The unemployment in europe

Analysis Of The Unemployment In Europe

Introduction

From this chart, it shows that the unemployment rates from 1980 to 2010 for the five world's leading countries, France, Germany, Japan, the United Kingdom, and the United States.

From 1980 to 1984, the unemployment rates of the UK, Germany and France increased approximately to 12%, 10% and 8% respectively. From 1984 to 1990, the unemployment rates of the UK started to go down. It meant that the employment rate of the UK was rather ideal. In another aspect, the unemployment rates of Germany and France were quite stable and had the tendency of decline. Unfortunately, the unemployment rates of the UK, Germany and France went up again after 1990. Among the three European countries, the UK enjoyed the unemployment rate which decreased dramatically from 1993. Whereas the unemployment rates of Germany and France were unstable, they went up and down. Until 1997, the two countries' unemployment rates became optimistic.

Although the unemployment rate of the United States increased from 1980 to 1982, its unemployment rate began to decline after 1982. However, in 1989, the unemployment rate of the United States went up again. Fortunately, the United States made its unemployment rate become lower and lower from 1992 and the rate reached its historical lowest point with 4%. General speaking, the United States performed very well to control its unemployment rate.

Among the five countries, the unemployment rate of Japan was much more stable. It was between 2% and 4% from 1980 to 1997. Just after 1998, the unemployment rate of Japan reached to 4%. In addition, it continued to go up to nearly 5% in 2002.

Let us focus on the years from 1998 to 2008. During the 10 years, the five countries except Germany enjoyed the low unemployment rates all with lower 10%. In another aspect, the unemployment rates of the UK, the United States and Japan could be well controlled. They were all equal to or below 5%.

Critical Discussion

Orthodox Keynesian

It focuses on unemployment. However, it is simply a reflection the economic problems prevailing in Britain in the entire interwar period and the Great Depression (Mulhearn, 2009). In addition, inflation is not an item on the policy agenda of governments. For example, in the United States, prices actually fell by about a third during the Great Depression. Inevitably, this meant that the orthodox Keynesian treatment of inflation was not well developed (Mulhearn, 2009).

Unemployment was increasing in the early 1970s. Notions of full employment at 2. 5% appeared elusive and economies were experiencing stagflation. Unemployment and inflation were both rising together. It shows that the Keynesian policy does not prescribe for this problem (Mulhearn, 2009).

Keynesian Economics

Keynesian economics argues that private sector determinations sometimes result in incompetent macroeconomic consequences and therefore advises active policy responses by the public sector, including monetary policy actions by the central bank and fiscal policy actions by the government to make output over the business cycle stable (Keynesian, 1936).

Keynesian (1936) contended that aggregate demand for goods might not be sufficient during economic downturns, resulting in unessential high unemployment and losses of latent output. Keynesian (1936) argued that government policies could increase aggregate demand, leading to increasing economic activities and making unemployment and deflation go down.

A central assumption of Keynesian economics is that, in certain situations, no strong automatic mechanism makes output and employment move to full employment levels. This assumption conflicts with economic approaches that presume a general tendency towards an equilibrium (Keynesian, 1936).

Keynesian (1938) indicated that the decision of wages was quite complex. First, he (1938) argued that it was not real but nominal wages that were set in negotiations between employers and employees. Second, nominal wage cuts might be hard to put into practice due to law and wage contracts.

Also classical economists consented that these exist. They advised canceling minimum wages, unions, and long-term contracts, rising labor-market flexibility. However, to Keynes, people would resist nominal wage reduction, or without unions, until they saw other wages decline and a decline of prices.

Keynesian (1936) also argued that to increase employment, real wages had to decline: nominal wages would have to go down more than prices. However, doing like this would reduce consumer demand so that the aggregate demand for goods would fall. This would in turn reduce business sales revenues and expected profits. Investment in new plants and equipment—perhaps was discouraged by former excesses. Instead of raising business expectations, wage cuts might make matters worse (Keynesian, 1936).

Keynes argued that the main cause of unemployment lay outside the labour market – in the conditions prevailing in the economy as a whole.

That was demand-deficient unemployment and it could only be tacked by policies which affected the economy as a whole. It meant using expansionary fiscal policy to add to aggregate demand.

Fiscal policy is the use of government expenditure and taxation. Expansionary fiscal policy meant that more government spending and lower taxes. Moreover, Keynes preferred more government spending – it was quicker acting and more direct than lowering taxes (Mulhearn, 2009).

Unemployment can arise inside the labour market too. They are frictional unemployment and structural unemployment. Frictional unemployment arises when workers quit their jobs but do not find new ones straight away – it's also called search unemployment. Structural unemployment arises from structural change in dynamic economies – it's also known as mismatch unemployment. As old industries decay, so too can the skills associated with them. Workers released from these industries may take time to develop new skills, or may not be immediately prepared to migrate to other places where there are more vacancies. However, in the Keynesian view, these are relatively minor categories. The Great Depression – or indeed the UK recessions in the early 1980s and early 1990s – cannot be explained by frictional or structural unemployment (Mulhearn, 2009).

New Keynesian Economics

New Keynesians assume prices and wages are " sticky", which means there is no need to adjust to change them in economic conditions instantaneously.

Wage and price are sticky and other market failures appear in New Keynesian models, indicate that the economy might be unsuccessful to get full employment. Therefore, New Keynesians argued that macroeconomics were stabilized by the government (using fiscal policy) or by the central bank (using monetary policy) could lead to a more competent macroeconomic consequence than a laissez faire policy (Gordan, 1990).

New Keynesian economists completely agreed with New Classical economists that in the long run, changes in the money supply are neutral. However, due to prices are sticky in the New Keynesian model, an increase in the money supply does increase output and make unemployment lower in the short run.

Monetarism

It is able to simultaneously incorporate both inflation and unemployment into an analysis.

The natural rate of unemployment is determined inside the labour market and any attempt to reduce unemployment below the natural rate will only work in the short run. Once expectations of inflation have been revised the economy will revert to the EAPC. Moreover, continual attempts to reduce unemployment using expansionary fiscal and/or monetary policy will simply fuel inflation. Therefore, the optimal macroeconomic strategy for governments is to only control inflation. The natural rate may fall or rise. It depends upon the level of competitiveness inside the labour market (Mulhearn, 2009).

Unemployment may arise inside the labour market. Friedman's analysis of the cause of inflation is complemented by his notion of the natural rate of unemployment. Monetarist argued that governments should just keep to a monetary rule in order to do what is within their competence – control inflation.

New Classical Economics

Some assumptions are common to most New Classical models. First, all agents are assumed to be infinitely lived, rational and possess rational expectations. At any time, the macroeconomics are assumed to have a unique equilibrium at full employment or potential output and this equilibrium is assumed to always had been achieved via price and wage adjustment (Kirman, 1989).

It is known that expansionary policy could reduce the unemployment below the natural rate but only until agents adjusted their behaviour to consider new expected rates of inflation. Similarly, contractionary policy could reduce inflation but at the temporary cost of unemployment above the natural rate (Kirman, 1992).

Findings

UK

In 1993, the economy of the UK was hard hit and the unemployment rate increased a lot. In 1980s, the government implemented deflationary fiscal policy which caused the unemployed go up again. In 1990s, the Labour Government carried out the reform of welfare and employment policy so that the overall unemployment rate showed a downward trend (Zhang, 2004).

Germany

The reasons why the unemployment rate of Germany is high are that there are active and passive unemployment. Active unemployment is that when worker finds the job which is just above the level of benefits, but well-being is reduced. It results in reduction in workers' real income so that they do not want to go to work. Passive unemployment is that high efficiency and the minimum wage standard, coupled with the natural rate of unemployment that it has a higher unemployment rate.

Another reason is the Germany's " Rhine model" of social welfare is so good that some of the income of unemployed people is higher than the people at work, which results in unemployment (Kelvin, 2007). Therefore, some people would rather do not want to engage in low-income jobs.

France

In France, the growth of the national economic is slow and the loss of some public enterprises increased the burden on the State. From 1980s, the authorities proceed with the implementation of privatization of enterprises.

The social security on welfare and unemployment benefits policies are rather tolerant. There are a considerable number of people who would rather rely on nearly 2000 francs per month and various kinds of welfare benefits from government to sustain their living. The relevant labour laws set the minimum wage and working hours with no more than 39 hours per week. The number of people who receive the minimum wage is about two million and they want to increase wages on a regular basis. Therefore, many business owners prefer hiring temporary workers, seasonal workers or cheap illegal workers to increasing the official number of employees (Fox, 1996).

Conclusion

In my view, the Keynesian Economics and the Monetarism offer the most satisfactory explanation of the apparently intractable nature of European unemployment.

It is knows that the financial crisis in 2008 causes a great shock to the global economy. It still has influence in the future. The unemployment rate would go on increasing in the recent years.

Limitation

Due to the level of my writing and the English ability, some ideas could not be clearly expressed. In addition, the limitation of the time and so much reading, some theories could not be fully understood.

Although the work has been completed, the research on the unemployment would be continued. More materials about the macroeconomics would be read.

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