

B.A PART 1

INDIAN ECONOMICS

TOPIC :- UNEMPLOYMENT AND ITS TYPES

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Unemployment :- Unemployment occurs when a person who is actively **searching for employment** is unable to find work. Unemployment is often used as a measure of the health of the economy. The most frequent measure of unemployment is the unemployment rate, which is the number of unemployed people divided by the number of people in the labor force.

Some of the most important types of unemployment are:

1. Frictional Unemployment,
2. Seasonal Unemployment,
3. Cyclical Unemployment,
4. Structural Unemployment,
5. Technological Unemployment and
6. Disguised Unemployment!

Unemployment has been one of the most persistent and unmanageable problems facing all industrial countries of the world. At the same time, the goal of public policy has been to remove unemployment and to achieve full employment in such countries.

We attempt below the various types of causes of unemployment for an understanding of the meaning of the term full employment.

Types of Unemployment:

Before explaining the various types of unemployment, it is necessary to define the term unemployment. Everyman's Dictionary of Economics defines unemployment as "involuntary idleness of a person willing to work at the prevailing rate of pay but unable to find it."

It implies that only those persons are to be regarded as unemployed who are prepared to work at the prevailing rate of pay but they do not find work. Voluntarily unemployed persons who do not want to work like the idle rich, are not considered unemployed.

1. Frictional Unemployment:

Frictional unemployment exists when there is lack of adjustment between demand for and supply of labour. This may be due to lack of knowledge on the part of employers about the availability of workers or on the part of workers that employment is available at a particular place.

It is also caused by lack of necessary skills for a particular job, labour immobility, breakdowns of machinery, shortages of raw materials, etc. The period of unemployment between losing one job and finding another is also included under frictional unemployment.

2. Seasonal Unemployment:

Seasonal unemployment results from seasonal fluctuations in demand. Employment in ice factories is only for the summer. Similarly ice-cream sellers remain unemployed during winter and chestnut-sellers during summer. The same is the case with agricultural workers who remain employed during harvesting and sowing seasons and remain idle for the rest of the year.

3. Cyclical Unemployment:

Cyclical unemployment arises due to cyclical fluctuations in the economy. They may also be generated by international forces. A business cycle consists of alternating periods of booms and depressions. It is during the downswing of the business cycle that income and output fall leading to widespread unemployment.

4. Structural Unemployment:

Structural unemployment results from a variety of causes. It may be due to lack of the co-operant factors of production, or changes in the economic structure of the society. The word structural implies that “the economic changes are massive, extensive, deep-seated, amounting to transformation of an economic structure, i.e., the production functions or labour supply distribution.

More specifically, it refers to changes which are large in the particular area, industry or occupation.” Shifting patterns in the demand for the products of various industries have also been responsible for this type of unemployment.

There are, however, economists who argue that the higher unemployment in America since 1957 has been due to causes other than inadequate demand: (1) A faster rate of technological change; (2) a displaced worker remains unemployed for a number of days in finding a new job; and (3) most of the unemployed workers belong to blue-collar groups.

The supporters of the structural transformation thesis hold that the number of vacancies is greater than or equal to the number of displaced workers due to structural changes in a particular area, industry or occupation, and that unemployment is not due to inadequacy of demand.

5. Technological Unemployment:

Keynes failed to take into account technological unemployment that has taken place more rapidly in the post-war period. Modern production process is essentially dynamic where innovations lead to the adoption of new machineries and inventions thereby displacing existing workers leaving behind a trail of unemployment. When there is automation or displacement of old technology by a new one requiring less workers than before, there is technological unemployment.

A special case of technological unemployment is that “which is not due to improvements in the technique of production but in the technique of organisation.” It pertains to making management more efficient which may decide upon modernising existing facilities or closing down obsolete plants. In all such cases unemployment is bound to decrease.

In fact, there is little to distinguish between structural and technology unemployment. One of the causes of structural unemployment is technological change. Technological change itself causes obsolescence of skills thereby leading to structural unemployment.

Further, both structural and technological unemployment are related to inadequate demand. Technological change tends to increase output per man-hour which has the effect of raising the potential total output in the economy.

If this potential growth in output is not matched by the actual growth in output, there will be unemployment in the economy due to deficiency in demand. Therefore, modern economists are of the view that unemployment is caused by structural changes, technological changes and by inadequacy of demand taken together.

6. Disguised Unemployment:

Disguised or concealed unemployment or underemployment is a notable feature of underdeveloped countries. Such unemployment is not voluntary but involuntary. People are prepared to work but they are unable to find work throughout the year due to the lack of complementary factors.

Such unemployment is found among rural landless and small farmers due to the seasonal nature of farm operations and inefficient land and equipment to keep them fully employed. A person is said to be disguised unemployed if his contribution to output is less than what he can produce by working for normal hours per day. His marginal productivity is nil or negligible, and by withdrawing such labourers, farm output can be increased.

There are also other types of underemployed persons in such countries. A person is considered to be underemployed if he is forced by unemployment to take a job that he thinks is not adequate for his purpose, or not commensurate with his training.

Further, there are those who work full time in terms of hours per day but earn very little to rise above the poverty level. They are hawkers, petty traders, rickshaw pullers, workers in hotels and restaurants and in repair shops, etc. in urban areas. Open and disguised unemployed in urban and rural areas are estimated at 30-35 per cent of the labour force in underdeveloped countries.

