

Good the effects of unemployment on the economy research paper example

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At various stages of human development the workforce performance was different. Primitive society was characterized by full employment, whereas, during the feudalism era, there was an absolute and relative agrarian overpopulation of free citizens, some of whom became soldiers, in order to do at least something. Under the conditions of frequent capitalism in the industrial stage of development, when market economy dominates in most of the countries, we have a new socio-economic phenomenon — army of unemployed.

Unemployment is a complex socio-economic phenomenon in which the economically active population is unemployed. In a market economy, unemployment is a result of the interaction between labor demand and its supply. In advanced economies, unemployment is usually caused by the increase of the production, and its structural adjustment, or it can also be the result of the technological progress. On the one hand, unemployment can be considered to a stimulator of the working population, on the other — a great social calamity. « Unemployment occurs when a worker departs from a job and spends time finding a new job. In addition, unemployment arises when a person looks for a new job after a period out of the labor force.

Unemployment varies positively with the separation rate and negatively with the job-finding rate». (Hall, 2006)

One of the most successful attempts to determine the impact of unemployment on the gross national product was made by American scientist Arthur Melvin Okun. While studying the effect unemployment has on the economy, he came up with the law, according to which the annual growth of real GDP by about 2. 7% keeps the unemployment rate constant.

The additional growth of the real GDP by 2% reduces the unemployment rate by 1%. Similarly, a reduction of the GDP growth rate by 2% causes the growth of unemployment by 1%.

This law indicates, that a certain amount of GDP growth is necessary in order to prevent the unemployment rate from growing. With the increase in the number of working-age population and labor productivity, annual growth of the real GDP has to be at least 2, 5—3%, and it has to be directed for job creation, what will eventually keep the unemployment rate at a certain level.

« If the economy is producing above its natural rate (as a result of economic fluctuations), firms are producing more than their long-run aggregate supply curve indicates they should. One of the ways firms temporarily produce above their natural rate is to hire more workers. As firms do this, there are fewer people looking for work and the unemployment rate falls. If the economy is producing below its natural rate (as a result of economic fluctuations), firms are producing less than their long-run aggregate supply curve indicates they should. Because firms are producing less, some of their workers are standing idle. Instead of paying these workers to stand around, the firm could lay them off. These workers start looking for work elsewhere, causing the unemployment rate to increase.»(Euro Economics: Ocun's law)

Okun's Law makes it possible to determine the normal unemployment level, which is considered to be increasing as a result of a market economy. « It is widely accepted that there may be some « natural» unemployment at the interaction of the supply and demand curves, but natural unemployment is unlikely to vary much from one year to the next». (Pedersen, Lund, 1987) For example, in 1960s the natural unemployment rate was 4%, in 80s the

number was increased to 6-7%. These days, the number fluctuates between 6-7% (Forbes, 2014). In other countries it might be lower, because of the smaller scales and the mobility of the labor market (Wagner, 2000)

The impact of unemployment on the economy cannot be assessed only as a negative. Unemployment has constructive and destructive functions. « The high incidence of unemployment connotes inefficient use of the labor resources available in the country or region under study». (Ola-David, 2009)

Unemployment costs society a lot. To begin with, one has to mention that in case of a high unemployment rate, there is a forgone output — deviation of actual GDP from potential due to incomplete use of the total labor force (the higher the unemployment rate , the greater the backlog of GDP). Also, the reduction of federal budget revenue by reducing tax revenues and lower revenues from the sale of goods. And the last major loss, appears in direct loss of personal disposable income and declining living standards of the unemployed citizens and their families.

Unemployment promotes effective employment and competitiveness in the labor market. With the normal rate of unemployment, employees adapt of labor market requirements, what is also a positive thing. Due to unemployment, labor resources are mobile in time and space. And the last significant positive impact of unemployment on the economy is the natural regulation of supply and demand of labor in the regional, sectorial, vocational and professional aspects. Also, according to most economists, unemployment is an essential condition for the normal and smooth functioning of the economy. It is, in particular, ensures the provision of labor. Employers have the opportunity to select highly qualified professionals. This

stimulates workers to systematically enhance their professional skills.

As for the destructive impact of unemployment, one has to say that is it greater than the positive impact. « Unemployment can be considered to be an indicator of a lag, as businesses always lay people off as long as they can during the complicated times». (BBC 2014) It is not only an economic but also a serious social problem. Moreover, social loss from the unemployment is greater than economic loss. The effects of unemployment are very diverse and multitudinous. To assess the extent of this influence, it is advisable to conduct a study of both economic and social consequences of unemployment. The presence of unemployment in the community indicates partial utilization of labor resources. Excessive unemployment has undoubtedly a negative impact on the entire economy. First of all, a vacant labor means that the economic potential is underutilized, causing the direct economic losses resulting from natural and actual unemployment (and hence employment). Secondly, unemployment binds the trade union demands for higher wages, what works in favor of union business requirements. Also, a worker who has been unemployed for even a short period loses skills and obtaining new skills and the adaptation to the new conditions are often painful for him. The next cause results in a direct drop in living standards previously achieved. The rise of the unemployment rate reduces consumer, investment demand, reduces the amount of savings in the population. Unemployment has direct economic costs to society. When some people remain out of work, this means that the production is reduced compared to the amount that could be achieved under conditions of full employment. As it has been already discussed, the increase in unemployment by 1% leads to a

loss of almost 2% of annual production, what means that society loses a certain amount of unmade products and services. At the micro level, unemployment is a major cause of a decline in the efficiency of labor and production as a whole, i. e., deterioration in the quality of products and reduction of its competitiveness. This is because individuals are forced to accept prestigious, uninteresting work for them, work they do not like. That is where low efficiency and poor quality of work come from. Moreover, in these circumstances it is impossible to form stable production teams. Socio-economic effects of unemployment can be formulated in the following way. There is impairment; the underutilization of human potential of the society, the quality of life of the unemployed and their family members deteriorates increasing pressure on the wages of employees by the competitive labor market. Unemployment can also cause the formation of a category of people with deviant behavior, prone to acts contrary to accepted social norms and values. « Joblessness is also associated with some serious illnesses, although the causal links are poorly understood. Studies have found strong links between unemployment and cancer, with unemployed men facing a 25 percent higher risk of dying of the disease. Similarly higher risks have been found for heart disease and psychiatric problems.» (Baker, Hasset, 2012)

Unemployment, whatever way it is not measured — it's always a tragedy for those who are unemployed and cannot legally obtain a stable source of livelihood. Prolonged inactivity leads to social degradation of man: he loses his professional skills, tends to look for an income in criminal and semi-criminal spheres. There is a link between the rise in suicides, murders, thefts,

mental illness, mortality from cardiovascular disease and high unemployment. Finally, mass unemployment results in significant social and political change, often in the form of very acute social conflicts. Many politicians are well aware of this and, therefore, try to avoid high unemployment in their countries.

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