the kind of work they wish to do.

6) **Disguised Unemployment:** Disguised unemployment is the most widespread type of unemployment in under-developed countries. In under-developed countries, the stock of capital does not grow fast. The capital stock has not been growing at a rate fast enough to keep pace with the growth of population, the country's capacity to offer productive employment to the new entrants to the labour market has been severely limited. This manifests itself generally in two ways: (i) the prevalence of large-scale unemployment in the urban areas; and (ii) in the form of growing numbers engaged in agriculture, resulting in '*disguised unemployment*'

**Thus in summary, of the causes of unemployment in developing countries can be said to include:**

- Rapidly increasing population

- Inappropriate technology
- Insufficient capital base
- Demand deficiency/structural changes
- Presence of expatriates
- Education Systems – white-collar orientation
- Rural-urban migration
- One person for more than one job
- Corruption and general mismanagement
- Inadequate knowledge on market opportunities

## **Cost of Unemployment**

Unemployment is a problem because it imposes costs on society and the individual. The cost of unemployment to a nation can be categorized under three headings: the social costs, the cost to the exchequer and the economic cost.

### **The Social Cost of Unemployment**

- i. For the individual, there is the demoralizing effect which can be devastating particularly when they are old. This is because as some job seekers become more and more pessimistic about their chances of finding a job, so their motivation is reduced and their chances of succeeding in finding jobs become even more remote.

- ii. Many of the longer-term unemployed become bored, idle, lose their friends and suffer from depression
- iii. There is also evidence of increased family tension leading in some cases to violence, infidelity, divorce and family breakups.
- iv. Unemployment may also lead to homelessness, as in some circumstances building societies may foreclose on a mortgage if the repayments are not kept up.
- v. Long-term unemployment may also lead to vandalism, football, hooliganism and increases in the crime rate and insecurity in general.

The cost to the exchequer (Ministry of Finance)

There is increasing dependency ratio on the few who are employed in the form of:

The loss of tax revenues which would otherwise have been received: This consists mostly of lost income tax but also includes lost indirect taxes because of the reduction in

Spending.

The loss of national insurance contributions which would otherwise have been received.

### **The economic cost**

Unemployment represents a terrible waste of resources and means that the economy is producing a lower rate of output than it could do if there were full employment. This leads to an output gap or the loss of the output of goods and services as a result of unemployment.

## **REMEDIES FOR UNEMPLOYMENT**

The measures appropriate as remedies for unemployment will clearly depend on the type and cause of unemployment. Broadly they can be divided into:

- Demand management or demand side policies
- Supply side policies.

### **Demand management policies**

These policies are intended to increase aggregate demand and, therefore the equilibrium level of national income. They are sometimes called fiscal and monetary policies. The principal policy instruments are:

- Supporting declining industries with public funds
- Instituting proper demand management policies that increase aggregate demand including exploiting foreign and regional export markets. This can be done by increasing government expenditure, cutting taxation or expanding the money supply.
- Promoting the location of new industries in rural areas which will require an improvement of rural infrastructure.

### **Supply-side policies**

Supply-side policies are intended to increase the economy's potential rate of output by increasing the supply of factor inputs, such as labour inputs and capital inputs, and by increasing productivity. They include:

- Increasing information dissemination on market opportunities.
- Reversing rural-urban migration by making rural areas more attractive and capable of providing jobs. This particularly is the case in developing countries where rural-non-farm opportunities offer the longest employment opportunities.
- Changing attitude towards work i.e. eliminating the white-collar mentality and creating positive attitudes towards agriculture and other technical vocational jobs.
  - Provision of retraining schemes to keep workers who want to acquire new skills to improve their mobility.
  - Assistance with family relocation to reduce structural unemployment. This is done by giving recreational facilities, schools, and the quality of

life in general in other parts of the country even the provision of financial help to cover moving costs and assist with home purchase.

- Special employment assistance for teenagers many of them leave school without having studied work-related subjects and with little or no work experience.
- Subsidies to firms which reduce working hours rather than the size of the workforce.
- Reducing welfare payments to the unemployed. There are many economists who believe that welfare payments have artificially increased the level of unemployment.
- Reduction of employee and trade union rights.

*NB// Read more on Monetary Policy and Fiscal Policy*