

Unemployment

Unemployment is a term referring to individuals who are employable and actively seeking a job but are unable to find a job. Included in this group are those people in the workforce who are working but do not have an appropriate job.

The term “unemployment” is often misunderstood, as it includes people who are waiting to return to a job after being discharged, yet it does not include individuals who have stopped looking for work in the past four weeks due to various reasons such as leaving work to pursue higher education, **retirement**, disability, and personal issues. Also people who are not actively seeking a job but do want to work are not classified as unemployed.

Interestingly, people who have not looked for a job in the past four weeks but have been actively seeking one in the last 12 months are put into a category called the “marginally attached to the labor force.” Within this category is another category called “discouraged workers,” which refers to people who have given up looking for a job.

Types of Unemployment

There are basically four types of unemployment: (1) demand deficient, (2) frictional, (3) structural, and (4) voluntary unemployment.

1. Demand deficient unemployment

Demand deficit unemployment is the biggest cause of unemployment that typically happens during a recession. When companies experience a reduction in the demand for their products or services, they respond by cutting back on their production, making it necessary to reduce their workforce within the organization. In effect, workers are laid off.

2. Frictional unemployment

Frictional unemployment refers to those workers who are in between jobs. An example is a worker who recently quit or was fired and is looking for a job in an economy that is not experiencing a recession. It is not an unhealthy thing because it is usually caused by workers trying to find a job that is most suitable to their skills.

3. Structural unemployment

Structural unemployment happens when the skills set of a worker does not match the skills demanded by the jobs available, or alternatively when workers are available but are unable to reach the geographical location of the jobs.

An example is a teaching job that requires relocation to China, but the worker cannot secure a work visa due to certain visa restrictions. It can also happen when there is a technological change in the organization, such as workflow automation that displaces the need for human labor.

4. Voluntary unemployment

Voluntary unemployment happens when a worker decides to leave a job because it is no longer financially compelling. An example is a worker whose take-home pay is less than his or her cost of living.

Causes of Unemployment

Unemployment is caused by various reasons that come from both the demand side, or employer, and the supply side, or the worker.

Demand-side reductions may be caused by high interest rates, global recession, and financial crisis. From the supply side, frictional unemployment and structural employment play a great role.

Effects

The impact of unemployment can be felt by both the workers and the national economy and can cause a ripple effect.

Unemployment causes workers to suffer financial hardship that impacts families, relationships, and communities. When it happens, consumer spending, which is one of an economy's key drivers of growth, goes down, leading to a recession or even a depression when left unaddressed.

Unemployment results in reduced demand, consumption, and buying power, which in turn causes lower profits for businesses and leads to budget cuts and workforce reductions. It creates a cycle that goes on and on that is difficult to reverse without some type of intervention.

Long-term Unemployment vs. Short-term Unemployment

Unemployment that lasts longer than 27 weeks even if the individual has sought employment in the last four weeks is called long-term unemployment. Its effects are far worse than short-term unemployment for obvious reasons, and the following are noted as some of its effects.

- Some 56% of the long-term unemployed reported a significant decrease in their net worth.
- Financial problems are not the only effects of long-term unemployment as 46% of those in such a state reported experiencing strained family relationships. The figure is relatively higher than the 39% percent who weren't unemployed for as long.
- Another 43% of the long-term unemployed reported a significant effect on their ability to achieve their career goals.
- Sadly, long-term unemployment led to 38% of these individuals losing their self-respect and 24% seeking professional help.