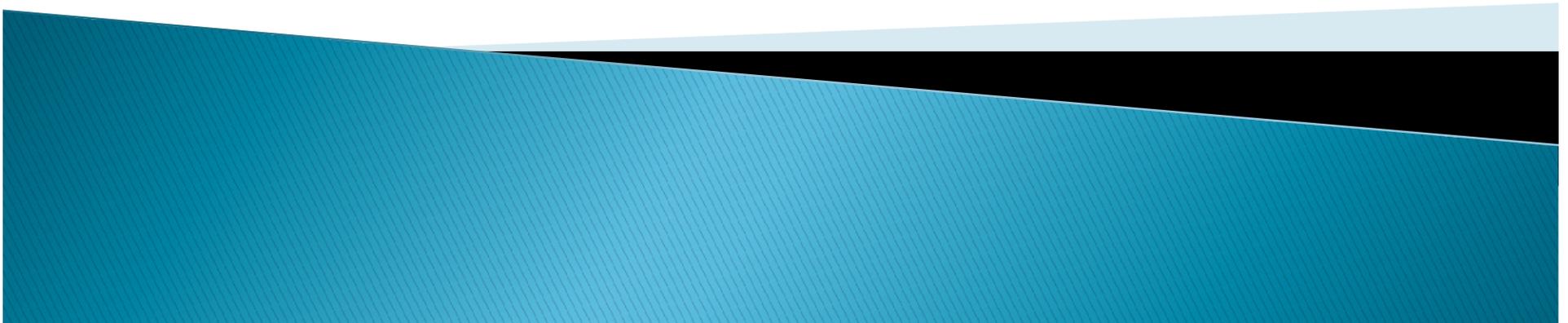


UNEMPLOYMENT AND FULL EMPLOYMENT

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Unemployment may be defined as ‘State of affairs in a country where there are large number of able bodied persons of working age who are willing to work but cannot find work at the current rate of wage level.’



Kinds of unemployment.

A. Voluntary Unemployment :-

When people do not have any desire for work or they are incapable to work.

B. Involuntary Unemployment :-

It is a situation where workers are ready to work at the current rate of wages but are not in a position to find work.



Types of Involuntary Unemployment.

1. Seasonal Unemployment :-

- ▶ When unemployment is caused by the time pattern in a particular occupation this is known as seasonal unemployment.

2. Structural Unemployment :-

- ▶ If the unemployment is the result of changes in industrial organization and the decay in old industries we call it structural unemployment.



Types of Involuntary Unemployment.

3. Cyclic Unemployment :-

The unemployment situation generated due to a recession, a phase of trade cycle.

4. Frictional Unemployment :-

The unemployment caused by friction in labor market, shortage of raw materials, machine breakdown etc.

5. Technological Unemployment :-

This type of unemployment is the result of changes in the techniques of production. The substitution of capital for labor is the main cause for this kind of unemployment.



C. Open Unemployment :-

It is a situation where the large labor force does not get work opportunities that may yield them regular income.

D. Under Unemployment :-

It is a situation when a person does not get the type of work he is capable of doing or in which a person does not get sufficient work regularly throughout the year.



E. Disguised Unemployment :-

It is a situation where a large number of workers are dependent on the same job when a few laborers can complete that work.



Principles of Unemployment.

1. Views of Classical Economists :-

The classical economists were of the view that permanent unemployment was impossible in a capitalist economic system. Full employment is a general condition and unemployment is temporary situation which resolves with time.

J. B. Say and John Stuart Mill were staunch supporters of this view.



Principles of Unemployment.

2. Marxian Theory of Unemployment :-

Marx's analysis of General law of capitalistic accumulation upholds that unemployment is an inevitable symptom of a capitalist economy. Due to the drop in ratio of variable capital in comparison to fixed capital unemployment is persistent in a capitalist economy.



Principles of Unemployment.

3. Keynes's View on Unemployment :-

The mere existence of an insufficiency of effective demand may, and often, will bring the increase of employment standstill before a level of full employment has been reached.



Full Employment

Full employment is an economic situation in which all available labor resources are being used in the most efficient way possible. Full employment embodies the highest amount of skilled and unskilled labor that can be employed within an economy at any given time.



Policy of Full Employment

According to Keynes the level of employment depends on effective demand. Two measures can be taken to increase the effective demand.

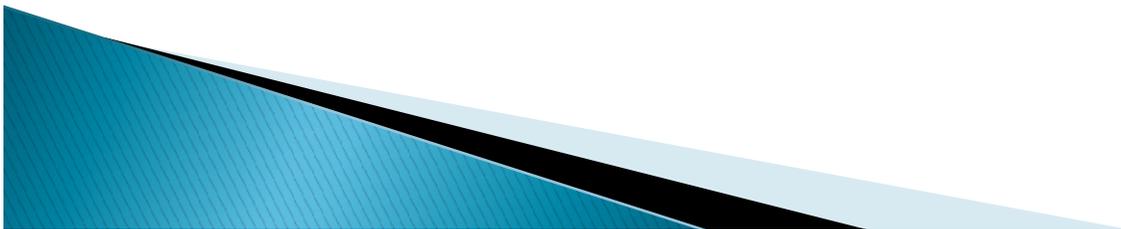
1. Stimulating propensity to consume :- Encouraging the tendency to consumption can increase the effective demand. Decrease in indirect taxes was one of the measures proposed by Keynes.



Policy of Full Employment

2. Increasing the Investment :-

Professor Keynes emphasized on increase of investment rather than increase in consumption. Investment can be of two types, Private and Government investment.



Policy of Full Employment

- ▶ Private Investment :-

a) According to Keynes there are two key factors for the private investment, marginal efficiency of capital and the rate of interest. To encourage private investment the prior should be high and the latter should be low.

Professor Keynes has suggested the following measures to achieve this goal.



Policy of Full Employment

i) Cheap Money Policy :

The Governments, through the Central Bank, lower the interest rates and facilitates the easy flow of money and credit.

ii) Taxation Policy :

Reducing the taxes on production encourages more investment.

iii) Anti-Monopoly Policy :

This increases the competition among the manufacturers and thus more investors are willing to enter the market.

iv) Policy of encouraging Foreign Investment :

This encourages the money from foreign land to be invested in the country's economy and increases employment.



Policy of Full Employment

- ▶ Government Investment :-

Keynes, well aware of the difficulties in procuring private investment, suggested the Governments to take up investment in Public works, specially during recessions. He suggested to make this investment in the areas where private investors hesitated to invest.



Policy of Full Employment– Criticism

- ▶ Fear of Inflation.
- ▶ Rise in Public Debt.
- ▶ Ineffectiveness of Cheap Money Policy.
- ▶ Infringement of Individual Independence.

