

# Theories of unemployment: application to the uae



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## **Introduction:**

Unemployment is defined when an individual is actively seeking the for the job but is unable to find the work (Solow, 1980). This paper attempts to explore various unemployment theories and then find the best suitable theory to apply to the UAE economy. Advantages and disadvantages of the chosen theory will also be discussed in the paper. Recommendations will be provided to reduce the unemployment in the UAE. The paper is organized as follows: next section defines and discusses five unemployment theories, while the best suited theory/theories will be discussed in the third section. The fourth section will be composed of the strategies to be employed to reduce unemployment in the UAE. Recommendation and conclusion will be provided in the last section.

## **Unemployment theories:**

Since the great recession in December 2007, many countries whether developed or developing has experienced a high rate of unemployment. There are different types of unemployment. In this section, following five types of unemployment are discussed with reference to the empirical evidence.

## **Frictional unemployment:**

A switching or transition between the jobs is called as a frictional employment. The transition between the job can be for many reasons which include: looking for a better-paid job, migration from one state to another, from part time to full time employment or the vice versa. If a person who seeks a job, gets according to his requirement or desires within a week will

not be counted as a frictional unemployment, but this is not possible in a real life situation. Monetary and fiscal policy can also not bring the frictional unemployment down without putting an extra inflationary pressure on the economy (Bruce and Marshal, 1976).

## **Structural unemployment**

A mismatch between the kind of the job and the availability of the skill causes a structural unemployment in a country (Peter, 1969). It is the case with most of the countries that employers do not find the required skill and the labor does not find the required or an interested job (Peter, 1969). So, the workers do not take the jobs which are not highly paid or for which they do not have an interest, which increases the unemployment in the country. On the other hand, companies also do not hire individuals who do not possess the right skills and required expertise, so a structural unemployment takes place.

## **Technological unemployment**

Boinovasky and Trautwein (2010) discussed the technological unemployment in their research paper and focused on the Schumpeter's writing on unemployment from 1908 to 1954. Shumpeter (1926, 1928, and 1931). Schumpeter concluded that all frictional, structural, and cyclical unemployed can be summed into one unemployment type which we may call as a technological unemployment. According to Neiser (1942) a technological unemployment is the stepchild of economic science and hence cannot be avoided.

## **Regional unemployment**

Unemployment due to the regional differences is called a regional unemployment. Therefore, a structural unemployment occurs in the local or regional area it is called regional unemployment. For example, an unemployment in the New York instead of the USA is known as a regional unemployment.

## **Seasonal unemployment**

Unemployment due to seasonal changes is called seasonal unemployment. Many individuals get unemployed in extreme hot season in UAE and in extreme winter in the UK.

## **Best unemployment theories for UAE (200)**

Chart 1: UAE unemployment rate Historical Data Chart

The unemployment in the UAE is presented in the chart 1. United Arab Emirates faced an increase in the unemployment Rate from 4.3 in 2010 to 4.6 in 2011 (Central Bank of UAE, 2011). Since 1985 till 2011, a high unemployment rate was observed in 2011, which was 4.6. Ann unemployment has increased substantially over the last six years and it jumped from 2.17% in 2007 to 4.6% in January 2012. The definition of an unemployment in the UAE is the same as in other countries; a person looking actively for the job but unable to find the work is called an unemployment.

Technological unemployment best identifies the UAE economy. The major reasons behind an increase in the technological unemployment in the UAE are listed below:

Increase in the population which is unskilled or not technologically advanced.

Technological advancement has substituted human with machines and capital.

An increase in the migrants from other countries in the UAE has increased the competition. So there is an increase in the technological unemployment.

Few other causes have been identified in the report TANMIA (2011), which is presented in the chart 2 below.

Source: TANMIA, 2011

## **How to reduce unemployment in the UAE**

### **Emiratisation**

To employ the residents and citizens of the country in a meaningful and efficient way by the government is called an emiratisation. This is a very active program in the UAE. It basically promotes the country's human resource in an optimal manner to get employed and encourage the multinationals to rely on the countries' own human resource.

### **Advantages**

Below is the list of advantages of the Emiratisation:

It adds to the growth and sustainability of the companies and manufacturers when they have to rely heavily on the local residents of the country.

The UAE culture will be promoted and spread.

It supports and contributes to the growth and learning of the UAE nationals for the betterment and benefits of the human capital development.

## **Disadvantages of Emiratization**

The major disadvantage of the Emiratization is the forced reliance on the employment of the UAE nationals. The private sector is still lagging behind the public sector and the UAE national are not willing to work in the private sector.

## **Conclusion and Recommendation**

The report presents an overview of different unemployment theories with reference to the academic literature. The major theories discussed in this report include structural, regional, seasonal, frictional, and the technological unemployment. The analysis of these theories reveals that UAE is mostly suffered without the technological unemployment. As, the country is one of the freest economy in the world with the lowest tax rates, so it is the center of all big multinationals to set-up their plants in the UAE. After having installed their plants and machinery, now their employers seek for highly technical and skilled employee.

To overcome the unemployment in the UAE, the government will have to take the following actions:

It should initiate active and effective labor market programs which should target at least 5000 job seekers per annum to lower the unemployment in the region.

Khalifa fund should be established for amortization empowerment, which will enhance the domestic labor force demand.

Government should focus on the foreign labor policy to restrict the jobs for them and improve an employment rate for the UAE nationals. Government should also improve the participation rate in the private sector which will help lower the unemployment rate due to technological advancement.