

Sean Russell

Airica Parker

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The Common Man in Unemployment

Even after a large recovery from the recession, the unemployment rate is still high. This leaves many people wondering what should be done. Is the government responsible for cleaning up this mess? Or should private companies change how they operate? However, one option that does not get a lot of attention is how the employee might act. Employee action is certainly the only sort of action the employee has full control over and is a major determinant of unemployment. If unemployment is going to be fixed, the solution has to come from the people. Employees can try and match what the market needs and they can make themselves valuable. Of course, the actions of governments and corporations do impact unemployment, but these actions are less controlled and less important to the common man than his own.

In the theories of unemployment, there are two basic types of unemployment. There is unemployment that is normal in a healthy economy, and there is unemployment that can be avoided. The first category is comprised of difficulties that arise in the collection of unemployment statistics, unemployment in industries that operate seasonally, unemployment that occurs when people are in between jobs, and voluntary unemployment when people have incentives to not work ("Unemployment Types and Causes"). This first category is to be expected in any economy, so trying to do something to fix these causes of unemployment is unnecessary, and perhaps impossible (Amadeo).

The second category of unemployment is what can and should be avoided if at all possible. It consists mostly of structural unemployment, or unemployment caused by a mismatch between the skills employers need and the skills employees have, classical unemployment caused by minimum wage, and cyclical unemployment which results in recessions (“Unemployment Types and Causes”).

While cyclical unemployment can only be truly handled by action from large groups, such as corporations and governments, in both classical and structural unemployment individual decision can make an impact. But how do we know these areas are important? Could it be that the majority of preventable unemployment comes from cyclical unemployment?

Of course it's possible that cyclical unemployment makes up the majority of unemployment, but economists do not think that is the case (Chen et al. 2). It is more probable that preventable unemployment is made up of a mix of structural, cyclical, and classical unemployment. While the exact percentages are hotly debated, many believe that cyclical and structural unemployment make up a majority, and classical unemployment makes up a somewhat smaller percentage. This means that it will be meaningful to address structural and classical unemployment as a part of the problem.

To reiterate, structural unemployment is caused by the structure of the labor market, when the skills that employees have and that employers want do not line up. This is difficult for governments to create policy for. A government could attempt to create quotas for different sectors of the job market that must be filled, but then companies might have to hire labor that they do not need for anything, thus resulting in deadweight. The government could try and employ all of the excess, but the same problem would occur. Most proposed policies involve

attempting to push laborers into the market, by retraining employees for new positions and reducing incentives to stay unemployed (“Jobs for the Long Run”). This is part of why structural unemployment is often glossed over in mainstream media. Public policy isn’t particularly effective in the case of structural unemployment, and the few proposed policies involve trying to influence the behavior of individuals.

So if the only policy that is considered for structural unemployment attempts to influence the behavior of individuals, that must mean that the power to overcome structural unemployment lies in the hands of individuals. It makes sense. Employers need the types of skills that they need, they cannot change that, and the government cannot change that either. But the government can try and influence what skills individuals have, and, more importantly, so can individuals. On a personal scale, one can stave off unemployment by doing what the government would attempt to have us all do. Training for new positions, being flexible and capable of adapting, and not being excessively picky when it comes to jobs reduces unemployment on the personal scale. If everyone starts doing that, then national rates of unemployment would drop.

Classical unemployment is somewhat controversial, mostly because of its association with minimum wage. The theory goes that labor is a form of good, where employees are the suppliers and employers are the consumers. In this model of supply and demand, government regulations, such as minimum wage, can result in a surplus of a good, or unemployment. While the decision whether minimum wage should be increased is contentious, the assertion that increasing minimum wage increases unemployment is not. For instance, if unemployment were raised to one hundred dollars per hour, unemployment would obviously rise (Barro). This trend is

true at lower levels, just not as pronounced (Disclaimer: this does not mean raising minimum wage is negative for the economy. I am arguing neither for nor against minimum wage).

So, since the minimum wage increases unemployment, an obvious policy that the government could take to increase employment would be to remove minimum wage. However, the issue of minimum wage is too complicated for that to be the final decision, and the issue is ever changing. So, relying on a lower minimum wage in order to find employment is not a practical method.

But if we can't rely on a lower minimum wage, what can we rely on? Well, in the model of supply and demand, regulations only interfere if the natural market price for a good is below the regulation price. So, in the real economy, this means that unemployment will drop if workers are worth more than minimum wage. As with structural unemployment, there are not many policies that exist to increase the value of workers, the main one being education. So, if a worker wants to avoid classical unemployment, instead of waiting for the government to implement some sort of policy to decrease unemployment, she should increase her value through methods such as education.

In both structural and classical unemployment, the government did have options available to it that could decrease unemployment. So why should an individual attempt to do anything? Well, these options were all about convincing individuals to take action for themselves. Government policy in these areas would be unnecessary if individuals took action on their own. Not to mention, the government is not perfect. Legislation can be slow to pass and ineffective, particularly in areas concerning personal action.

So what does this all mean? Unemployment cannot and will not be wholly solved by the actions of individuals, but much of it can be. Many people feel helpless from the recent recession, and while the common worker was not responsible for the high unemployment, the responsibility fell upon him to get a job. It was an unfortunate circumstance that affected millions of people who had done nothing wrong, but still had to deal with the fallout. Going forward, people can take this as a lesson learned. They can become more adaptable and more valuable in preparation for the next time that something like this occurs again.

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