

# Consequences of unemployment on society

[Economics](#), [Macroeconomics](#)



Research for the consequences of unemployment \* Improve the current account position Less spending on imports Some products for the domestic market will be sold to the export market instead Good because it may increase AD \* Hysteresis -The hysteresis effect describes a possible consequence of a country experiencing persistently high rates of long term unemployment. Hysteresis means “ to be behind” and it relates to the economic costs of unemployment because of the damage that unemployment does to the skills and employability of those people out of work. The longer someone remains out of a paid job, the less attractive they become to a potential employer. Technical and social skills can become eroded. The incentives to prolong the search for work are damaged and the end result can be an increase in “ core” structural unemployment and a consequent rise in the natural rate of unemployment. -Overcoming the problem of hysteresis is now a major policy issue within the European Union where several countries are suffering from extremely high and damaging rates of unemployment, much of which is long term in nature. \* firms can expand \* Loss of tax revenue Unemployment will immediately cause a fall in direct tax & indirect tax. As lesser number of people is working, government receives lesser income tax. As firms felt the impact of negative multiplier effect, they make lesser profit or losses. So government collects lower corporation tax. Also since lesser people spend money onto buying goods & services, there would be fall in VAT Fiscal costs to the government High unemployment has an impact on government expenditure, taxation and the level of government borrowing each year An increase in unemployment results in higher benefit payments and lower tax revenues. When individuals

are unemployed, not only do they receive benefits but also pay no income tax. As they are spending less they contribute less to the government in indirect taxes. This rise in government spending along with the fall in tax revenues may result in a higher government borrowing requirement (known as a public sector net cash requirement) \* Decrease cost push and demand pull inflation One benefit of rising unemployment is that it helps to keep the rate of inflation down since high unemployment is often associated with a reduction in the bargaining power of workers to bid for higher wages and salaries. \* loss of output -Persistent unemployment is a sign of market failure because unemployment is a waste of scarce resources and leads to a loss of potential output and a reduction in allocative efficiency. The economy is operating below the maximum output it could achieve. This might be illustrated by making use of a PPF or using the concept of the output gap. 3. Loss of national output: Unemployment involves a loss of potential national output (i. e. GDP operating well below potential) and is a waste of scarce resources. If some people choose to leave the labour market permanently because they have lost the motivation to search for work, this can have a negative effect on long run aggregate supply and thereby damage the economy's growth potential. Some economists call this the " hysteresis effect". When unemployment is high there will be an increase in spare capacity - in other words the output gap will become negative and this can have deflationary forces on prices, profits and output. - When unemployment is rising for example during a recession, real national output will be contracting and the economy will be operating well below full-capacity. This is shown in the chart below, notice how during the depression during the

early 1990s, the output gap became negative as the unemployment rate climbed towards 10 per cent of the labour force. Once the recovery had become well established, unemployment began its descent and the economy moved towards macroeconomic equilibrium with the negative output gap closing. Around the turn of the decade, the UK economy was estimated to be running pretty close to its potential level, with real GDP growing just above the trend rate of 2.5% per year. Unemployment drifted lower, mainly as a result of successful attempts to bring down structural and frictional unemployment. In 2005 however there was a marked economic slowdown, the output gap became negative again and we started to see the rate of unemployment edge higher. No recession, but we again saw the cyclical relationship between the growth of output and the rate of unemployment. Labour, just like land & capital is considered as factors of production. Higher unemployment rate means lesser labours are being hired in the market. Therefore this necessarily translates to lesser goods & services produced in an economy. The fast rising unemployment in major developed economies such as France, Germany, US, UK & Japan largely explains why these countries are already officially in recession (unemployment & contraction in GDP are inter-related actually). Recession is defined as 2 successive quarters of negative growth. However, if job losses are due to firms becoming more capital-intensive (use more machineries), then real GDP may not fall.

Conclusion: The duration of unemployment affects the economic and social costs. It is clear therefore that unemployment carries substantial economic and social costs. These costs are greatest when long-term structural unemployment is high. Indeed many governments focus their labour market

policies on improving the employment prospects of the long-term unemployed.