

UNEMPLOYMENT

Unemployment is where labour willing and able to work fails to find jobs at a ruling wage rate.

THE UNEMPLOYMENT RATE

It is computed using the formula;

$$\text{Unemployment rate} = \frac{\text{Number of unemployed people}}{\text{Total employable labour force}} \times 100$$

NATURE OF UNEMPLOYMENT

Unemployment may either be **voluntary** or **involuntary**.

VOLUNTARY UNEMPLOYMENT

This is a situation where jobs are available but individuals are unwilling take on the jobs at the prevailing/ ruling/ existing wage rate.

CAUSES OF VOLUNTARY UNEMPLOYMENT

1. Laziness.

Some people are naturally weak and they dislike jobs that involve manual work. They create all sorts of excuses to remain unemployed and quite often they have something to blame on the available jobs. Such people may spend their lifetime without any meaningful source of livelihood.

2. Low wages and other benefits in the available jobs.

In some cases, the unemployed consider the prevailing wage and benefits to be low. They are reluctant to take on such jobs and hence they remain voluntarily unemployed.

3. Preference of leisure to work.

There are people who believe that when they get jobs, their time for leisure and recreation will be greatly reduced. Such people choose to remain unemployed if they anticipate that the job will deny them the leisure time they are accustomed to hence causing voluntary unemployment.

4. Poor working conditions in the available employment opportunities.

Sometimes the working conditions are terrible and people prefer to remain unemployed than work under such conditions. For instance, some individuals fear to take on jobs where workers are exposed to toxic materials and thus voluntarily remain unemployed.

5. High risks involved in the available jobs.

Some jobs like serving in the army especially in war times, working in mines, etc are regarded as very risky by some people. Rather than take the risky, they opt to remain unemployed hence causing voluntary unemployment.

6. Expectation of a better job in the future.

A person may not take on the available job simply because he/ she is expecting to get a job with higher salary and better working conditions in the future. Currently, such a person faces voluntary unemployment.

7. Good economic background of the unemployed.

Some people come from wealthy families and the income got by the family is enough to cater for all members. Sometimes such people feel they do not have a reason to work because they can get all they want from the family wealth.

8. Preference to live on other peoples' incomes/ handouts/ unemployment benefits.

There is a tendency for some people to continue getting money from parents, relatives or surviving on unemployment benefits (for countries where they are provided). This makes them reluctant to look for jobs thereby creating voluntary unemployment.

9. The desire by the unemployed to live on past savings.

Some individuals survive on savings they have accumulated over time and thus are not willing to be employed by others.

10. Low status esteem attached to the available employment opportunities/ jobs being socially unacceptable.

Some people have a feeling that certain jobs like garbage collection, working as a bar maid, etc may lower their social esteem or credibility. Due to this attitude, some people do not take on these jobs hence causing voluntary unemployment.

11. The unemployed being too qualified for the available jobs.

If the available job requires a person with a certificate but the unemployed person holds a PhD, he/ she may decline to take on the job with the hope of getting a job that fits his / her qualifications.

12. Unfavorable geographical location of the available job.

Jobs may be available but they are located in hard-to-reach areas or in very remote areas which are prone to natural disasters like landslides and or earthquake. Individuals may decide not to work in such areas hence causing voluntary unemployment.

13. Social or religious restrictions.

An individual may not take on a job for fear of violating certain social or religious norms. For instance, a Moslem would rather remain unemployed than work in a bar or pork joint because his/ her religion considers alcohol and pork to be sinful products.

14. Social ties.

Some people have strong social ties with either the family or the community such that they would rather remain unemployed than break the links with their people. This is usually the case where the available jobs are in distant locations and therefore require people to relocate if they are to work.

INVOLUNTARY UNEMPLOYMENT

This is a situation where an individual is willing and actively looking for jobs but cannot find one at the prevailing or ruling wage rate.

Such labour is out of work due to reasons that are in most cases not of one's making but some external reason. Many of such people would like to get a job but they fail. It is this unemployment that constitutes the real problem in any economy because the voluntarily unemployed are out of work out of their choice.

TYPES OF INVOLUNTARY UNEMPLOYMENT

1. CYCLICAL/ MASS/ DEMAND DEFICIENT/ KEYNESIAN UNEMPLOYMENT

Is one that arises due to deficiency/ decline in aggregate/ effective demand for final goods and services especially in times of economic depression or recession.

NB

The **causes** and **solutions** to this type of unemployment will be discussed in details later under the Keynesian theory of unemployment.

2. STRUCTURAL UNEMPLOYMENT

This is a type of unemployment that arises due to changes in the structure of an economy causing a fall in demand and supply of goods and services hence reduced demand for labour force with particular skills.

For example, when there is a fall in demand for cotton textile materials, production and supply reduces and hence less labour is employed in the cotton industry.

Note that with structural unemployment, jobs are available and also the workers are willing to work but they do not have the required job skills to qualify for the vacant positions.

Causes of structural unemployment

1. Changes in production techniques. Adoption of capital intensive techniques of production reduces the demand for labour.
2. Decline in demand due to consumers' tastes and preferences becoming unfavourable. This leads to collapse of local firms. For example, when tiled houses replace iron roofed houses, the makers of iron sheets become unemployed.
3. Inappropriate education system. This is especially the case for developing countries whose education systems were copied from western countries whose economies are structurally different. This has resulted into many graduates who are unemployed because the skills they possess are not the ones that are needed by the firms.
4. Highly specialised labour also tends to suffer structural unemployment in cases where the services of people in that specialty are no longer required. Such labour finds it very hard to get alternative employment due to lack of skills to apply in an alternative employment.
5. Political instability. This leads to destruction of productive activities and productive infrastructure.
6. Exhaustion of major raw materials especially non-renewable resources. This is especially the case for people in the mining industry where the depletion of minerals leaves the people who were working in the mines unemployed especially if they do not have alternative skills to rely on.
7. Changes in the economic conditions for instance an economy experiencing a recession or depression.
8. Temporary renovation of industrial plants. When industrial plants are being renovated, some workers may be laid off since the firm is not producing goods for the market thereby causing structural unemployment.
9. Geographical immobility of labour arising out of factors like social ties or any other factor that keeps one in one area may result into structural unemployment. This is usually the case for people who find themselves established in a place but for some reason, their source of employment dies out.
10. Total breakdown of the production process.

Solutions to structural unemployment

1. Reforming the education system. The imparted skills should be in line with the needs of the economy and should generally lean more towards practical skills than the theoretical ones currently offered.
2. Diversifying labour skills and retraining workers where skills are no longer in demand. This enables the workers to cope with the changing structure of an economy.
3. Proper manpower planning to forecast future trends of labour demand in an economy.
4. Use of appropriate technology to facilitate the absorption of labour force in an economy.
5. Economic diversification to widen opportunities for absorbing victims of structural change.
6. Widening the market through regional integration.
7. Ensuring political stability.
8. Undertaking diversification in production.

3. FRICTIONAL/ TRANSITIONAL UNEMPLOYMENT

This is temporary unemployment that occurs in the short run when labour is switching from one job to another.

It means that people are not able to get employed immediately after losing the old job. It occurs when the rate of labour turnover is very high.

Causes of frictional unemployment

1. Ignorance of job opportunities elsewhere. Employment opportunities exist but labour force is ignorant of their existence and therefore cannot get work. This is brought about by failure of employers to disseminate information about the employment opportunities which they have.
2. Inadequate skills hence making it hard for labour to get new jobs.

3. Temporary breakdown of machinery and closure of the plant in order to carry out renovations. This causes unemployment for short durations pending the repair of plants.
4. Temporary shortage of raw materials. Absence of raw materials during certain periods due to seasonal supply of raw materials from within and abroad can cause unemployment till raw materials are made available.
5. Over specialisation of labour which leads to immobility of labour.
6. Laying off workers involuntarily and permanently due to government policy.
7. High cost of living in areas where alternative jobs.
8. Bureaucracy involved in recruitment.
9. High transport costs to areas where alternative jobs are.

Solutions to frictional unemployment

1. Advertising jobs so as to provide information to the unemployed about the availability of other employment opportunities.
2. Improving the transport network to ease movement of labour to areas where alternative jobs are.
3. Maintaining political stability to encourage geographical mobility of labour.
4. Retraining of labour to get skills for new jobs.
5. Reducing bureaucracy involved in recruitment.

4. SEASONAL UNEMPLOYMENT

Seasonal unemployment is a type of unemployment that arises out of changes in climate or weather conditions especially in agriculture between harvesting and planting.

Causes of seasonal unemployment.

1. Climatic changes especially in the agricultural sector.
2. Failure to tame nature.
3. Periodic changes in demand.
4. Specialized skills i.e. labour cannot work in the different economic situations.
5. Low levels of diversification in an economy.

Solutions to seasonal unemployment

1. Taming nature through activities like irrigation and advanced scientific production methods so that farmers can engage in production throughout the year instead of producing only when the season favours.
2. Diversification of the agricultural sector so that people have several crops to grow at different times of the year.
3. Diversification of an economy so that there are many economic activities to engage in throughout the year.
4. Equipping labour with multiple skills such that if the season does not favour one skill, labour may depend on another skill.

5. CASUAL/ ERRATIC UNEMPLOYMENT

This is a type of unemployment that is caused by temporary end of demand for labour force with specific skills.

Unlike seasonal unemployment which has a pattern, casual unemployment has no pattern in that labour is employed and unemployed depending on whether there is work at a given moment.

People who provide casual labour are the most vulnerable to this type of unemployment though sometimes even skilled people who work on short term contracts e.g. builders may be vulnerable.

Examples of casual unemployment include;

- Workers hired in the agricultural sector during harvesting time become unemployed as soon as harvesting is done.
- Builders working on a construction site become unemployed as soon as the work is accomplished.

- Extra workers hired for loading and unloading at a dockyard become unemployed as soon as the work is accomplished
- Extra workers hired by catering services during wedding time to cook and serve become unemployed once the party is over.

Solution

The most viable remedy for this kind of unemployment is for one to keep an open eye for any job opportunity so that as one finishes work on one job, he/ she can commence on work in another job.

6. DISGUISED UNEMPLOYMENT

This is a type of unemployment where labour force is full time and actively involved in production but its marginal product is either negligible, zero or negative.

Causes of disguised unemployment

1. Poor land tenure system. This causes shortage of land hence encouraging small scale subsistence agriculture in the rural areas.
2. High population growth rate. This results into excess workers in certain occupations which causes marginal product of labour to become either zero or negative.
3. Ignorance about other existing job opportunities. This causes immobility of labour and the workers remain overcrowded in certain occupations. Therefore, the contribution to marginal product is either zero or negative hence causing disguised unemployment.
4. Over recruitment of workers due to nepotism especially in the public sector. This results into excess workers in an organisation who contributes less to marginal product.
5. Employer's desire to retain work force for future use. This makes the present workforce to be redundant as it waits for meaningful work in future. Therefore, at the present moment, there is disguised unemployment. For example, construction companies always retain workers expecting to use them in future in new projects.
6. Inadequate supply of capital. This limits expansion of production units leading to employment of many workers in the small scale firms.
7. Inadequate skills by labour. This leads to low labour productivity hence making marginal product to be zero or negative.
8. Poor and uncoordinated manpower planning. This leads to excess supply of labour in certain fields hence causing disguised unemployment.

Solutions to disguised unemployment

1. Undertaking land reforms/changing/reforming the land tenure system. This aims at improving land distribution so that the poor are able to access land and carry out economic activities.
2. Controlling population growth rate. This helps to reduce the mounting pressure on land arising out of the increase in population.
3. Advertising job vacancies. This checks overcrowding of workers in particular occupations such that they are able to move to other occupations.
4. Undertaking entrepreneurship development. This aims at empowering the public to create their jobs.
5. Development of infrastructure. This encourages people to undertake investment in agriculture and industry hence generating more employment opportunities.
6. Diversification of skills. There is need to train labour in various skills so that people are engaged in a variety of economic activities instead of overcrowding in a few.
7. Encouraging privatisation. This results into expansion of the private sector resulting into increased employment in the long run.
8. Encouraging economic diversification. This leads to creation of many job opportunities from the different activities carried out.

9. Availing firms with affordable capital for investment. This is through giving credit facilities to small and large scale enterprises so as to increase production and create more job opportunities.
10. Encouraging management reforms. This helps in avoiding nepotism especially in the public sector.
11. Proper manpower planning.
12. Encouraging the development of agriculture.

7. **Residual unemployment**

This is a type of unemployment which occurs because of mental and physical disabilities.

This category of people includes those who are deaf, blind and physically impaired such that they are considered unfit for certain jobs.

8. **OPEN URBAN UNEMPLOYMENT**

This is a type of unemployment where people are actively looking for jobs in urban areas but cannot find them.

The major cause of this type of unemployment is rural urban migration.

Causes of open urban unemployment in developing countries

1. **Rural urban migration.** The combination of the push and pull factors in rural and urban areas respectively results into the rural urban drift which increases the supply of labour in urban areas but without an increase in its demand hence causing open urban unemployment.
2. **High population growth rates.** The increase in population in urban areas is relatively higher due to better living conditions and medical facilities. As the urban population grows in absence of equivalent employment creation, open urban unemployment occurs.
3. **Poor education system.** preparing people for white collar jobs which are mainly found in urban areas. This leads to increase in supply of labour in urban areas relative to its demand hence causing unemployment.

Or

The system equips people with inappropriate skills if any which are not demanded by the firms in urban areas hence causing unemployment.

4. **Low rate of industrialisation in urban areas.** In urban centres, industries are supposed to provide the biggest percentage of employment opportunities. However, in developing countries, industries are still few and the rate of growth of the industrial sector is very low. This means that the demand for labour is growing at a low rate yet labour supply is growing very fast hence causing open urban unemployment.
5. **Technological advancement.** Sometimes the migrants are not absorbed in employment in urban areas due to use of capital intensive technology by many firms in urban areas as a way of reducing production costs, increasing output levels and improving quality of the final products.
6. **Political instability in rural areas. This makes affected people move to town in search for safety and jobs.**
7. **Discrimination in the labour market in rural areas.** Due to discrimination in the labour market, some migrants who are qualified but disfavoured move to towns This leads to open-urban unemployment.
8. **Lack of information about existing jobs in rural areas.** Some migrants are unemployed in urban areas despite the existence of employment opportunities due to poor flow of information about existing job opportunities.
9. **Limited skills among job seekers.** Most of the migrants from rural areas are uneducated and thus do not have the skills required by firms in urban areas.
10. **Poor land tenure system.**
11. **Decline in demand for goods and services / limited market.** This discourages investment in urban areas hence lowering the absorptive capacity of labour from rural areas by firms in urban areas.

Measures that should be taken to reduce open urban unemployment

- 1. Industrialisation in rural areas should be promoted.** This can even involve the small scale industries which are easier to establish and may collectively employ more people due to use of less advanced technology. This can check on rural urban migration and consequently reduce labour supply in urban areas.
- 2. Firms in urban areas should be encouraged to use appropriate technology.** This can help to employ technology that creates more jobs without worsening the unemployment problem.
- 3. Education reform/ proper manpower planning should be undertaken.** There should be a reform of the education system so as to produce people with skills that are required by firms in urban areas.
- 4. Population control measures should be adopted.** Measures should be put in place to control the population growth in both rural and urban areas. Population control in rural areas is essential as it reduces on the rural urban drift that always creates excess labour supply in urban areas.
- 5. Land reforms should be undertaken.** This can enable the squatters and the landless in the urban areas to become valid land owners.
- 6. Political stability should be maintained in all parts of an economy.** This can encourage investment in various parts of an economy which may reduce the influx of people from rural areas to urban areas in search for better paying jobs which are non-existent.
- 7. Advertising of jobs should be emphasised.**
- 8. Markets should be widened.**
- 9. Agricultural modernisation should be undertaken.**
- 10. Economic diversification should be undertaken.**
- 11. Economic liberalisation should be undertaken.**
- 12. Affordable credit facilities should be provided to local investors.**
- 13. Infrastructure should be developed.**
- 14. Investment incentives should be provided to investors.**
- 15. Public enterprises should be privatised.**

GENERAL CAUSES OF UNEMPLOYMENT IN UGANDA (The causes of involuntary unemployment)

- 1. Poor land tenure system.**

A few people own large chunks of land while the majority are either tenants or landless which has resulted into underemployment and unemployment.
- 2. Political instability in some parts of Uganda.**

Political instability discourages public and private investment because the investors have that fear of losing their property and life. Due to low investment, the investors demand for less labour hence creating unemployment.
- 3. Declining aggregate demand for goods and services.**

The demand for labour is derived from the demand for the commodity which that labour produces. A fall in demand for commodities forces producers to reduce output and eventually they reduce the number of workers. This creates loss of jobs hence unemployment.
- 4. Ignorance of people about the availability of jobs.**

Some people have remained unemployed because they do not know where to apply for employment. This ignorance arises due to limited advertisement of job opportunities.
- 5. Shortage of co-operant factors such as capital, land and entrepreneurship.**

Limited supply of co-operant factors reduces levels of investment. The level of production remains low and consequently fewer jobs are created. This brings about unemployment in Uganda.
- 6. Seasonal changes especially in agriculture.**

The seasonal pattern of work in some sectors renders some people seasonally unemployed. For example, in the agricultural sector, farmers are unemployed between harvesting and planting season as well as during unfavourable natural conditions like floods, drought, etc.

7. Rural urban migration.

Due to rural urban wage gap and other push and pull factors, most people move from rural areas to urban areas primarily in search for better wage employment opportunities. Since the rate of rural to urban migration is higher than the rate of urban employment creation, many migrants from rural areas become unemployed in urban areas.

8. Rapid population growth rate compared to employment creation.

The population growth rate in Uganda is higher than the rate at which jobs are being created. This leads to excess labour supply relative to the available jobs hence creating unemployment in Uganda.

9. Discrimination in the labour market based on race, sex, tribe, religion age, etc.

There are people who are not recruited for employment in certain organisations because of not meeting certain specifications set by employers. For instance, if an employer needs workers who are below 30 years, then those above that age is left out hence causing involuntary unemployment.

10. Use of inappropriate technology.

Uganda being a labour surplus economy, the use of capital intensive technology by some industries reduces the demand for labour hence unemployment.

11. Poor infrastructure.

The basic infrastructure like roads is poor which has hindered producers to transport their goods to markets. This has discouraged further investment and production. As a result, few jobs have been created for the people hence an increase in unemployment.

12. Poor education system.

Uganda's education system is theoretical in nature and thus prepares students to be job seekers rather than being job creators. The system prepares labour force for white collar jobs which are scarce leaving many school (university) graduates unemployed.

13. Structural Adjustment Programmes (SAPs) implemented in Uganda like laying off civil servants.

Uganda has implemented and still implementing Structural Adjustment Programmes of I.M.F and World Bank which involve reducing the number of civil servants in government ministries and departments. This has led to loss of jobs hence creating unemployment in the country.

14. Mental and physical disabilities.

People with such disabilities may fail to be placed in certain jobs even if they existed. For example, a limbless woman cannot be a receptionist or a security guard. This results into residual unemployment. among others.

15. Short-run immobility of labour.

Some people lose jobs but it takes them some time before they get new jobs. This creates unemployment in the short-run before they get employed in new or alternative jobs hence causing frictional unemployment.

STEPS BEING TAKEN TO REDUCE UNEMPLOYMENT/ INCREASE EMPLOYMENT IN UGANDA

1. Providing investment incentives.

This promotes investment by private entrepreneurs because incentives like subsidies reduce the costs of production. As investment expands, more jobs are created for the people hence reducing unemployment.

2. Implementing education reforms with emphasis on practical skills to the school leavers.

The government is setting up vocational institutions or polytechnics to train people in practical skills (hands-on skills) like carpentry, building, metal work, agri-business, tailoring. This enables people to start up projects for self-employment and for employment of others.

3. Undertaking further privatization.

Ownership of public (government enterprises) is being transferred to private investors to create efficiency. This efficiency enables firms to expand their scale of production and they generate more jobs to the people in the long-run.

4. Population control measures are being implemented.

Controlling population growth rate is being carried out so that the rate at which the population is rising is proportionate to the rate at which jobs are being created. This helps to reduce excess labour supply in relation to the available job vacancies thereby reducing unemployment.

5. Improving the political climate/ atmosphere.

The political climate is being improved so that more investors are attracted to the country. This promotes investment by private entrepreneurs and in the process more jobs are created in the country hence reducing unemployment.

6. Promoting small scale industries.

Such industries create linkages in the economy and involve many activities which help to create more jobs for the people.

7. Modernising agriculture.

This involves changing agriculture from subsistence production to commercialised high yielding agriculture. As agriculture is being modernised, there is an increase in output and income in the sector. More people are encouraged to carry out commercialised agriculture and they get jobs in the sector thereby reducing unemployment.

8. Advertising existing jobs.

Employers are being encouraged to advertise job opportunities in the newspapers, magazines and other media like radio stations to create awareness to the job seekers. After creating this awareness, the job seekers are able to apply for the available jobs. Some of them are taken up for employment and this reduces unemployment.

9. Diversifying the economy.

Many economic activities like agriculture, industry, tourism, information technology, etc are being encouraged and supported by the government. These activities help to create more jobs for the people thereby reducing unemployment.

10. Setting up and improving basic infrastructure.

By improving basic infrastructure like roads, producers are enabled to transport their goods to markets. This encourages further investment and production. As a result, more jobs are created for the people thereby reducing unemployment.

11. Widening markets through joining economic integration.

Uganda is a member in regional economic groupings like COMESA and East African Common Market. This increases industrial and other investments to produce goods and services for the regional market. This finally leads to the creation of more jobs for Ugandans hence reducing unemployment.

12. Encouraging the use of appropriate technology.

Firms are being encouraged to apply methods of production which are mid-way between capital intensive and labour intensive. This helps to keep a reasonable number of workers in active employment instead of laying them off.

13. Providing affordable credit/ start-up capital.

Microfinance institutions are being encouraged to extend affordable credit to the people to start up income generating projects. Such projects are providing jobs to the people thereby reducing unemployment.

14. Carrying out further trade liberalisation.

Trade liberalisation is increasing the number (range) of trade or economic activities carried out in Uganda. The expansion in economic activities provides more jobs to the people and consequently unemployment is reduced.

15. Reforming the land tenure system.

Reforms in the Land Act are being implemented by government to allow more people access land. People are having their land registered and are acquiring land titles so that they carry out commercial farming on that land. This creates employment for people in the agricultural sector.

16. Supporting the disadvantaged groups of people/ providing programmes for persons with disability.

The government is financing income generating projects for disabled people. Such projects include shoe making, tailoring, making crafts, etc. the disabled people become employed and earn income from these projects. This helps to reduce residual unemployment.

17. Exporting surplus to other countries.

People who have failed to get jobs in Uganda are being encouraged to seek employment in other countries through employment agencies.

COSTS OF UNEMPLOYMENT IN AN ECONOMY

The costs of unemployment are those adverse/ negative effects or bad consequences which unemployment creates in an economy to the unemployed, their families and the entire society.

1. It is associated with increased dependence burden/ high dependence burden.

The unemployed people have to survive on the few employed people for basic needs like food, clothing, etc. This lowers the savings of the employed people which limits investment.

2. It results into low output.

This is because the unemployed have a low purchasing power and therefore firms reduce their output levels making an economy to grow at a very slow pace.

3. It leads to low government revenue.

This is because the unemployed people do not pay direct taxes to the government. As a result, government finds it hard to acquire the much needed revenue to finance development objectives.

4. Worsens income disparities.

This is because the unemployed do not earn income while the employed people earn income, save and invest and therefore accumulate more wealth.

5. It leads to low aggregate demand for goods and services/ small market size.

This is because the unemployed people have a low purchasing power.

6. Leads to brain drain.

After failing to get jobs in the home country, highly trained professional people move to other countries in search for jobs. This has a danger of reducing the manpower available in the home country and the development process is retarded.

7. Leads to immorality/ crime.

The unemployed people who are not earning income resort to all sorts of immoral acts like theft so as to earn a living.

8. It leads to high government expenditure.

The government spends heavily on supporting projects which are aimed at creating jobs for the unemployed people. This exerts pressure on the national budget.

9. Underutilization of productive resources hence waste.

Seasonal unemployment in the agricultural sector causes excess capacity and as a result, there is wastage of resources that could have been put to use.

10. It causes misery and low levels of living due to low or no incomes.

Individuals who are jobless find it difficult to buy or access basic necessities of life. As a result, their standard of living drastically falls or declines hence causing misery and suffering.

11. Creates political unrests/ political tension.

The unemployed people are easily mobilised to stage a rebellion against the ruling government. This has disastrous consequences such as loss of lives and property.

12. Discourages investment in education

The unemployed are not able to meet the costs of paying their children's school fees. Also when the educated people fail to get jobs, other people get discouraged and they may not study or invest in education. This worsens illiteracy levels.

13. Increases rural urban migration and its negative consequences.

The unemployed people move from rural areas to urban areas in search for jobs and after failing to get them, they resort to committing crimes like theft.

14. Decline in the level of acquired skills.

The unemployed people do not practice their skills they acquired during training in schools, colleges and universities. This leads to decay of knowledge and loss of skills hence hindering professional/ career development.

15. It results into family instabilities.

The unemployed people are unable to meet the needs of their families since they are not earning income. This leads to loss of happiness hence leading to quarrels, separation, divorce and having children go to streets.

POSITIVE EFFECTS OF UNEMPLOYMENT

1. It awakens government to its responsibilities of designing appropriate redistributive development policies.

Such policies aimed at increasing income generating opportunities promote development of an economy as a whole.

2. Results into lower wage costs.

Unemployment in an economy increases the supply of labour available for firms to employ. This creates a downward pressure on wages hence reducing the costs of production.

3. Unemployment creates a large pool of labour.

This gives firms more choice of who to employ. This enables the employers to choose the best workers (those with higher levels of skills and experience).

4. Increase in demand for inferior goods.

There are goods in an economy that people buy more as their incomes reduce. Therefore, as unemployment increases, demand for such goods increases and the profitability of the sellers dealing in such goods increases.

5. It avails labour in risky jobs. Unemployment encourages labour to take on jobs that are very risky like mining and those in hard to reach areas. This leads to increased exploitation of resources.

6. It reduces labour strikes for higher wages.

High level of unemployment implies excess labour in the labour market. This creates fear in workers to demand for higher wages as this may prompt the employer to lay them off and then hire other workers at lower wages. Absence of strikes leads to continuity in production.

THEORIES OF UNEMPLOYMENT

THE KEYNESIAN THEORY OF UNEMPLOYMENT

The theory was advanced by a British economist known as **John Maynard Keynes**.

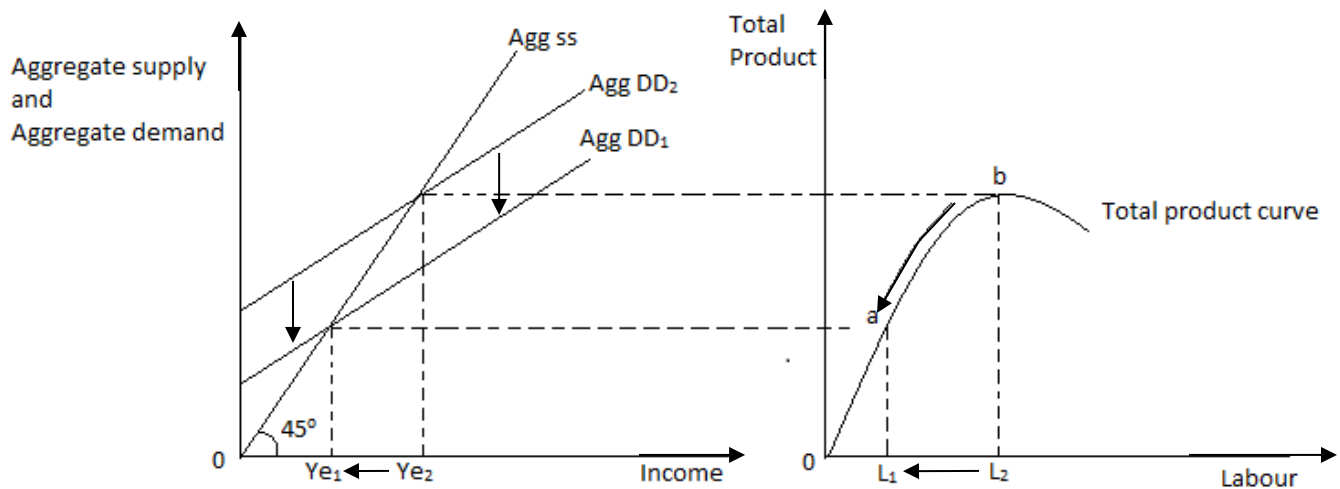
It states that unemployment arises due to a deficiency/ decline in effective aggregate demand for final goods and services especially in times of an economic depression or recession.

Keynes pointed out that due to a decline in aggregate demand for final products, firms are forced to reduce their level of output, income levels fall, investment is discouraged and thus fewer units of capital and labour are employed.

According to J.M Keynes, the major remedy (solution) to unemployment is to increase aggregate demand in an economy through measures such as;

- ✓ Reducing direct taxes in an economy
- ✓ Subsidisation of consumers.
- ✓ Use of expansionary monetary policy
- ✓ Increasing government expenditure.
- ✓ Increasing wages
- ✓ Encouraging private investment through providing incentives like tax holidays.

ILLUSTRATION OF KEYNESIAN UNEMPLOYMENT



A fall in aggregate demand from **Agg DD₂** to **Agg DD₁** causes a fall in total product from **b** to **a** and as a result, the units of labour employed reduce from **OL₂** to **OL₁**.

ASSUMPTIONS OF KEYNESIAN THEORY OF UNEMPLOYMENT

(Ignore –Not needed in the explanation of the theory)

J.M Keynes made the following assumptions when analysing cyclical unemployment.

1. Existence of an industrialised economy.
2. He assumed conditions of full employment of resources.
3. He assumed existence of a highly monetised economy.
4. He assumed existence of a big and strong private sector.
5. He assumed existence of a closed economy.
6. He assumed the existence of well-functioning and developed product, factor and money market.
7. He assumed that there is deficiency in aggregate demand during an economic recession.

RELEVANCE/ APPLICABILITY OF THE THEORY IN LDCs (UGANDA)

To a minor extent, the Keynesian theory of unemployment is applicable (relevant) to developing countries reasons being;

1. It is true that at times unemployment in LDCs (Uganda) arises from a fall in aggregate demand both domestic and abroad. A fall in aggregate demand reduces output levels, incomes fall, investment declines and less units of labour are unemployed. This makes the theory to have some relevancy in LDCs (Uganda)
2. LDCs (Uganda) have (has) an element of industrialisation as suggested by J.M Keynes in his theory hence the theory may apply in the industrial sector. During an economic recession, industries reduce the level of output and their incomes fall. Through the multiplier process, investment also falls and less labour is employed in industries. This makes the theory to have some applicability in the industrial sector in LDCs (Uganda).
3. In the long run as supply of co-operant factors for labour increase, the theory becomes relevant. Increasing supply of co-operant factors like capital increases investment. As investment increases, more units of labour become employed and this makes the Keynesian of unemployment to have application in LDCs (Uganda).
4. The investment climate affects employment level and therefore promotion of investment in LDCs (Uganda) can expand employment as suggested by Keynes. This makes his theory to be relevant in developing countries.
5. Use of expansionary monetary policies increases the purchasing power in LDCs (Uganda). As the purchasing power increases, producers increase output and they employ more units of labour in their firms. This policy is put forward by J.M Keynes thus the theory is applicable in LDCs (Uganda).
6. International Monetary Fund (IMF) has arrangements to support or expand the private sector and ensure stable markets for LDCs (Uganda). As private investment expands, output and incomes of producers

increase and thus more labour is employed. This makes the theory to have some relevancy in LDCs (Uganda) because one of his solutions was expansion of the private sector.

IRRELEVANCE/ INAPPLICABILITY OF THE KEYNESIAN THEORY OF UNEMPLOYMENT IN LDCs (UGANDA)

To a greater extent, the Keynesian theory of unemployment is inapplicable (irrelevant) to developing countries reasons being;

1. This type of unemployment is mainly concerned with a deficiency in aggregate demand yet unemployment in LDCs (Uganda) basically arises from the supply side. The supply side involves shortages of raw materials and other co-operant factors. Due to limited supply of co-operant factors, some units of labour can be laid off which creates unemployment but Keynes ignored this possibility.
2. It mainly affects the industrialised economies yet LDCs are mostly agro-based countries/ Uganda is an agro-based economy.
3. The theory is applicable under conditions of full employment which conditions are not found in developing countries (Uganda). LDCs (Uganda) are (is) characterised by underutilisation of resources hence making the theory less relevant.
4. As a solution to unemployment, Keynes suggested policies which increase levels of aggregate demand such as use of an expansionary monetary policy. However, such policies are likely to cause inflation before they solve unemployment because developing countries do not have much capacity to increase supply to meet the increase in demand.
5. The theory is based on the assumption of a highly monetised industrial economy yet LDCs (Uganda) have (has) a large subsistence sector. This makes the theory to be less applicable.
6. The theory is based on the existence of a big and strong private sector yet in LDCs (Uganda), the private sector is still small and weak.
7. In LDCs (Uganda), product, money and factor markets are not as developed and functional as assumed by Keynes. This renders the theory irrelevant in LDCs (Uganda).
8. The theory puts emphasis on investment multiplier as the major contributor to employment creation yet in LDCs (Uganda), it is the export multiplier that greatly contributes to employment creation. It is noted that as the export sector expands in LDCs (Uganda), more jobs are created in that sector but Keynes ignored this hence making his theory to be of limited relevancy.
9. Keynes based his theory on a closed economy yet LDCs (Uganda) are (is) open economies which have financial dealings and interactions with other economies of the world.

SOLUTIONS TO UNEMPLOYMENT ACCORDING TO J.M KEYNES EXPLAINED

1. **Reducing direct taxes in the economy.**
Reducing direct taxes increases the consumers' disposable income. This enables consumers to increase the demand for goods and services and thus increase in aggregate demand is responded to by increasing investments so as to increase output hence raising the level of employment.
2. **Subsidisation of consumers.**
The provision of goods and services especially education and health at subsidized prices enables consumers re-channel their incomes that were previously spent on such services for the consumption of goods. The purchase of goods that were not previously consumed leads to increased aggregate demand for such goods which calls for increased employment of factors of production.
3. **Using expansionary monetary policy.**
Lower interest rates on loans increase borrowing thus increasing the level of consumption. This stimulates investment in an economy to respond to the increased demand. The need to increase output calls for increased employment of factors of production.
4. **Increasing government expenditure.**
Government can increase expenditure through the provision of social infrastructure. This raises incomes of the people employed in the provision of various infrastructures which in turn leads to increased demand for goods and services. Increased demand for goods and services stimulates production which increases the level of employment of capital and labour.
5. **Increasing wages.**

This increases peoples' purchasing power hence increase in aggregate demand for goods and services. Producers respond to increased consumer demand by increasing investments so as to increase output hence raising the level of employment.

6. **Encouraging private investment through provision of tax incentives.** The provision of investment incentives like tax holidays to potential investors leads to increased investments, increased incomes, increased aggregate demand hence further investment and employment in an economy.

UNDEREMPLOYMENT

Underemployment refers to the state of underutilisation of economic resources.

In case of labour, underemployment refers to the state of underutilisation of labour force in form of working for fewer hours than desired.

FORMS OF UNDEREMPLOYMENT

- Labourers working for less time than prescribed e.g. a worker who is supposed to work for 20 hours per week only working for 12 hours per week
- Doing work which is far below one's training/ skills e.g.
- Engagement in an activity where co-operant factors are inadequate e.g. where workers on a farm do not have the necessary equipment to use.
- Labour force working full time but marginal product is zero.

CAUSES OF UNDEREMPLOYMENT IN AN ECONOMY

- Shortage of co-operant factors
- Political instability
- Limited/ small markets
- Ignorance of people about the availability of jobs
- Poor land tenure system
- Poor attitudes of people towards work/ low wages/ desire for leisure
- Limited skills
- Seasonal changes for example in agriculture.
- Rural-urban migration leading to underemployment in urban areas.
- Desire to retain labour force by trade unions/ employers.
- High population growth rates
- Poor man power planning
- Discrimination in the labour market on the basis of race, sex, religion, etc.
- Limited raw materials.

FULL EMPLOYMENT

It can be defined in any of the following ways;

- It is a situation where the unemployment rate in an economy is 3% or less.
- It is a situation where all people willing to work can get jobs.
- It is a situation where the number of unfilled vacancies is equal to the number of job seekers.
- It is a situation where there are more jobs than the job seekers.

NB

It should be noted that full employment is **not** zero unemployment because in the real world, it is not possible to employ all the labour force at a given time.

FACTORS THAT LIMIT THE ATTAINMENT OF FULL EMPLOYMENT IN UGANDA

1. Use of inappropriate technology for example capital intensive techniques of production yet the economy is labour surplus.
2. Existence of rural-urban migration which results into open-urban unemployment.
3. High population growth rate in the economy as compared to the rate of job creation.

4. Heavy dependence on nature causing seasonal unemployment. This is very common in the agricultural sector.
5. Existence of a large subsistence sector that does not absorb a lot of labour since production is not for the market.
6. Shortage of co-operant factors. The absence of co-operant factors in form of limited capital and limited skills makes it hard to solve unemployment by setting up production units.
7. Immobility of the factors of production i.e. both occupationally and geographically.
8. Poor manpower planning by the government. This creates excess labour supply in certain occupations and hence some people are not taken up for employment.
9. Inappropriate education system that trains more of job seekers rather than job creators.
10. Heavy capital outflows. This limits investment and reduces the capacity of the country to create more job opportunities and reduce the level of unemployment.
11. Limited domestic and foreign markets hence low aggregate demand.
12. Trade union restrictions that tend to prevent entry of new employees. This is done to maintain the wages of the already employed people high.
13. Discrimination in the labour market based on race, tribe, sex, religion, age, political factors
14. Political instability. This limits investment activities and so less labour is employed.