

**Unemployment**



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The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force. During periods of recession, an economy usually experiences a relatively high unemployment rate.[1] According to International Labour Organization report, more than 200 million people globally or 6% of the world's workforce were without a job in 2012.

There remains considerable theoretical debate regarding the causes, consequences and solutions for unemployment. Classical economics, new classical economics, and the Austrian School of economics argue that market mechanisms are reliable means of resolving unemployment. These theories argue against interventions imposed on the labor market from the outside, such as unionization, bureaucratic work rules, minimum wage laws, taxes, and other regulations that they claim discourage the hiring of workers.

Keynesian economics emphasizes the cyclical nature of unemployment and recommends government interventions in the economy that it claims will reduce unemployment during recessions. This theory focuses on recurrent shocks that suddenly reduce aggregate demand for goods and services and thus reduce demand for workers. Keynesian models recommend government interventions designed to increase demand for workers; these can include financial stimuli, publicly funded job creation, and expansionist monetary policies. Its namesake economist John Maynard Keynes, believed that the root cause of unemployment is the desire of investors to receive more money rather than produce more products, which is not possible without public bodies producing new money.

In addition to these comprehensive theories of unemployment, there are a few categorizations of unemployment that are used to more precisely model the effects of unemployment within the economic system. The main types of unemployment include structural unemployment which focuses on structural problems in the economy and inefficiencies inherent in labour markets, including a mismatch between the supply and demand of laborers with necessary skill sets. Structural arguments emphasize causes and solutions related to disruptive technologies and globalization....Discussions of frictional unemployment focus on voluntary decisions to work based on each individuals' valuation of their own work and how that compares to current wage rates plus the time and effort required to find a job. Causes and solutions for frictional unemployment often address job entry threshold and wage rates. Behavioral economists highlight individual biases in decision making, and often involve problems and solutions concerning sticky wages and efficiency wages.

**Definitions, types, and theories**

The state of being without any work both for an educated & uneducated person, for earning one's livelihood is meant by unemployment. Economists distinguish between various overlapping types of and theories of unemployment, including cyclical or Keynesian unemployment, frictional unemployment, structural unemployment and classical unemployment. Some additional types of unemployment that are occasionally mentioned are seasonal unemployment, hardcore unemployment, and hidden unemployment.

Though there have been several definitions of "voluntary" and "involuntary unemployment" in the economics literature, a simple distinction is often applied. Voluntary unemployment is attributed to the individual's decisions, whereas involuntary unemployment exists because of the socio-economic environment (including the market structure, government intervention, and the level of aggregate demand) in which individuals operate. In these terms, much or most of frictional unemployment is voluntary, since it reflects individual search behavior. Voluntary unemployment includes workers who reject low wage jobs whereas involuntary unemployment includes workers fired due to an economic crisis, industrial decline, company bankruptcy, or organizational restructuring.

On the other hand, cyclical unemployment, structural unemployment, and classical unemployment are largely involuntary in nature. However, the existence of structural unemployment may reflect choices made by the unemployed in the past, while classical (natural) unemployment may result from the legislative and economic choices made by labour unions or political parties. So, in practice, the distinction between voluntary and involuntary unemployment is hard to draw.

The clearest cases of involuntary unemployment are those where there are fewer job vacancies than unemployed workers even when wages are allowed to adjust, so that even if all vacancies were to be filled, some unemployed workers would still remain. This happens with cyclical unemployment, as macroeconomic forces cause microeconomic unemployment which can boomerang back and exacerbate these macroeconomic forces.

**Classical unemployment**

Classical, or real-wage unemployment, occurs when real wages for a job are set above the market-clearing level causing the number of job-seekers to exceed the number of vacancies. On the other hand, some economists argue that as wages fall below a livable wage many choose to drop out of the labor market and no longer seek employment. This is especially true in countries where low-income families are supported through public welfare systems. In such cases, wages would have to be high enough to motivate people to choose employment over what they receive through public welfare. Wages below a livable wage are likely to result in lower labor market participation in above stated scenario. In addition it must be noted that consumption of goods and services is the primary driver of increased need for labor. Higher wages leads to workers having more income available to consume goods and services. Therefore, higher wages increase general consumption and as a result need for labor increases and unemployment decreases in the economy.

Many economists have argued that unemployment increases with increased governmental regulation. For example, minimum wage laws raise the cost of some low-skill laborers above market equilibrium, resulting in increased unemployment as people who wish to work at the going rate cannot (as the new and higher enforced wage is now greater than the value of their labor).[6][7] Laws restricting layoffs may make businesses less likely to hire in the first place, as hiring becomes more risky.[7]

However, this argument overly simplifies the relationship between wage rates and unemployment, ignoring numerous factors, which contribute to unemployment.[8][9][10][11][12] Some, such as Murray Rothbard, suggest that even social taboos can prevent wages from falling to the market-clearing level.[13]

In Out of Work: Unemployment and Government in the Twentieth-Century America, economists Richard Vedder and Lowell Gallaway argue that the empirical record of wages rates, productivity, and unemployment in American validates classical unemployment theory. Their data shows a strong correlation between adjusted real wage and unemployment in the United States from 1900 to 1990. However, they maintain that their data does not take into account exogenous events]

**Cyclical unemployment**

The IS-LM Model is used to help and process analyze the effect of supply shocks on the economy.

Cyclical, deficient-demand, or Keynesian unemployment, occurs when there is not enough aggregate demand in the economy to provide jobs for everyone who wants to work. Demand for most goods and services falls, less production is needed and consequently fewer workers are needed, wages are sticky and do not fall to meet the equilibrium level, and mass unemployment results.[15] Its name is derived from the frequent shifts in the business cycle although unemployment can also be persistent as occurred during the Great Depression of the 1930s.

With cyclical unemployment, the number of unemployed workers exceeds the number of job vacancies, so that even if full employment were attained and all open jobs were filled, some workers would still remain unemployed. Some associate cyclical unemployment with frictional unemployment because the factors that cause the friction are partially caused by cyclical variables. For example, a surprise decrease in the money supply may shock rational economic factors and suddenly inhibit aggregate demand.

Keynesian economists on the other hand see the lack of supply for jobs as potentially resolvable by government intervention. One suggested interventions involves deficit spending to boost employment and demand. Another intervention involves an expansionary monetary policy that increases the supply of money which should reduce interest rates which should lead to an increase in non-governmental spending.