

Unemployment in vietnam – the application of john maynard keynes theory essay sam...

[Economics](#)



Introduction:

During the Great Depression in 1930s, the unemployment rate increased significantly that lead to many problems and changes in the world's economy. John Maynard Keynes, a British economist, had come up with a solution which could reduce unemployment. He noticed that when people received a low amount of salaries, they spent less, fewer goods were produced and the economy would go down. Keynes suggested that the government should get involved to solve the problem. As of today, Vietnamese people are facing the high unemployment rate, especially the young generation. This paper will discuss the Keynes' theory and how it can be applied to help one of the most important factors contributed to the economy of Vietnam - the labor. Understanding:

At the beginning of the Great Depression, the biggest economic crisis of all time, many banks had to close and it also affected businesses because of the stock crash. People lost their houses, money, jobs and the whole economy fell down significantly. During this darkest time, millions of people were unemployed because companies could not pay them. They could not find any job so they travel from place to place, along the US. Many people had to suffer loss, homeless and even famine.

Seeing the situation was getting worse, many economists tried and planned many solutions to solve this problem. One of them is John Maynard Keynes, a British economist, suggested that all the companies should reduce wages so that they can have more money to pay the workers. Also, he came up with the idea that the government should get involved by spending deficits to cover the loss. At first, his idea received many disagreements because the <https://assignbuster.com/unemployment-in-vietnam-the-application-of-john-maynard-keynes-theory-essay-sample/>

others thought it would be more complicated and some people simply do not trust the government. This theory is opposite with Adam Smiths' classical theory, which is " the invisible hand" pushing the market. However, the economy at that time could not recover itself. When people are unemployed, they would spend less on buying goods and the whole market would collapse.

According to Keynes' theory, if wages are reduced, the company will have more money to pay for the workers. And if the workers get paid, they are willing to produce goods and spend money for their livings. Therefore, the economy will run again. He believed that recession and the high unemployment are caused by insufficient spending in the private sector. As a result, to achieve full employment and sustained economic growth, the government needs to actively intervene to increase spending, if necessary through deficit financing. The labor is also a scarce source that defines the health of one country's economy. This is a law of all time. Many businesses nowadays are established with modern equipment but they are still on the way to go bankrupt. One of the main reasons is: the lack of human resources management. Economists have considered this as a major issue. If a country does not have a good approach on this path, they may lead the economy into trouble. In my opinion, John Maynard Keynes' theory also can be applied in today's world. There are two main advantages.

Firstly, according to Keynes' solution, people can be full employed by government's spending can reduce unemployment rate effectively and improve people's living standards. As mentioned above, labor is always an

important factor which contributes to the pathway of the economy. When the rate of population is booming (yearly growth accounted for 1.10% - 2013, according to Geohive 2000-2013, current world population), there will be a shortage of jobs to offer, people have no choice but stay at home and apparently, they spend much less for their livings. Moreover, if companies pay less than the amount that the workers can produce, they will independently quit the job and find a better one. This also leads to the unemployment rate.

However, with the government's support, with current spending (expenditure wages and raw materials) and capital spending (public services and facilities such as bridges, hospitals, schools), not only the unemployed people can be benefited, but also the people livings can be improved radically (Economis Online, Fiscal policy, government spending). From those physical assets, many jobs are created and many places that people can work in, which mean they will have more opportunities and the unemployment rate will be reduced.

According to The Wall Street Journal article about Vietnam's situation when unemployment rate is high, published on October 3, 2012, wrote: "The state-run Saigon Times reported Wednesday that the government paid out 1.41 trillion dong (\$67.2 million) in unemployment insurance to 298,200 claimants in the January-August period, up from a total of 1.07 trillion dong for all of 2011." Based on this spending, the unemployment rate decreased from 2.88% (2010) to 2.17% (2011). Secondly, not only could John Maynard Keynes' theory reduce unemployment rate, but also stabilize the financial

market and encourage people to spend money. Businesses cannot run well without banks' lending. Because of the economic crisis, many banks have to face bad debts. If the government can provide money, they can keep the business by lending and the economy will work again. Hence, the government can manage the financial systems and keep it flow effectively. Moreover, when people have money in their hands, they can spend it and the government can take it back through taxes. There will create a circle of receiving and spending, which makes the economy of one country flows and develops.

According to a new article on The Economist, published on July 9th 2013, wrote: " A mostly rich group of countries, consumer spending was the main driver of economic growth in the first quarter of this year." They added the contributions to growth included consumer spending, investment, government spending and trade. Therefore, if a country manages consumer spending and government spending well, they will drive the economy. However, government's spending may lead to one of the most considering issues, which is inflation. Because if there is too much money in the market, the value of money will be decreased. There are many negative effects of inflation. Firstly, if the value of money cannot be managed, this can discourage long-term investments and savings because of the uncertainty and confusion that would occur in the future. Secondly, this leads to uncompetitive economy - difficulty when trading between countries because of the changing in currency.

Application:

The article is about the high proportion of unemployment in Vietnam was mostly the young generation (from 15 to 24). Not only about the unemployment, but also four million or over 53 percent of the young people are in a vulnerable employed situation. They usually work for their family's business or self-employed, which are not productivity, low-income jobs and they have to work under poor conditions or lack of working protection. The solutions for this problem are reforming education, training system and providing finance and business's support from many government's departments such as ILO Vietnam. By those investing sources, many organizations can promote productive job opportunities for young people. ILO Vietnam director said: " Young people deserve a better start and equal treatment, otherwise Vietnam would lose huge contribution to its socio-economic development". The majority of people is low-paid in Vietnam.

The country's economy has to face many challenges in the competitive market. This is also one of the most common reasons which leads to unemployment. Because the workers are not satisfied with the salaries, they refuse to take the jobs. This article proved that Vietnamese people is using John Maynard Keynes' theory to improve the situation. By receiving an amount of financial support, young unemployed people can be trained and educated with better conditions and offered more jobs with a higher and acceptable salary. However, as same as many countries, when applying Keynes' theory, Vietnamese people have to face with another problem - inflation.

The following paragraph will illustrate some possible recommendations to not only improve the unemployment but also can maintain the inflation rate. The government should control their spending's flow efficiently and strictly. They should encourage people to spend money by providing public services, facilities, entertainments, education and healthcare to contribute and develop the country's economy. Besides, the government should consider carefully about the amount of investing. According to Financial Times, published on April 6th, 2012, the Vietnam has uncovered \$1.5 billion of wasteful spending in Petro Vietnam, Song Da, and some other state-owned companies, which had mismanaged and made bad decisions. Only for Petro Vietnam, Dinh La Thang, who just promoted as a transport minister, was responsible for about eighteen trillion VND loss of the country's budget. Instead, government should spend more for hospital and school facilities, job training programs or unemployment insurance to raise people's knowledge as well as working skills.

Conclusion:

In conclusion, John Maynard Keynes had contributed a new light to overcome the darkness of Great Depression. I strongly believe his theory, to some extent, can be applied in the modern world to reduce unemployment rate, especially with the young generation, and increase people living standards. However, at the same time, his theory leads to the rise of inflation, which is also negatively affected to the market. Accordingly, Vietnam should have a new direction to maintain the human resource as well as the growth of the economy.

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