

COMMENTARY COVERSHEET

Economics commentary number **2**

Title of extract: **Unemployment in Russia Still on the Rise**

Source of extract:

<http://english.pravda.ru/business/finance/05-04-2010/112838-unemployment-0>

Date of extract: **5. 4. 2010**

Last accessed: 15. 5. 2010

Word count: 743

Date the commentary was written: **20. 5. 2010**

Sections of the syllabus to which the commentary relates: **Macroeconomics – Unemployment**

Candidate name: **Juraj Masár**

Candidate number: 000771 - 022

Unemployment in Russia Still on the Rise

05.04.2010, Anatoly Miranovsky, Pravda.Ru

Over 2 million people have lost their jobs in Russia since September of 2008. Officially, employees leave jobs “on their own free will” or “by agreement of the parties.” According to the data of Russia’s Federation of Independent Unions, approximately 20% of those laid off later return to their employer at a lower salary, *Interfax* reports.

During the period of March 17 through March 24 the number of officially registered unemployed in Russia has decreased by 0.6% to 2,261 million people. According to statistics provided by the Ministry of Public Health and Social Development, 1.03 million people have lost their jobs since the beginning of the crisis. Only 293 thousand people regained employment, 167 thousand with their former employers.

“The analysis of organizations we monitor reveals that, unfortunately, the number of unemployed is not decreasing. In the first six months of the year we are observing growth of unemployment calculated according to the methodology of the International Labor Organization. If financial markets and our industry revive, then, of course, we expect that in the next six months unemployment will start decreasing,” says Mikhail Shmakov, head of the Federation of Independent Unions (FNPR) at his meeting with Vladimir Putin.

Specialists with the United Nations Population Fund think that there is still some risk of a new wave of unemployment in Russia. “The speed of increase in unemployment is now lower than the drop in GDP and industrial recession; yet, previous crises show that such time lapse is normal. The crisis of unemployment has not yet occurred,” says the report of the Fund “Social and demographic development of Russia” issued on Wednesday.

Growth of unemployment is hindered in Russia due to the policy for labor hoarding in the labor market conducted by all economic entities. Now, disguised unemployment remains common.

“Disguised unemployment is very attractive for employers many of which would be completely satisfied with sending two employees to unpaid leave instead of laying one person off. The economic effect remains the same, while there are no complaints from regional officials. I believe today this type of unemployment is not any lower than general unemployment in both absolute and relative terms, which is now approximately 7 million people,” stated Nikolai Volgin, chair of the department of labor and social policy of the Russian Academy of Public Administration to Interfax on Thursday.

According to FNPR monitoring in February and March (233 organizations), majority of companies with part time schedule for all or a part of the staff are in the construction and industrial manufacturing sector (16.4%), mechanical engineering (12.1%), radio and electronic sector (10.1%), agricultural complex (6.1%).

The Ministry of Public Health and Social Development is also concerned with growth of unemployment that may negatively affect the revival of Russian consumer activity observed lately. Officially, the level of registered unemployed in 2010 is expected to be 2 million 200 thousand people.

Commentary

The article “Unemployment in Russia Still on the Rise” describes common situation in mixed economy, when some people who are in working age and actively seeking work can't find suitable employer. This phenomenon is called **unemployment**.

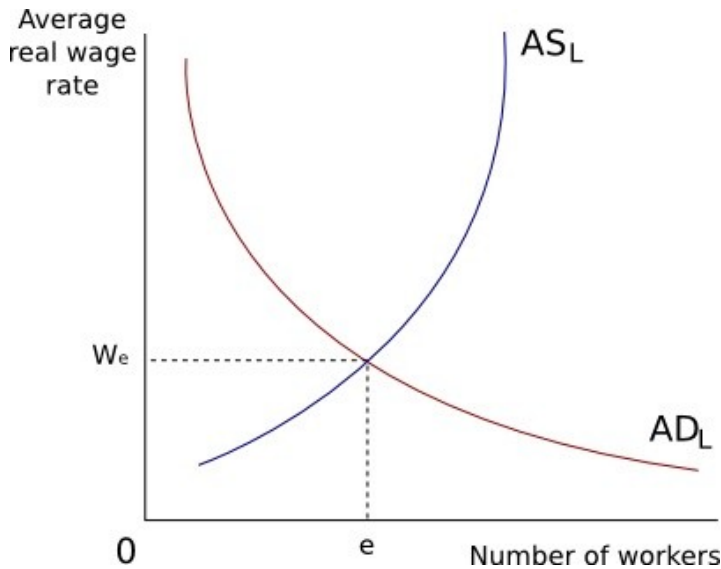


Figure 1: The Labour Market

Unemployment is according to International Labor Organization (ILO) defined as “people of working age who are without work, available for work and actively seeking employment”¹. The measure of unemployment is known as unemployment rate. It expresses the total number of **unemployed people** as a percentage of the entire labor force (LF), where LF consists from both employed and unemployed people. Situation in the Labour Market can be expressed using the diagram which consists of the Aggregate Supply for Labour (AS_L) curve and Aggregate Demand for Labour (AD_L) curve. At the point these curves intersect we talk about the equilibrium in the market for labour. (Figure 1)

The article is dealing with unemployment in Russia, which is raising due to financial and economic crisis in the world. As the article says, “*1.03 million people have lost their jobs since the beginning of the crisis*”. Such unemployment is called **Demand-Deficient (or cyclical) unemployment**. (Figure 2). The reason why it is created is that the fall in demand for goods & services (as a result of economic crisis), the fall in aggregate demand respectively, creates the fall in the demand of labour. (the shift from AD_{L1} to the AD_{L2} in the diagram) However, since the Labour Market is unable to react promptly to the change in aggregate demand – wages resist cuts; we say they are 'sticky downwards' (they do not fall from W_1 to the W_2 , at least not quickly enough to maintain the equilibrium), unemployment (with value of $Q_2 - Q_1$) is created.

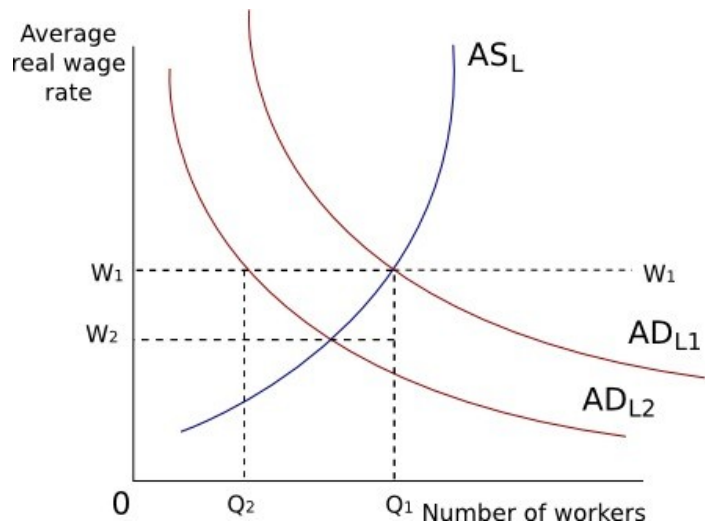


Figure 2: Demand-Deficient (Cyclical) Unemployment

The fact that wages are 'sticky downwards' can be seen directly from data mentioned in the article. It says that out of 293 thousand people who regained employment after being laid off, 167 thousand regained employment with their former employer. This represents the common situation, when employees resist reducing wages, therefore they are laid off. However, after finding out that it is difficult to gain employment in the

¹ Jocelyn Blink & Ian Dorton, Economics Course Companion (1th Edition, Oxford University Press, Oxford 2007) p. 216

Labour Market in general, they are willing to start working again for their former employer at a lower salary.

While distinguishing between employed and unemployed people is surely important, even some people who are claimed to be employed might suffer from other kinds of unemployment. For instance communist Centrally Planned Economies (CPEs) were often proudly presenting their full employment, but having job creation as an aim instead of the consequence of demand for the products that labour could produce is dangerous for the economy, because it leads to creation of **disguised** (or hidden) **unemployment**.² This means that the market is highly inefficient; lots of people produce very little – their marginal product is low. Marginal product is the extra output produced by one more unit of an input. As it has been said in the article, the disguised unemployment is in the times of crises very attractive for employers, because when they lay off a employee against their own will, they have to pay him a severance package.³ So, as the article concludes, even though an employer might be willing to send two employees to an unpaid leave they often lay off only one employee instead, because the economic effect is the same. Therefore a disguised unemployment is created.

Other type of unemployment I have not mentioned yet is **underemployment**. In this case people accept part-time jobs only because full-time jobs are not available. Again, as mentioned in the article in Russia are many companies which work with part-time schedule for at least part of their staff.

The article is also right in the effect which might raising unemployment have on the consumer activity; if unemployment rises, the average disposable income in the economy falls, therefore the aggregate demand falls as well.

2 Allan Glanville, Economics from a global perspective (2th Edition, Glanville Books Ltd, Oxford 2003) p.196

3 Wikipedia, the free encyclopedia. (2010, May 20) *Severance Package*. Retrieved May 20, 2010, from http://en.wikipedia.org/wiki/Severance_package