

Fighting Unemployment

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1. Introduction

The total population of a country includes those working, able and available for work, children, the retired and those in full-time secondary or university education.

Unemployment is the percentage of those who are able and available to work, but who are out of work at any given time. Thus, in calculating the percentage of those unemployed, only the working population will be taken into account and not categories of people like the elderly, children and full-time students. This means that not everybody who is jobless is regarded as unemployed.

2. Types of Unemployment

There are different types of unemployment that would require different strategies in tackling them. Let us examine the most important ones.

a) Seasonal Unemployment

As the name suggests, this is unemployment caused by changes in demand and supply of goods and services as a result of seasonal variations. A company manufacturing sandals

may fare nicely in the summer, thus creating jobs but may fare less well in the winter, resulting in job losses. On the other hand, a company manufacturing winter coats may experience the opposite trend.

Other industries affected by seasonal unemployment are agriculture, construction, building and tourism.

The problems with seasonal unemployment could be minimised by using student labour while they are on holidays, women returning to work or employment agencies that are specialist in seasonal work. In the case of the construction and building industries, more technologically advanced materials and systems could be used to cope with changes in seasons and weather so that the work is not disrupted.

b) Structural Unemployment

This is a much longer lasting type of unemployment which would affect the country's economic structure itself. It is normally a drastic downward change in demand for certain types of goods and services. Such changes would result in severe regional unemployment, especially in those regions where particular industries were located. Good examples are the coal, textile and shipbuilding industries which have almost disappeared in the UK. The regions where those industries were situated had to bear the brunt of the unemployment.

Strategic approaches like labour retraining, regional policy initiatives and business enterprise schemes may be necessary to improve employment in such regions like the coal mines in Wales, UK.

c) Frictional Unemployment

This is a kind of temporary unemployment caused by immobility of labour or unwillingness of labour to learn new skills. Although there may be plentiful job vacancies in the country, this type of unemployment still persists because the labour that is available may be the wrong type, at the wrong place and at the wrong time.

Labour may be immobile in the sense that there may be job vacancies in Glasgow, but the unemployed in London may not want to move up to Scotland for these jobs. Some of the ways of tackling this type of unemployment would be the provision of better information services, training schemes, enterprise zones, financial and tax incentives to stimulate labour mobility.

d) Demand-Deficient Unemployment

This is a result of deficiency in the level of aggregate demand in the economy. If the demand for goods and services is low, producers would produce less, which means less labour is needed, thus creating unemployment.

In order to fight this type of unemployment, the government could stimulate demand in the economy by tax cuts and/or lowering interest rates which will in turn increase the purchasing power of consumers.

e) Technological Unemployment

The rapid advancement in technology brings immense benefits but it can also create unemployment. As work methods change, sometimes becoming more automated, fewer staff may be required to carry out tasks that were previously carried out by many people. This is changing from labour intensive methods of production to capital-intensive methods. The automated (computerised) banking system is a good example.

Retraining of labour will be necessary to fight technological unemployment.

f) Cyclical Unemployment

This is an unemployment derived from the peaks and troughs of the trade cycle. Unemployment during periods of economic recession is an example of that. Cyclical unemployment when it comes is normally very widespread and may affect the entire economy and even other countries. The European economies suffered a great deal of cyclical unemployment during the economic recession of the 1980s.

It is suggested that cyclical unemployment may be minimised by controlling the rate of growth (especially in advanced countries) in the economy to avoid a boom and bust situation, i.e. an uncontrolled economic boom which would normally lead to recession when the economy is overheated.

3. Government Policy and Unemployment

Government policy could have a direct bearing on the state of unemployment in an economy. Many western government's policies give priority to fighting inflation, which can be a trade-off to fighting unemployment. "Trade-off" means that by fighting inflation you are likely to create unemployment and a fight to achieve full employment could lead to inflation. An example will illustrate this point.

We have seen that the use of interest rates is the most effective weapon in fighting demand-pull inflation. A Government's monetary policy of keeping interest rates high may curb inflation, but may also have a crippling effect on existing businesses and prospective investment. High rates mean that borrowers would have difficulties in servicing their debt, which could lead to business failure, thus loss of jobs. Furthermore, prospective investors would refuse to borrow as the cost of borrowing becomes too expensive, and so no new jobs would be created, leading to unemployment.

Conversely, a fight to achieve full employment could have the opposite effect, i.e. high inflation.

Full employment could immensely increase aggregate demand for goods and services in the economy because of the increased purchasing power which, if persistent, would lead to producers increasing prices (inflation). Furthermore, if factors are fully employed, the demand for labour - which would then be more than the supply - would result in wage rises, which in turn would lead to demand-pull inflation.

However, during the 1995-1997 period of former Prime Minister John Major, both inflation and unemployment were reported to be falling. This, it was said by the government, was a result of its well controlled management of the economy.

Some critics, however, argued that the seeming improvement in the unemployment figures was due in part to the government's tougher stand on the provision of unemployment benefit and replacing it with the Jobseekers Allowance (in September 1996) i.e. a benefit which is only available to those who are available and are actively searching for work, not 'just' unemployed. This change, the critics argue, made life very difficult for some unemployed (as they have to continue to prove they are looking for work), to the extent that they signed off from the unemployment register, thus improving the unemployment statistics.

The state of the UK economy is even better now under Tony Blair's government, where unemployment is at its lowest for twenty years and inflation is also very low. This is because government strategy is intended to avoid a boom and bust situation. Thus, slower and steady economic growth is preferred. Nevertheless, a fast economic growth situation is good for developing economies where the factors of production are under utilised.

4. Consequences of Unemployment

Unemployment brings with it many adverse consequences. Some of these are examined below:-

a) Strain on the Economy

Unemployment causes a severe financial strain in the economy, especially in developed countries like the UK, France, Sweden, Canada, USA and Germany, where there is a good social welfare system. In such cases, the higher the level of unemployment, the larger the welfare expenditure would be.

b) Social Consequences

It is a well known fact that unemployment has a direct relationship with some social problems such as increase in poverty, social unrest, crime, divorce, violence and other delinquencies.

c) Knock-on Effect

It could also have a serious knock-on effect on businesses that rely on other businesses for their operations. Thus, problems encountered by a publishing house could adversely affect its suppliers.

d) Decline in Production

A rise in unemployment means that the economy would be producing less than its production capacity.

e) Waste of Human Resources

A high level of unemployment implies that a large number of the country's human resources (in most cases trained and skilful workforces) is wasted. The cost to society could be enormous as hundreds of millions of pounds may have been spent training staff, only for them to end up being unemployed.

f) Demoralisation and Hopelessness

High and sustained unemployment could prove to be a source of demoralisation and hopelessness in society, especially if there are no signs of improvement in the state of affairs. A society with many hopeless people could prove to be a dangerous society indeed. This may lead to constant unrest, political and economic instability and this in turn could lead to a threat to national security.

g) Lack of Confidence

Some commentators believe that people who have been unemployed for a long time lose confidence in themselves in terms of interacting with others, speech and even gaining employment again. Thus, the longer a person has been out of work, the harder it then becomes to get a job.

h) Extra Cost of Retraining

Extra cost may be incurred by the government, in order to train people again to be ready for the job market, even though they had previously been trained. Because they have

been unemployed for a long time, this additional training would be necessary for them to be employable.

i) Increase in Nationalism and Hatred of Foreigners

High levels of unemployment have frequently resulted in the rise of nationalism and anti-immigration movements. Such movements, like the British National Party (BNP), the French National Party and similar ones in Germany, would blame foreign workers and ethnic minorities (even though they might be citizens of that country), for the cause of unemployment for 'natives' which, in some cases, resulted in latent violence, racism and racial unrest in society.

j) Decline in the Country's Reputation and Image

A country with high and prolonged unemployment would lose its respect both by its own citizens and the international community at large.

5. Measuring Unemployment

The United Kingdom government publishes monthly figures as to the state of unemployment. It is measured by the number of people registered as unemployed and claiming social welfare benefits.

In recent times however, questions have been raised concerning the accuracy of unemployment statistics in the United Kingdom, particularly when the Jobseekers Allowance replaced Unemployment Benefit and almost immediately the unemployment figures improved. Many critics believed that the seeming improvement of the figures was because many people were signing off the unemployment register as they could no longer cope with the pressure of continuing to prove that they were actively and willingly looking for work; a requirement for the unemployed to be able to claim welfare benefits under the Jobseekers Allowance scheme.

Furthermore, there are other problems of accuracy of the statistics associated with time lags, those who temporarily stopped working and those who still continue to claim benefit even though they are employed (namely the black economy) who are paid cash for their work, so that the wages are not reflected on their bank accounts, tax and National Insurance offices.

6. Unemployment in Developing Countries

None of the types of unemployment mentioned above could properly describe the type of unemployment in under-developed countries in Africa, Asia and South America. While structural or cyclical unemployment (economic recession) may be the closest description, it is difficult describing it as such, as some countries like Mali in Africa or Bangladesh in Asia have been in the same state of high unemployment (if not worse) for decades.

Such unemployment is as a result of lack of infrastructure skilled workforce and investment in the economy. This in turn is as a result of lack of political instability, mismanagement, lack of foreign currency reserves and problems with debt financing.

7. Fighting Unemployment in Developing Countries

A much more clinical approach would be required to tackle such unemployment in developing countries.

It is strange that very few leaders in the developing world even mention the creation of jobs as part of their national and economic policies.

It is worth investing in the reduction of unemployment (or rather the creation of jobs) and this is something that every government should do.

Some of the practical and clinical approaches to job creation in developing countries are discussed below.

a) Political Stability

A stable political system is the most suitable environment for job creation and reduction of unemployment. Political stability attracts investment and business confidence as uncertainty reduces.

Political instability is plaguing the vast majority of developing countries, precipitated by corruption, fraud, injustice, frustration, unrest and war. Leaders should bear in mind that it is impossible to truly develop in the absence of political stability. A true development requires an environment where the people are both physically and mentally free; a society where people can use their mind to the maximum.

b) Skills/Craft training

While the traditional university and college based education will continue to be useful, skills or craft-based training will be the key to true employment and self-employment in developing countries.

A great deal of underdevelopment is caused by lack of skills, so much so that people are unable to take up employment even where vacancies exist, or to set up and run businesses where there are opportunities, as they simply would not know what to do.

Emphasis on the training should be primarily practical-based rather than theoretical, where trainees not only gain knowledge but also work experience. The traditional educational system already takes care of the theory-based training anyway.

The skill-based training may be in one or more of the following areas:-

- a) computing/information technology
- b) bookkeeping and accounting
- c) auto mechanics
- d) plumbing and welding
- e) brick laying and building
- f) construction technology
- g) electrical/electronic repairs and installations
- h) business studies
- i) telecommunications
- j) transportation
- k) farming and fisheries
- l) carpentry
- m) hotel and catering
- n) health supplies
- o) office administration

- p) food and hygiene
- q) recreation, tourism and hospitality industries
- r) environmental and horticulture
- s) entertainment
- t) engineering
- u) manufacturing
- v) consultancy

The skill-based training should be practical enough for trainees to be able to apply the skills learnt when they leave training. There is no use to have theoretical training that will have no practical value in the real world. Nevertheless, the training should also include the principles involved in running a business successfully. Thus, it should include areas like:-

- (i) basic record-keeping
- (ii) business principles
- (iii) publicity and sales
- (iv) customer service
- (v) basic information technology
- (vi) expectation management

This sort of training may be conducted in association with:-

- (i) existing colleges and universities
- (ii) other academic institutions
- (iii) employers such as:-
 - government departments
 - reputable private companies/businesses
 - charities and non-governmental organisations (NGOs)
- (iv) reputable private training providers

A local or regional recognition/accreditation scheme should be devised for such a skill-based training provider. This will raise the status of training providers. However, an accreditation should be reviewed each year as a control mechanism to ensure that training providers continue to meet the required high standard. Remember that the whole point is for trainees (both young and old) to gain skills that they can successfully use when they graduate. The accreditation should be withdrawn from failing training providers without delay, to ensure accountability and credibility.

c) Vocational qualifications

Closely related to the point above is that people successfully completing the training should be awarded recognised vocational qualifications; a model similar to the National Vocational Qualifications (NVQs) system in the United Kingdom should be adopted. The NVQs qualifications system is a system where awards are based on practical training, demonstration of work experience and acquired skills evaluation. This will not only serve as an evidence of the skills that participants would have gained during the training but also as a source of motivation for them and prospective participants. Such qualifications could also be a gateway to higher skill-based courses and qualifications.

d) Business forums

There should be established local business participation forums. These are avenues through which local people who are business-minded can come together to discuss and plan strategies for business success and job creation.

These forums should also invite and involve local counsellors, business people, politicians and bank managers who could contribute to the forum's vital skills, knowledge and experience.

The discussions should not only include the practical principles of how to successfully run a business, but should also include how to manage expectations. Many people in developing countries expect a business to generate large sums of money overnight, the "quick money" attitude. Thus, they are easily demoralised when the expected sums are not forthcoming as quickly as they expected. The truth is that running a business is hard work in terms of time, labour, finance, stress and pain so that only the most determined will succeed. If running a business was easy and always very profitable, then everyone on earth would be a business person rather than working for someone else. The reality, however, is the opposite namely:

- i) Constant shortage of funds;
- ii) Anxiety, worry and stress;
- iii) Lack of time for holidays;
- iv) Sleepless nights;
- v) Frustration;
- vi) Pain; and
- vii) Possible heart attack.

Basically only people with 'guts' achieve success in business. Thus, if you are not prepared for these problems, then you should not go into business. A truly successful person is one who acquired his/her wealth through hard work and who is able to trace the source of his/her wealth. It is impossible for a person to be wealthy suddenly, unless the wealth was acquired by:-

- i. Inheritance
- ii. way of a gift
- iii. gambling, or
- iv. fraud or theft

While the end result of a properly run business could be great happiness and satisfaction, a small new business should expect to make little or no income for at least 8 months and possibly to break even after 1 year. Bigger businesses may take even longer to break even. Such a pessimistic view is necessary for the business person to be prepared physically, financially, emotionally and mentally, so as not to be frustrated and disappointed as a result of over-expectation.

Three major problems that a newly formed small business faces are:

- (i) limited finances – so that the business cannot buy as many products as it would wish,

- (ii) lack of awareness – as the business is new, not many people are aware of it so cannot buy its products or services,
- (iii) even when people become aware of the new business, why should they buy goods from it when they have been buying from a well-established supplier over the years?

The sales, publicity and marketing skills gained should enable the business to create awareness and also to convince consumers that its products are either better, or as good as the products of other businesses. It may also be possible to show that the new business's products or services are unique compared to those of the competitors. This does not mean that the business should lie, but rather should create some uniqueness in its products or services. Some ways to create this uniqueness are:

- (i) improved customer service. For example, being polite to customers and remembering the principle that the customer "is always right" and providing after sales services such as helping customers to put the goods into carrier bags, as well as helping to carry the goods to customers cars parked close to the business premises. In the case of regular customers who are too busy to wait to collect the goods already purchased, arrangements may be made to deliver the goods to the customers homes on the payment of a minimal transportation fee.
- (ii) operating the business at times that other well-established businesses are closed. For example, opening early and closing late, thereby gaining extra business.
- (iii) the introduction of periodic discounts to increase sales. This would be necessary at periods or seasons when the volume of sales is normally low, for instance, January when many people are 'broke' as a result of the huge amount of Christmas shopping which they may have done in December.

Some might worry that the introduction of a discount system will reduce their profit. The key to the survival of a small newly formed business is not about making profit but consistent cash flow which is the 'life blood' of the business. The business will be incapable of meeting its bills without sufficient cash flow, which is the biggest cause of business failure. Profit will come later.

The bottom line is that running a business is a gradual and painful experience to start with. Nevertheless, those who are conscientious, patient and perseverant are likely to prosper.

e) **Business co-operatives**

Closely related to the point above is for government to encourage the formation of co-operative societies or associations. These co-operatives not only enable existing or prospective business people to share information but could also allow local people who are members of the co-operatives to contribute their products to a 'product pool' to enable the co-operatives to sell in bulk.

How co-operative societies are run is that all the members or group of members would send their local products to the co-operative.

These products are then given unique code numbers that identify the owner(s) of that particular product. When these products are sold at an agreed price, the society takes an agreed percentage of the revenue, while the other percentage is payable to the producer(s) of the product.

This eliminates the sales burden on the producer(s) who can concentrate just on producing the goods to the standard required by the society.

The society on the other hand, is responsible for identifying new markets, business opportunities, investments and the sales and marketing of the products.

As part of its investment programme, the co-operative may buy and sell other products in its own right. The members (producers) may also be paid a dividend (where the society makes profit) as they are investors in the society.

Very organised co-operatives have been able to even export their products overseas. As co-operatives could create large product pools, they are better able to find new markets and attain better price bargains than an individual producer.

f) Credit unions

These are well organised and structured financial associations that are jointly formed by local people, local government and/or regional government. The funds of the credit union are created by money invested by individuals, businesses and the local or regional government. Individuals can borrow money from the credit union (out of the accumulated pool of funds) to set up the business ventures.

The credit union will also invest part of its funds in other areas like the stock market, pension funds, life assurance companies, government bonds and treasury bills. This will increase the profit of the credit union.

g) Government Backed Loans

In addition to credit unions, government backed loan schemes could be a vital source of finance for existing or prospective small businesses in developing countries. A word of caution about providing loans in developing countries. Sadly many in these countries do not appreciate the fact that a loan is not free money but has to be repaid. As a result, they end up misusing the funds and not being able to pay them back. To avoid this, a proper and thorough enlightenment campaign is necessary. This may be done through the business forums and the co-operative associations.

h) Empowering women

It is particularly important that women are empowered to participate as much as men. It is worth emphasising this point because in some societies in the developing world, women are excluded or prevented from participating fully in business or the labour market. To a large extent, if given the opportunity, women can be much more accountable, resilient and determined than men. Sadly many women have not been given the opportunities that they deserve. Rather, they languish at home doing nothing all their life.

i) Local markets and Industrial Estates

A market place where producers and consumers can meet and interact to sell and buy goods and services is vital not only for the creation of businesses and jobs but also for the improvement of the local economy. Closely related to local markets are industrial estates. These are business premises or shops that manufacture or sell industrial goods and services. A well planned industrial estate could accommodate hundreds of business that employs tens of thousands of people. Thus, the government should encourage and finance the formation of local markets and industrial estates. The government should not in any way get involved in the management of any industry, as governments are not good in managing business. Rather, government should be playing an enabling and facilitating role. It should provide the funding and create an environment that is conducive for business.

j) Improving Communication

For the above strategies to be successful, government - particularly at local, state or regional levels - should improve the communication infrastructure to enable local people to participate fully. Such communication should include:

- (i) transportation network
- (ii) postal systems
- (iii) telecommunications
- (iv) broadcast/print media

There has been a very successful World Bank business loan project for rural Indian women in the late 1990s, who after being trained in business skills, were given satellite telephones to communicate and transact business with one another. The result was that all the women were able to repay their loans and are still in business and doing well.

k) Promotion of the strategy

With the business plan and improved communication systems in place, the whole strategic programme should be promoted vigorously and thoroughly for people to be aware to enable them to participate fully.

l) Budget

An appropriate budget has to be allocated to meet the cost of implementing this strategic plan.

This budget may be administered by the Employment Department or other appropriate departments such as Department for Rural Development.

m) Accountability and Transparency

There has to be in place a mechanism for transparency and accountability so that those in power or those responsible for planning and implementing this strategy are prevented from abusing the system. Where there happens to be any abuse by those in charge, they should be held completely liable and should be punished for that.

There should also be in place a system that will enable the authorities to carry out periodic review and assessment of success of the strategy implemented, those implementing it and how it has been implemented. This will enable the authorities to identify errors and shortfalls which could then be rectified. Such review will at any time inform the authorities how far they have achieved in their drive to attain the objectives.

Conclusion

Being employed brings joy, pride, confidence and self-esteem to the employed and their families. We have seen on the other hand, the negative consequences unemployment can have on an individual and on society in general.

Sadly, many governments in the developing world do not see fighting unemployment as one of the priorities for a stable and progressive economy.

Self Assessment Questions

1. *Define "Unemployment"*
2. *List the main types of unemployment:*
3. *Why is unemployment different in under-developed countries?*
4. *What strategies may be applied to reduce unemployment in developing countries?*
5. *Why might tackling unemployment have an adverse effect on inflation?*
6. *What do you think would be the worst consequence of unemployment for the following? Give your reasons.*
 - a) *The Government*
 - b) *The person who has been out of work for over a year*
 - c) *The country as a whole*
 - d) *Foreigners working in Britain*
7. *Briefly describe how unemployment is measured.*

