

To Grow Out Of Unemployment

By Sam Vaknin, Ph.D.

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There is a connection between economic growth and unemployment. There is a connection between growth and inflation. Therefore, commonsense (and financial theory) goes, there must be a connection between inflation and unemployment. A special measure of this connection is the Non Accelerating Inflation Rate of Unemployment (NAIRU). Supposedly, this is the rate of unemployment which still does not influence inflation. If unemployment goes below NAIRU, inflationary pressures begin to exert themselves.

This is closely linked to the other concepts, those of "structural", "frictional" and "conjunctural or cyclical" unemployment types.

Some unemployment, the theory, goes is frictional. It is the inevitable result of a few processes:

Labour Mobility – People move from one job to another, either because they are fired or because they seek to improve their lot. In the intervening period between leaving an old workplace and finding another, they are unemployed.

Labour Force Expansion – Every year there are new entrants to the labour market. Generations mature and are ripe to be part of the labour force. Until they find their first job – these new participants are unemployed.

Seasonal and Part Time Employment – Some professions are seasonal by their nature (a hotel in a resort hotel, for instance). These workers join the ranks of the unemployed at certain times and desert them seasonally. Other workers prefer to work part time or in the "Grey" or "Black" economy. They go unreported or report themselves as unemployed, thus distorting the true picture of unemployment.

The frictional type of unemployment is a sign of economic health. It indicates a dynamic economy in fast development. It is a sign of labour mobility, of labour flexibility (part time solutions and flexitime) and of labour adaptability. This cannot be said about the second, more insidious, type, the structural unemployment. It is this kind of unemployment which really bothers governments and worries social planners. It has long term psychological and social effects and limits both economic growth and social cohesion. It is also the most difficult to battle.

Usually, it is the result of ingrained, long term and structural processes and changes in the economy and cannot be fought with artificial one-time measure (employment initiated by the state or fiscal stimulus intended to encourage employment). Among the factors which create it:

Technological change – new professions are created, old ones lose their lustre and, ultimately, their place in the economy. New professions, connected to new technologies, emerge. Some workers can be retrained but even this takes time (in which they might, technically, be defined as unemployed). Others cannot be retrained and they join the ranks of the long term unemployed, swelling structural unemployment.

Changes in Consumer Preferences – Fashions change, mass consumption patterns alter, emphases on certain goods and services shift. Today's hot item is tomorrow's dead one. Whole industries can and are effected by these tectonic shifts.

Globalization and Cross Border Labour Mobility – Labour mobility is intentionally encouraged, the world over. Economic unions and trade pacts include social or labour chapters. The most notable example is NAFTA which created hundreds of thousands of new jobs in Mexico and in the USA. As companies go multinational, as production processes become global, as services and goods are exported and imported within a rising tide of international trade, as international brands develop – the biggest restructuring of labour markets is taking place across the globe in rich and poor countries alike. Consider the clear erosion of the power of the trade unions or the cheap labour available in Central and Eastern Europe and in parts of Southeast Asia. These cause jobs (even skilled ones) to be reallocated across political borders.

Skill Acquisition Failure – People who failed to acquire the minimum education necessary to participate in today's workforce (secondary high school) are doomed to be permanently unemployed or part time employed. School dropouts form a large part of the structural unemployment in many countries. In countries which are in the process of shifting from one economic system to another, even those with the right formal education are made redundant and useless by the new paradigm. Think about a professor of economy who studied and taught Marxist economy from the wrong textbooks – he is quite useless in a capitalist market economy and might find himself unemployed despite his high education.

The last, benign, type of unemployment is the cyclical one. It is the result of the natural business cycle (at least natural to capitalism) and of the ebb and tide of aggregate demand for workers which is a result of these cycles. This is considered to be an unavoidable side effect of market economy. The pain of the laid off workers can be ameliorated (through the introduction of unemployment benefits) but the solution comes from sorting out the cycle itself and not by attacking the unemployment issue in an isolated artificial manner.

The "Natural Rate of Employment" takes into account that frictional and structural employment must exist. What is left is really the full employment rate. This is highly misleading. First, economists are forced to rely on government data which, normally, tend to underestimate and understate the problem. For example: the statistics ignore "discouraged workers" (those who despaired and stopped looking for work). A second,

more philosophical issue, is that, as opposed to frictional unemployment, which is a welcome sign, structural unemployment is not and must be fiercely fought by the state. But Economy give Politics a legitimacy to ignore structural unemployment as a part of life.

But the third problem is the most pressing: what is the "natural" rate of unemployment and how should it be determined? This is where NAIRU came in: the natural rate of unemployment could be construed as that rate of unemployment which prevented bad economic effects, such as inflation. In the USA this was estimated to be 5-6%. But this estimate was based on a long history of labour and inflation statistics. History proved the wrong guide in this case: the world has changed. Globalization, technological innovation, growing free international trade, growth in productivity, electronic money, the massive move to the "Third Wave" (Information and knowledge) industries – all this meant that inflationary pressures could be exported or absorbed and the employment could go much higher without fostering them. This became part of a new paradigm in economy which proclaimed the death of the business cycle and of the inflationary boom-bust phases. Though exaggerated and probably untrue, the "New Paradigm" did predict that productivity will grow, inflation will remain subdued, unemployment will decrease drastically and the prices of financial assets will explode – all simultaneously (which was considered hitherto impossible). The unemployment rate in the USA has stayed well below 5% and there are still no sign of inflation. This is remarkable (though probably short lived. Inflation will pick up there and the world over starting in 1998).

And what about Macedonia? It is one of a group of countries in transition that suffered an unprecedented series of external shocks separation from a Federation, the loss of virtually all export markets, economic siege, monetary instability, a collapse of the financial system, and, lately, interethnic tensions. Small wonder that it endured an outlandish (official) rate of unemployment (more than one third of the active workforce). Granted, the real unemployment rate is probably lower (many workers in the black economy go unreported) – still, these are daunting figures.

Is this a structural or frictional or cyclical unemployment? It is tempting to say that it is structural. It seems to be the result of trying to adapt to a brave new world: new technologies, new determinants of survival, new market mechanisms, the need for a set of completely new skills and new consumer preferences. But a closer analysis will yield a different picture: most of the unemployment in Macedonia (and in countries in transition in general) is cyclical and frictional. It is the result of massive layoffs which, in themselves, are the results of efficiency and productivity drives. It is not that the workforce is ill adapted to cope with the new, post-transition situation. The composition of skills is well balanced, the education, in some respects, better than in the West, labour mobility is enforced by the cruelty of the new labour markets, the pay is low and is likely to remain so (wage pressures don't go well with high unemployment). The workforce has adapted wondrously.

The failures belong to the management levels and, above all, to the political echelons. Unwilling to adapt, eager to make a quick (personal) buck, entrenched in cosy offices and old ways of thinking, more interested in their perks than in anything else, not educated in the new ways of the markets – they led themselves and their workers (=their voters) to the unemployment swamp. This unfortunate condition was avoidable.

There is no reason to assume that structural unemployment in Macedonia should be much higher than in Germany. The relative sizes and richness of the two economies is not relevant to this discussion. What is relevant is that labour in Macedonia is by far more mobile than in Germany, that it is paid much less, that it is, therefore, relatively more productive, that it is better educated, that both countries suffered external shocks (Germany the unification, Macedonia the transition), that both countries are macro-economically stable, that Macedonia has real natural and human endowments. By certain measures and theoretic formulas, the structural unemployment in Macedonia should be circa 9%, the frictional unemployment (the business cycle is turning up strongly so cyclical unemployment is bound to go down) contributing another 5%. The natural unemployment rate is, therefore, circa 15%.

Moreover, Macedonia is in the rare and enviable position of not having to worry about inflation or wage pressures. Even much higher employment will not create wage pressures. Only the most skilled workers will possess the ability to dictate their own wages and, even then, we are talking about ridiculous wages in Western terms. There is so much competition for every vacancy ("an employers' market") that the likelihood of demanding (and getting) higher wages (and, thus, generating inflationary pressures is all but non-existent). So NAIRU in Macedonian terms is an abstract notion with no applicability. Every additional percent of permanent employment in the West entails 2-3 as much in economic (GDP) growth. Macedonia has to grow by 10% and more annually to reduce the level of unemployment to 15% in 5 years (taking additions to the workforce into account). This is doable: Macedonia starts from such a low base that it would take little effort to achieve this kind of growth (to add 300 million USD to the GDP annually=3 months exports at today's rate).

But this rate of unemployment can be achieved only with the right policy decisions on the state level – and the right management cadre to take advantage of these decisions and of the thrilling new vistas of the global market scene. It is here that Macedonia is lacking – it is here that it should concentrate its efforts.

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Don't Let an Illness or Unemployment Cost You Your Home

By David Miles

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As a nation of homeowners, we are particularly vulnerable to the effects that accident, sickness, or unemployment could have on our ability to meet our monthly mortgage repayments.

In view of this, it is quite alarming to note that of the 11 million mortgage borrowers in the UK, only 20% currently have any form of independent insurance to protect their mortgage repayments in the event of accident, sickness, or unemployment.

A large number of borrowers wrongly assume that State Benefit will protect their mortgage repayments if they are off work sick or lose their jobs. But in actual fact, only 30% of people who put in a claim for State Benefit in respect of their mortgage repayments receive any help. This is because: - If you took out your mortgage on or after 1 October 1995 you will not receive any State Benefit for the first nine months of sickness or unemployment.

- If you took out your mortgage before 1 October 1995 you will not receive any State benefit for the first two months. After that, you will, subject to eligibility, receive 50% of the full entitlement for the next four months.

- If you and/or your partner have more than £8,000 in savings, you will not receive any State benefit. Restrictions also apply if you have more than £3,000 in savings.

- If your partner works for more than 16 hours a week, you will not be entitled to State Benefit.

Even for those who are entitled to State Benefit, this assistance only applies to the interest element of your mortgage repayments. Any capital repayments or any premiums for associated life cover/savings vehicles are not covered.

If you fall behind with your mortgage repayments and cannot repay the debt, you could end up losing your home. That's why the Council of Mortgage Lenders encourages all mortgage borrowers to consider taking out mortgage payment protection insurance - also known as accident, sickness and unemployment (ASU) cover.

This type of protection will help you to cover your mortgage repayments and any associated insurance premiums for up to a year if you are unable to work due to unemployment, accident, or sickness.

- You choose the amount of cover you need per month
- You choose the type and level of cover required
- You choose how long you want to wait before claims are paid
- You pay a low monthly premium
- The policy pays a fixed monthly benefit for up to 12 months if you are unable to work due to accident, sickness, or unemployment.

You will normally be able to make a claim if:

- you have lost your job in circumstances beyond your control - e.g. redundancy - and are registered as unemployed, or
- you are unable to work due to a disability/illness and you are under the regular care of a doctor or consultant.

For more information on protecting your mortgage repayments, visit the [UK Mortgages & Remortgages](#) website.

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David Miles is the editor of a number of websites offering information on UK mortgages and remortgages, including: [Clean Slate Mortgages](#) [London Remortgages](#)

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