

ECONOMICS

Notes on Unemployment

1. Define unemployment.

Unemployment refers to the situation where individuals who are able and willing to work, are unable to find a job or are actively looking for a job. As a result of unemployment, labour resources in an economy are not utilized.

2. How is unemployment measured? (calculated)

The Australian Bureau of Statistics defines the unemployment rate as the number of unemployed people expressed as a percentage of the total labour force.

$$\text{Unemployment rate (\%)} = \frac{\text{Number of persons unemployed}}{\text{Total labour force}} \times 100$$

3. What is the current rate of employment?

As of May 2007, the unemployment rate in Australia is 4.3%. This is the lowest rate of unemployment in nearly more than three decades. (Australian Bureau of Statistics)

4. The trends in unemployment over the last 10 years.

The unemployment rate generally fell from 8.3% in May 1997 to 6.0% in September 2000. The unemployment rate rose to 7.0% in October 2001, however it has been falling in recent years to 5.1% in 2005-2006. Over the past five years, Australia's unemployment rate has remained below the OECD average. Now, the unemployment rate has generally fallen to stand at 4.3% in May 2007, the lowest rate in about 31 years.

5. Types and causes of unemployment.

TYPES OF UNEMPLOYMENT

Cyclical unemployment

Cyclical unemployment occurs because of a downturn in the level of economic activity. An economic downturn leads to falling demand and production, which in turn means fewer employment opportunities. Firms usually respond to economic downturns by cutting back production levels and laying off workers. Cyclical unemployment usually occurs during recessions.

Structural unemployment

Structural unemployment occurs because of structural changes within the economy caused by changes in technology, or changes in the pattern of demand for goods and services, or the changes in the structures of industries. Due to structural changes, workers may find that the skills that were useful in declining industries do not match the job opportunities opening up in newly emerging industries.

Seasonal unemployment

Seasonal unemployment occurs at predictable and regular times throughout the year because of the seasonal nature of some kinds of works. Examples: tourist-related occupations, being a shopping centre Santa Claus, work related to farm harvest and fruit picking, and jobs in the ski industry. Seasonal unemployment also accounts for the influx of students who finish school, university and TAFE courses each year (between December and March) and enter the job market.

Frictional unemployment

Frictional unemployment occurs as people change jobs. It generally takes time to move from one job to another and during the change-over period these individuals are regarded as frictionally unemployed.

Hard core unemployment

Hard core unemployment refers to those individuals who might be considered unemployable because of some personal characteristic, such as a mental or physical disability, anti-social behaviour or drug abuse.

Hidden unemployment

Hidden unemployment includes those people who can be considered as unemployed but do not fit the Australian Bureau of Statistics definition of unemployment, and are thus not reflected in the unemployment statistics. This includes those individuals who have been discouraged from seeking employment and are no longer actively looking for a job. These people are known as the hidden unemployed or discouraged job seekers.

Long-term unemployment

Long term unemployed refers to those people who have been out of work for a period of 12 months or longer, usually as a result of structural unemployment.

Underemployment

Underemployment refers to people who work less than full time hours per week (35 hours) but would like to work longer hours. These people are not classified as unemployed but they represent a significant and growing part of Australia's unemployment problem.

CAUSES OF UNEMPLOYMENT

The level of economic growth

When there is an economic downturn, the level of aggregate demand and investment spending fall. Falling demand and production means a fall in the demand for labour and an increase in the level of unemployment.

The stance of macroeconomic policy

The government's macroeconomic policy settings have influences on the business cycle, which in turn can influence the level of unemployment in the short to medium term. When the government introduces tight monetary policy or tight fiscal policy, economic growth slows down, which then leads to an increase in the level of unemployment.

Constraints on economic growth

In the long run, unemployment is influenced by the level of sustained economic growth achieved in an economy. Significant constraints on economic growth such as inflationary pressures and current account deficit problems will make unemployment inevitable.

Rising labour force participation

An increase in the labour force participation rate will tend to cause an increase in the rate of unemployment in the short term. This is because more people who previously were not looking for work (and were not classified as unemployed) start actively seeking employment. Unless they obtain a job immediately, they join the ranks of the unemployed.

Structural changes

In the short term, structural changes within the economy, such as changes in technology, changes in the pattern of demand for goods and services and changes in the structures of industries are likely to cause unemployment. Due to structural changes, workers may find that the skills that were useful in declining industries do not match the skills that are needed in newly emerging industries.

Technological changes

In the short term, rapid technological changes can cause unemployment. New and improved products and methods of production may result in the substitution of capital for labour. Technological advancements may also change the work skills required from labour, which may cause some workers to become redundant.

Productivity

The productivity of labour is an important factor that affects the decision of employers to increase or reduce employment. Low labour productivity tends to encourage employers to substitute capital for labour. However, increases in productivity also means that the same level of output can be produced with less workers, which could lead to rising unemployment in the short to medium term.

Inadequate training and investment

Unemployment will occur when people do not have adequate opportunity for education and training. People will become unemployed when there is a mismatch between the skills that they have and the skills demanded by employers. This kind of unemployment will persist if people are not provided with adequate training to prepare for the demands of the labour market.

A rapid increase in labour costs

Unemployment may occur because of a sudden increase in labour costs (wages) and labour on-costs (payroll tax, superannuation, holiday pay, and so on). In such a case, businesses will tend to substitute capital for labour (that is, if capital cost is lower than labour costs) or even reduce output, hence causing unemployment.

Inflexibility in the labour market

One of the reasons for a rapid increase in labour costs may be inflexibility of the labour market due to regulations resulting in the higher minimum wages than would occur if wages were set through the interaction between the demand and supply of labour. A higher minimum wage rate will cause the level of unemployment to increase.

6. Meaning of the term “natural rate of unemployment”.

The natural rate of unemployment refers to level of unemployment at which there is no cyclical unemployment, that is, where the economy is at full employment.

Economists refer to it as the minimum rate of unemployment that can be sustained without inflationary pressure.

7. Cost of unemployment.

Unemployment has many economic and social costs.

Economic costs include:

- The opportunity cost of lost production
- A decline in workforce skills
- Personal income losses for unemployed individuals and their families
- Lower living standards
- The costs to government of social welfare payments to support unemployed people and their families. In addition there is also a loss of taxation revenue for the government
- Lower wage growth

Social costs include

- Increased inequality
- Poverty
- Family breakdown
- Crime

- Social exclusion and the loss of freedom
- Loss of confidence, self-esteem and motivation
- Loss of work skills
- Poor health, mental stress, psychological disorders and suicide
- Loss of social values and responsibility

8. Government policies that have been used and are currently being used to improve the rate of unemployment.

There are a wide range of policies that the government uses to reduce unemployment. The policies that the government chooses, is based on what they see as the main causes of unemployment. Some of the policies that the government has used and are currently using to improve the rate of unemployment are briefly discussed below.

- the government has implemented expansionary macroeconomic policies to stimulate the economy through lower interest rates and either increased spending or lower taxation. This has helped to lift the rate of economic growth and reduce the growth of cyclical unemployment.
- the government has also used microeconomic policies to reduce unemployment. Australia's microeconomic reform policies have included tariff reduction, deregulation, national competition policy, privatisation and tax reform.
- the government has increased the flexibility of the labour market and remove regulations that might discourage employers from hiring new workers.
- the government has reduced unemployment by improving the efficiency of job matching services through job and skills databases.
- the government has reduced the amount of benefits given to the unemployed in order to encourage them to find a job.
- the government has implemented labour market programs which include subsidies for employers to hire employees, programs to help the unemployed acquire work skills, training and apprenticeship programs, and individualised assistance for employees to help them locate suitable training and jobs.

Resource List

Book:

DIXON, Tim and O'Mahony, John. (2007). Australia in the Global Economy. Sydney, NSW: Leading Edge Education- Pearson Education Australia Pty Ltd.