

# The effects and causes of unemployment



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Unemployment is an economic condition in which individuals actively seeking jobs remain un-hired. The problem of unemployment is a world-wide reality; the developed countries as well as the developing countries suffer from it. With the passage of time it has become worse especially after the global economic crisis, and it has become a threat to social development, whilst consideration must be given to globaleconomics. The International Labor Organization (ILO) estimates that 178 million women and men are officially counted as unemployed in 2007 and another billion or more people are underemployed or working low wage jobs. These numbers has increased to 212 million in late 2009. There are many causes contribute to this global key concern such as increased population, rapid technological change, lack of education or skills and rising cost. This paper discusses the major causes of unemployment and associates them with long-lasting effects that include financial, social and psychological problems.

## **The Causes and Effects of Unemployment**

The term unemployment is used to describe anyone who is able to work, but doesn't have an occupation. Unemployment is one of the most common and chronic problems worldwide. It is a concern for individuals as well as global communities. Unemployment is expressed as percentage of the total available work force that is unemployed, but actively seeking employment and willing to work which is known as the unemployment rate. The Bahrain's unemployment rate has dropped from an estimated average of 16.4 percent in 2006 to 3.7 percent in 2010 (Minister of Labour Dr. Majeed Al Alawi, 2010).

Basically there are five types of unemployment: frictional unemployment, cyclical unemployment, structural unemployment, real wage or classical unemployment, and seasonal unemployment. The level of unemployment varies with economic conditions and other circumstances. The causes of unemployment include increased population, rapid technological change, lack of education or skills and rising cost lead to financial, social and psychological problems.

There are four main causes of unemployment. Firstly, the increased population which leads to higher unemployment rates. As the number of people who are looking for jobs is increasing, it is more difficult to arrange jobs for all these huge numbers of workers. In this situation the demand for work will be more than the available occupations. This will result in increased number of unemployed individuals. An unemployment situation continues as long as the demand-supply gap persists. This is very obvious in countries like China and India.

There is a global rapid technological change which plays a big role in the increased unemployment problem. Many jobs which were handled by hands are being done by different machines and technology nowadays. The new advanced technology replaced the low skilled or unskilled workers in different factories. This made production faster and more accurate, but it resulted in more unemployed people. For example; when personal computers replaced typewriters, typewriter become unemployed and had to find other industries to be employed in. Additionally, according to the International Labour Office technological progress may have had a more substantial impact. The new technological advances have eliminated the less

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complicated tasks; while at the same time require workers to have higher levels of skills. However, it is doubtful whether technological change is leading to a net destruction of employment, if both direct and indirect impacts are accounted for. (Combating Unemployment and Exclusion: Issues and Policy Options, Contribution to the G7 Employment Conference submitted by the Director-General of the International Office, Lille, 1-2 April 1996. ISBN 92-2-110158-4. International Labour Office, Geneva, 1996.)

The third cause of unemployment is lack of education or skills for employment. This happens when the qualifications of a person are not sufficient to meet his job responsibilities. If the education was not directed towards the labour market then a mismatch occurs thus leading to structural unemployment. These individuals face difficulties in learning new skills applicable for the required job e. g. computer skills, management and communication. As the need for skilled and educated workers increase for employers, the employment opportunities for those without a college education decrease leading to higher unemployment rate. (Morgan Drake Eckstein , nd)

Unemployment can be due to the rising cost. The rising cost makes it hard for the companies to pay the usual optimum salary for the employees or even the minimum wage in some cases. Hence, the employees reject low wage jobs and leave the companies. For example if the price of petrol or electricity has increased this definitely will affect the industries or factories which depend on these energy sources. Moreover, sometimes companies need to cut down the budget due to an economic crisis, industrial decline, company bankruptcy, or organizational restructuring, so the number of

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employees is reduced or some positions are cancelled which increases the unemployment rates.

There are three major effects of unemployment. First, the financial problems which are rising from prolonged unemployment. It is known that we can not buy anything without money; the constant income buys food, clothing and shelter. Due to the loss of income, unemployed individuals will be unable to earn money to meet financial obligations. For example, people who fail to pay mortgage payments or to pay rent will lose their housing properties and become homeless. Unemployment also prevents one from doing many things and involving in different activities e. g. travelling. Consequently, this affects the national economy leads to poverty. As a result of the financial crisis and the reduced overall purchasing capacity of a country the unemployed individuals are unable to maintain the minimum standard of living.

There are many obvious and well-documented social problems which are caused by unemployment. Because of the increased spare time and stress there will be an increase in the rates of alcoholism, drug abuse and domestic violence. Moreover, high unemployment often results in increased marriage breakdown, divisions and discrimination in society, suicide rates and crime rates especially among the young (Garry Ottosen and Douglas Thompson, 1996).

Unemployment also has been connected to the impaired family functioning as it affects the parents' interactions with their children and their spouse as well. Unemployed parents spend more time with their children, but the

quality of these interactions suffers in comparison with those of employed parents. (Liker and Elder 1983; Barling 1990) On the other hand, it is not clear how the unemployment play a role in these adverse events and what is the significance of other related factors.

Unemployment affects a person psychologically too. Numerous studies have revealed a relationship between unemployment and lack of self esteem and confidence leading to depression. Besides, there is an increased anxiety and stress levels which lead to psychosomatic diseases, personal worthlessness and powerlessness. In a study on the “ Influence of the Social Environment on Psychology” conducted in 1979 by Dr. M. Brenner it was found that every 10% increase in the number of people unemployed on average causes an increase of 1. 2% in total mortality, a 1. 7% increase in cardiovascular disease, 1. 3% more cirrhosis cases, 1. 7% more suicides, 4. 0% more arrests, and 0. 8% more assaults reported to the police. Furthermore, it has shown that long period of unemployment can also reduce the life expectancy of workers by about 7 years (Alain Anderson, Economics. Fourth Edition 2006)

In conclusion, there are different causes of unemployment around the world. The top causes are increased population, rapid technological change, lack of education or skills and rising cost. The various effects of unemployment include financial, social and psychological problems. Unemployment has become a major problem which affects our life, health, economy and community. So countries should build more companies and factories in order to provide more opportunities and positions to respond to the need of the increased population. Moreover, there should be unemployment insurance to

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help unemployed individuals in their financial problems till they find a job. It is important also to utilize the vocational education along with other skills courses' in order to prompt the education and skills of the workers to meet the labour market need.