

UNEMPLOYMENT

Unemployment refers to a situation where a factor of production is able and willing to work at the on-going rate of payment but is unable to find a job.

The term unemployment is usually used in reference to labour. Accordingly unemployment refers to a situation where an individual is able and willing to work at the on-going wage rate but is unable to find a job.

OR Unemployment (of labour) is also defined as the proportion of the labour force (*people in the working age group*) who are without work that are currently seeking employment at the on-going wage rate.

Broadly unemployment can be sub-divided into:

- a) Voluntary unemployment
- b) Involuntary unemployment

Voluntary unemployment

Voluntary unemployment refers to a situation in which people who are able are unwilling to work at the on-going wage rate yet employment opportunities exist.

OR A situation in which labour is not willing to work at the on-going wage rate yet jobs exist.

Work is available but individual chooses or intentionally opts not to take up a job (based on several reasons).

Causes of voluntary unemployment

- 1) **Too low wages that are unacceptable to individuals.** The individuals do not take up the jobs since they prefer higher wages.
- 2) **Laziness and hatred for work by certain individuals** of the labour force.

- 3) **The job being inferior/ an individual being too qualified for the jobs available.** The individuals want to maintain their status. For example some people are too qualified for the available jobs.
- 4) **High risks involved in doing the job (poor conditions of work).** Poor working conditions like over working , absence of certain allowances, existence of many hazards (and hence high risks involved in doing the job)at the work place also cause voluntary unemployment.
- 5) **Job being socially unacceptable.**
- 6) **Accumulation of wealth in the past** by rich people, who prefer to survive on past savings. Also people with a **wealthy back ground** prefer to live on family wealth.
- 7) Preference of leisure by some members of the labour force to working.
- 8) Expectation of a better paying job in the near future and one decides to remain unemployed.
- 9) Some individuals retire from active service after filling that they have served for long or are aged.
- 10) Some house wives prefer to stay unemployed to look after their families.
- 11) Cultural and religious constraints
- 12) Unfavourable geographical location of the available job opportunities.

INVOLUNTARY UNEMPLOYMENT

Most unemployment types are involuntary and such a category is mostly considered today (*that is voluntary unemployment is usually not considered seriously as unemployment*). Individuals want to work but there are no jobs. This is major global problem facing countries today.

Hence involuntary unemployment is where members of the labour force are willing and able to work at the current wage rate but cannot find jobs.

TYPES, CAUSES AND SOLUTIONS TO UNEMPLOYMENT

A. Disguised unemployment (*'Hidden unemployment'*)

Refers to a situation where an individual is actively involved in a productive activity but his marginal productivity is zero, negligible or negative.

[OR Refers to a situation where the available work is insufficient to keep all the workers fully occupied such that the marginal productivity of labour is either zero or negative. OR A situation where there are so many workers involved in a given activity such that marginal productivity of labour is zero or negative].

This implies that labour can be transferred out of its current occupation without any reduction in total output (there are more workers than necessary). People appear to be working yet in real sense not i.e. the full potential of labour is underutilized such as hawkers, taxi brokers, the agricultural sector and the government sector.

Causes of disguised unemployment

- 1) Poor manpower planning causing excess supply of labour in some areas/ fields/ occupations.
- 2) High population growth rate leading to excess labour supply
- 3) Employers' desire to keep big numbers of workers for future use/ retaining labour for future requirements such as future expansion.
- 4) Desire by the entrepreneur to retain their loyal workers at least temporarily.
- 5) Trade unions rejecting /opposing lay-offs
- 6) Discrimination in the labour market based on age, sex, religion /Nepotism tendencies in certain institutions especially government institutions. This results into over-enrollment or over recruitment.
- 7) Limited skills of labour/Cases of unqualified workers or poor education system. For example taking up a job which is not in line with one's training.
- 8) Limited information about existing jobs.
- 9) Limited capital by entrepreneurs
- 10) High population growth rate.
- 11) Poor land tenure system/ shortage of land in some parts of the country.

Solutions to disguised unemployment

- 1) Diversification of the economy to avoid over reliance on one activity

- 2) Introduction of better production methods such as irrigation farming to increase productivity even during the dry season.
- 3) Emphasizing population control measures
- 4) Carrying out proper manpower planning to match labour demand and supply
- 5) Comprehensive industrialization programmes to reduce the number of redundant people /Industrializing of the economy.
- 6) Training / education programs to enable workers gain skills to be occupationally distributed (job makers)
- 7) Provide loans and grants to the underutilized people to work at full capacity.
- 8) Advertising the available jobs to create awareness
- 9) Improving the land tenure system.
- 10) Improving entrepreneurial skills among individuals through training.

B. Seasonal unemployment

Refers to the type of unemployment due to seasonal variations/patterns. It involves people being employed in certain periods and unemployed the rest of the time.

OR A form of unemployment that occurs when economic activities are subjected to particular seasons and labour remains unemployed during off-seasons.

For example seasonal changes affect workers in the agricultural sector (workers employed during planting, weeding and harvesting periods), construction workers, fishing sector, road construction, countries experiencing winter where production stops completely causing unemployment. It also applies to sports, tourism etc seasonal unemployment is especially for casual labour unlike experts.

Causes of seasonal unemployment

- 1) Seasonal changes i.e. weather changes
- 2) Varying demand based on time of the year such as Christmas cards, calendars, exam cards etc
- 3) Inadequate raw materials
- 4) Slump in production

- 5) Over specialization in production such that the employee cannot change to another activity as the seasons change.
- 6) Dependence on agriculture which is uncertain and highly dependent on nature.

Ways of solving seasonal unemployment

- 1) Diversification especially in the agricultural sector (to ensure employment throughout the year).
- 2) Introduce irrigation methods in the agricultural sector/ modernizing agriculture to reduce dependence on nature such as through irrigation.
- 3) Adopt skills development programmes i.e. diversify skills of labour through education and training—to enable them to do many jobs.
- 4) Industrial development programmes since industries are not so much affected by seasonal unemployment./ carrying out industrialization of the economy.
- 5) Diversification of economy –developing a variety of sectors in the economy.
- 6) Proper work planning such as offering yearly contracts to employees; forward contracts for contractors to move from task to task.

C. Causal unemployment (Erratic unemployment)

Refers to a form of unemployment that results from accomplishment of one task/ assignment and labour waits for another task.

It is a form of unemployment due to irregularity or variability in the demand for labour i.e. the labour force is only employed when there is demand for their labour. Such as construction workers, contract workers, project workers, repair workers, luggage carrying etc

(It is usually short term especially during a recession and hard to solve as it occurs at irregular intervals. It cannot be predicted unlike seasonal unemployment. It is generally experienced by casual labourers whose getting work is by chance).

D. Structural unemployment

Refers to a situation where people are unemployed due to structural changes in the economy.

OR Refers to unemployment which arises from changes in the pattern of demand and supply in the economy.

It occurs due to structural rigidities in the industrial sector of an economy, changes in production technique, changes in the pattern of demand for goods leading to unemployment of labour and capital in certain (declining) industries. Structural unemployment represents a mismatch between supply of labour and demand for labour. Due to changes in the economy, there is always a mismatch between characteristics of the labour force and the available jobs for example when skills required for certain jobs are significantly different from those possessed by the potential workers/job seekers.

Structural unemployment represents a long-term type of unemployment because the individuals are cut out of work for long periods due to lack of adequate skills required for particular jobs.

Causes of structural unemployment

- 1) Changes in consumer demand (tastes and preferences) for particular products of various industries. This renders those who cannot adjust accordingly unemployed such as from fuel/ charcoal to new energy sources (nuclear, hydro electricity, petroleum etc), from natural fibres to synthetic products, changes in demand for textiles
- 2) Technological changes in the economy i.e. change from labour intensive production to capital intensive production techniques (such as introduction of computers in various business aspects)
- 3) Exhaustion/ depletion of natural resources/ raw materials such as mineral deposits
- 4) Structural break down in the industrial sector i.e. break down in the production process rendering many people unemployed
- 5) Inappropriate education system—which emphasizes theoretical rather than practical studies and makes labourers unable to change to structural changes.
- 6) Long training periods/ inadequate skills for labour.
- 7) Structural adjustment programmes of International Monetary Fund (IMF) such as privatization. *(OR Changes in economic organization/ structure of the country. These are aimed at making production more efficient such as closure*

of old plants and modernizing. For example in Uganda the SAP (structural adjustment programmes) such as privatization, retrenchment, liberalization).

- 8) Shortage of cooperant factors of production such as capital, land, management
- 9) Political instabilities in a given area making production impossible
- 10) International competition causing long-term structural unemployment. In this case the less-skilled workers are increasingly being displaced by foreign workers who are paid comparatively lower wages.

Technological unemployment

Refers to a form of structural unemployment but strictly caused by change in production technique/ technology to capital intensive technology. (**OR** a form of unemployment caused by the use of capital intensive methods of production such as use of machines)

It occurs with an increase in the supply of capital goods and as firms introduce new technologies in their production processes, they end up replacing labour with machines such as computerization, automation and robotics in many industries, use of tractors. The demand for labour decreases (especially those without new skills required in new technology), yet for the firm the costs are reduced and output / profits raised.

Note: Technological unemployment may occur as a result of both technological development and technological transfer.

Solutions to structural and technological unemployment

- 1) Retraining and education of workers whose skills are no longer in demand. i.e. enable them to gain necessary skills for productive work especially in future
- 2) *Training of workers to have many skills.
- 3) *A higher level of initial education is also necessary to enable workers to be more flexible and to change when the situation warrants/ requires change.

- 4) The government should take an active role in providing necessary information about available jobs (and help in financing education and training for the displaced workers).
- 5) Diversification of production
- 6) Adopt flexibility in production to allow industries to adjust to changes in consumer tastes and preferences.
- 7) Importation of certain raw materials to encourage production
- 8) Adopting/ emphasizing population control policies.

E. Residual unemployment

This is a type of unemployment due to physical or mental disabilities which make people unable to work.

In an economy such people are called the unemployables (*and normally not counted among the unemployed*). For the disabled, it is due to their low efficiency standards.

[It can be solved by establishing the craft industry and subsidizing such category of production, use of community rehabilitation homes to train that group of people in skills appropriate to their status (today they have representatives in parliament)].

F. Frictional unemployment (normal/ transitional /search unemployment)

Refers to a type of unemployment in the shortrun due to lack of adjustment between the demand and supply of labour in the economy.

OR Refers to unemployment which occurs when labour leaves a job up to the time when a new job is got. (Refers to shortrun unemployment that arises in the process of people changing jobs).

OR Frictional unemployment is short term unemployment which occurs during the period when labour remains without a job while in the process of switching from one job in anticipation of getting another job.

{Normal unemployment represents job turnover as people change jobs, move to different areas and for other reasons which is temporary and voluntary. It arises from normal market labour turnover such as young people are leaving

school to join the labour force, old people are retiring and leaving the labourforce temporarily; some businesses are closing down and laying off workers yet other firms are opening and hiring workers}.

Note: In a dynamic society/ economy, frictional unemployment is a common occurrence. A situation where the unemployed co-exist with vacant job positions. There will be firms wishing to hire workers with specific skills which may not know where exactly to find the workers who possess the required skills. Firms are looking for workers and some people are looking for work. [the unemployed do not usually take up the first job that comes their way but instead continue **searching** out for the best job available to match their own skills and interests—a satisfying job and income].

Causes of frictional unemployment

- 1) Ignorance of the labour force of the existence of job opportunities/
Inadequate information about the existing jobs.
- 2) Immobility of labour both geographically and occupationally (lack of skills for a particular job). This is due to a number of reasons (refer to labour mobility)
- 3) Temporary discharge of workers when the industry is being reorganized or renovated or fitting new machinery. (also due to break down of machinery).
- 4) Temporary shortage of raw materials
- 5) Bureaucracy involved in acquiring jobs
- 6) Employers' failure to find the required workers available i.e. lack of knowledge that labour exists somewhere.
- 7) Temporary changes in the consumer demand patterns
- 8) *Limited adjustment between demand and supply of labour
- 9) Inadequate skills for the existing job

[Note: It is less likely that frictional unemployment will ever disappear. It depends on the rate at which people enter and leave the labour force and the rate at which jobs are created and destroyed. Therefore at any time there is unemployment due to normal turnover of labour i.e. new members enter the workforce, some leave their jobs, others being fired and it may take some time for such people to find new jobs].

Solutions to frictional unemployment

- 1) Advertise available job opportunities in the country i.e. efficient system of job notification and placement
- 2) Improving the infrastructure to encourage labour mobility such as road network, housing, schools, hospitals where work exists
- 3) Equipping workers with appropriate skills i.e. retraining of the workforce and re-orienting the education system to suit economic changes.
- 4) Proper planning in the allocation of resources and methods of changing to new technology.
- 5) Government attracting firms into the depression regions such as using grants , tax relief (and holidays), rent-free land/ factories etc
- 6) Human resource management (man power planning) should be under taken such that workers are guided about the skills required by the economy.
- 7) Diversifying the economy—to avail more job opportunities

G. Open urban unemployment

This is when members of the labourforce are unemployed in the urban areas basically due to rural urban migration.

It is common in most developing countries and it is where people are actively looking for employment in urban areas. Rural urban migration is a process involving individuals moving from rural to urban areas. It occurs as a result of a combination of push and pull factors.

Causes of open urban unemployment

- 1) Rural urban migration—the mass movement of people from rural areas to urban areas. This concentrates job seekers in urban areas than the available jobs leading to unemployment.
- 2) Employment of foreigners which renders many indigenous people jobless in the urban areas
- 3) High population growth rates in the urban areas
- 4) High use of capital intensive technology in most urban businesses / industries

- 5) Unfavourable government policy , sometimes laying off /cutting off labour (retrenchment)
- 6) Inappropriate skills or lack of the required skills on the part of the available labour.
- 7) Inappropriate education system, which produces more job seekers for white collar jobs only to be found in the urban areas (and job creators are rare to find).
- 8) Imperfection in the labour market which segregates job seekers i.e. nepotism in the labour market (based on technical know-who instead of technical knowhow).
- 9) Slow rate of industrial in the urban areas, which limits the available jobs.
- 10) Stringent job requirements also leave many people unemployed such as knowing many languages, computer skills, 10 years working experience etc

Possible solutions to open urban unemployment

- 1) A comprehensive industrial development programme especially in the urban areas to ensure job creation. This involves small scale labour intensive industries
- 2) Adopt and emphasize population control measures such as family planning policies to check on the high fertility rates
- 3) Privatization policy to encourage local and foreign investors to create production units and jobs in the longrun.
- 4) Education policy reform to reduce the problem of school leavers without required skills. This is by emphasizing practical skills to produce job creators.
- 5) Exposure/advertise the available job opportunities such as news papers and job slots on radio.
- 6) *Promote the use of intermediate technology which is appropriate to the economic requirements
- 7) Encourage retraining and on-job training of the labour force
- 8) Put up and monitor an employment policy for example to limit employment of foreigners in urban industry and business.
- 9) Economic liberalization to encourage production and creation of more jobs.

- 10) Government to encourage and create an effective financial infrastructure to help mobilize savings and loans. Credit schemes availed to the unprivileged groups to enable them start job opportunities.
- 11) Economic diversification to avoid over reliance on a few activities such as by developing tourism in the country side, small scale industries in the rural areas.
- 12) Rural development policies to reduce rural urban migration. this includes: financing the agricultural sector to improve methods of production, provision of tools, transport improvement, better education and health facilities etc
- 13) Urban rehabilitation and reform such as arresting the urban unemployed as being idle and disorderly.

Qn (a) "Open-urban unemployment is best explained by rural-urban migration."
Discuss

(b) Suggest solutions to the problems of urban unemployment

H. *Natural unemployment

This is a type of unemployment experienced in conditions of full employment when the labour market is in equilibrium. This is some acceptable level of unemployment.

I. *Export/ international unemployment

This is a form of unemployment due to loss of export market and can be reduced through export-market research. It arises due to loss of export markets by the domestic export-promotion industries forcing them to reduce the labour employed.

J. Keynesian theory of unemployment (Cyclic unemployment / demand deficit unemployment)

Cyclic/ Keynesian unemployment refers to a form of unemployment that results from deficiency in aggregate demand for final goods and services especially during economic depression.

It occurs during economic slump when firms reduce their output, income level falls and therefore less labour and capital employed.

[Cyclic unemployment results from fluctuations in the business cycle. It arises significantly during economic recessions and falls during growth phases].

GENERAL CAUSES OF UNEMPLOYMENT IN DEVELOPING COUNTRIES (UGANDA)

1. ***Rapid population growth rates.*** Population increases the supply of labour more than the increase the employment opportunities (*due to shortage of cooperant factors*). The end result is surplus labour which remains unemployed.
2. ***Increased/ high rural urban migration;*** which worsens open urban unemployment. Many individuals move from rural areas to urban areas in search of jobs leading to a mismatch between urban job opportunities and the demand for jobs.
3. ***Variations/ changes in seasons and seasonal pattern of work in some sectors especially in the agricultural sector.*** In the peak season there is work and after wards many people remain without work such as in the agricultural sector, tourism and construction sector.
 - ***(Heavy dependence on nature).*** Natural disasters such as drought, floods, unpredictable weather, pests, and land degradation have contributed to worsening unemployment especially in rural areas.
4. ***Political instabilities in some parts of developing countries.*** Political insecurity discourages local and foreign investors/ economic activities, hence limiting employment generation. (The conflicts/ insecurity also displace people making them redundant, destroys economic assets, re-directing resources to war).
5. ***Distortions in the labour market/ discrimination in the labour market based on sex, religion, tribe ;*** for example high preference of foreigners at the expense of indigenous citizens; reduction in public expenditure which shifts labour to low productivity urban informal sector activities. (*There is also discrimination in the labour market such as according to religion, sex, colour, tribe, family connections etc and hence rendering many potential workers unemployed*).

6. **Limited or shortage of cooperant factors of production such as capital and land.** For example shortage of land due to poor land tenure system. This limits investment/ production and thus low creation of employment opportunities/ rendering many people jobless.
7. **Poor man power planning by the government.** Uganda does not have appropriate institutional frame work for employment planning (*policy formulation and implementation*) such as the failure to integrate employment concerns with economic planning/ investment policies. This causes excessive supply of labour in some areas and less supply in other areas (*and yet there many training programs of labour are not in line with labour demand*).
8. **Inappropriate education system.** This produces more job seekers than job creators/ makers since it imparts less or no practical skills into students to get self-employed. It prepares students for white collar jobs which are not available. Yet even formal education expands more than technical education. (*Many educated people have skills which are not relevant to the job market*)
9. **Technological changes/ high preference for capital intensive technology.** Labour is greatly replaced by machines leading to high degree of unemployment. Adoption of new technology limits the number of required labour, since only a few people operate the machines. More so Some people find themselves unable to adopt to new technology
10. **Structural adjustment programs in the economy.** The adoption of IMF policies such as retrenchment of civil servants (laying-off labour), cost-sharing—to reduce government expenditure, privatization of state owned enterprises leading to loss of jobs in the public sector.
11. **Limited markets for commodities/ low aggregate demand for goods and services,** which discourages investors. This is majorly due to low incomes (*and also changes in tastes and preferences leading to falling prices*), discouraging production/ investors and in turn low demand for labour, causing unemployment.
12. **Physical and mental disabilities,** causing residual unemployment. Some potential workers are physically incapacitated such as the lame, blind among others, making them unable to find appropriate jobs.

13. **Poverty (poverty cycle) also reinforces unemployment.** This makes people not to attain relevant education and associated skills, low capital for investment and therefore cannot create employment in the private sector.
14. **Frequent breakdown of major industries due to mismanagement.** This reduces production and supply of commodities, hence causing limited demand for labour, hence unemployment in the economy.
15. **Poor attitude towards work/ laziness among individuals.** Some workers refuse to work voluntarily such as due to the need to live on past savings or poor working conditions or some prefer to depend on gambling instead of productive work—causing unemployment.
16. **Ignorance of the existence of job opportunities.** Many potential workers are not aware of the available jobs in various sectors due to limited advertisement and less developed communication systems especially in the country side, hence many remaining unemployed.
17. **Strong influence trade unions in certain occupations.** Trade unions force firms or government to increase wages and other benefits given to workers. This creates a situation in which there are many people willing to work than the number of people that the firms are ready to employ.
18. **Over- dependence on a few export crops/ items.** This leads to fluctuation in the level of employment with change in seasons and fluctuation in prices. Also the exportation of mainly primary products and therefore limited employment creation in the secondary and tertiary industries generally.
19. **Immobility of labour both geographically and occupationally.** This makes it impossible for labour to change occupation or to get employed. There is limited information in the labour market leading to frictional unemployment, poor working conditions etc
20. **Lack of international competitiveness/ economic stagnation making many LDCs unable to compete effectively in world production.** The major constraints are poor infrastructure, insufficient skills, limited technology etc hence limiting economic diversification and efficiency in export production, hence limited employment creation.

21. ***Stringent job requirements such as bureaucracy*** involved—applications, several interviews, 8-10 years experience, age-limits etc. This makes many potential workers unemployed.

GENERAL CONSEQUENCES /COSTS OF UNEMPLOYMENT IN DEVELOPING COUNTRIES

1. ***Decline in the level of acquired skills/ results into loss of human capital.***
(*Human capital is the value of a person's education and acquired skills*).
Unemployment for long periods limits career development and acquisition of more skills, and yet the already acquired skills are reduced (*or become increasingly outdated in the rapidly changing job market*).
2. ***Discourages investment in education.*** There is reduction in enrollment and quality of education. This is because the unemployed parents cannot afford to educate their children in quality schools and this leads to flooding of public schools. More so the educated unemployed people demoralize others who are seeking education, leading to increased drop-out rates.
3. ***Results into low output/ reduces GDP and the rate of economic growth.***
There is loss of output of goods and services that would be produced by the unemployed/ the existing labour force is not fully utilized. Unemployed people do not contribute to national income.
4. ***Results into reduction in government tax revenue.*** This is because the majority of the people are not employed, have no income, hence low tax base and taxable capacity, yet the government increases its expenditure on the unemployed.
5. ***Increases the dependence burden.*** There are more unemployed people who are sustained by the few working people, hence over straining them. This results into low savings and low investments
6. ***Worsens income and wealth inequalities in the economy.*** This is especially between the employed and unemployed. The unemployed do not earn income while the employed continue to earn wages/ salaries, hence widening the income gap—leading to general poor standards of living.

7. ***Reduces aggregate demand for goods and services.*** This is because the unemployed have no income to spend, and which reduces the available market –discouraging investment in the economy.
8. ***Results into increased brain drain.*** The emigration of the highly educated and skilled human resource from developing countries to more developed countries for jobs and better conditions of work increases. This in turn limits domestic production.
9. ***Increased government expenditure.*** Unemployed people need government support in form of free services like education and health care. This in turn increases government taxation of the few working people and borrowing to provide essential goods and services to the population.
10. ***Decline in the general standard of living due to low or no incomes.*** This makes people unable to acquire the required goods and services. This causes misery, frustration and poverty.
11. ***Discourages investment in education.*** Many individuals prefer to invest money in other sectors.
12. Increases rural-urban migration and associated problems such as poor accommodation facilities, growth of slums.
13. ***Loss of human dignity/ increases crime and anti-social behaviors*** i.e. loss of self esteem due to prolonged periods of unemployment. Individuals become frustrated which causes political and social evils such as corruption, prostitution, rape, drunkenness /alcoholism, drug trafficking, money forgery, child mistreating, wife assault, suicide, gambling, vandalism during strikes and demonstrations etc. This is because people struggle to survive as they are unable to get legal employment (***increase in the level of immorality***).
14. ***Unemployment makes government unpopular/ results into unrest or insecurity,*** especially when it collects high taxes from the few employed people. More the unemployed look at government as the source of their problems and as a bad government that has failed to manage the economy. Such people are easy to mobilize into riots and protests.
15. Environmental degradation. as the unemployed look for alternative means of livelihood such as through increased deforestation for charcoal burning,

cultivation, wetland encroachment, destruction of lake shores and steep slopes.

16. Results into exploitation of the labour force since labour becomes cheaper.

17. **Results into underutilization of productive resources such as land.** This is because many people are not engaged in productive activities and this in turn results into low production of goods and services.

18. **Results into dissaving.** (*Dissaving is the spending of savings accumulated in the past*). Unemployed people use accumulated savings during periods of unemployment and this hinders long-term development through investment.

19. Increases the population growth rate and disease.

****[Some few benefits /positive effects of unemployment***

a) *Competition for jobs reduces wages, which reduces costs of production and hence increasing the profits to investors. This attracts local and foreign investors.*

b) *Increases efficiency of labour, since many workers try to avoid losing their jobs.*

c) *Unemployment promotes occupational and geographical mobility of labour.*

d) *Unemployment can accelerate the demographic transition and reduce the rapid rate of population growth.*

e) *Can lead to increased entrepreneurship through the informal sector activities since people resort to being more innovative and copy strategies as seek for survival.]*

STEPS BEING UNDERTAKEN TO SOLVE / CURB UNEMPLOYMENT PROBLEM IN UGANDA

1. ***Adopting population control measures/ controlling population growth.*** These include: using family planning to reduce birth rate, family size, limiting polygamy and therefore the dependence burden. This reduces the pressure on the resources and hence trying to make population growth to match with job creation capacity.

2. ***Ensuring political stability and governance in various parts of the country (and the entire region)*** such as through cooperation of the East African

Community governments. This is encouraging more economic activities hence expanding productive employment, by increasing the confidence among investors.

3. ***Expanding and promoting of the industrial sector.*** The government is emphasizing the development of industries both agro-processing and manufacturing industries such as by developing the required infrastructure in various areas. This is creating employment through forward and backward linkages.
4. ***Encouraging investment by both private local and foreign investors.*** This involves offering investment incentives such as granting tax holidays, tax reductions, free land, quick licensing of investors, which is increasing investment and in turn generating more employment.
5. ***Encouraging privatization policy to promote entrepreneurship development.*** This is the transfer of ownership and management of public enterprises to the private sector. The private sector is increasingly using resources more productively. This is increasing efficiency in management of enterprises/ expanding production and hence creating more employment in the private sector.
6. ***Reforming the education programmes to emphasize practical skills /Human resource development*** (such as by subsidizing vocational training and revising the education syllabus. This is increasing people's skills to enable them in line with the market/ job requirements. Education reforms are especially targeting self –employment by laying emphasis on practical / vocational training, hence creating more job seekers than seekers.
7. ****Human resource development/ training of workers to acquire the required skills.*** For example using in-service training, workshops, in order to equip workers with skills and knowledge to start up jobs.
8. ***Modernizing of agriculture.*** This involves encouraging the use of improved seed varieties and promoting the use of modern farming methods like use of machines, fertilizers, irrigation. There also improved animal breeds and animal rearing skills, aimed at increasing employment in the rural areas.
9. ***Diversifying of the economy.*** A number of activities are being developed, hence reducing over dependence on a few economic activities. This includes

exporting agricultural products with value added through processing; developing the tourism sector, fishing industry, commerce etc and thus increasing employment generation in the various sectors.

10. **Further liberalizing of the economy.** This is encouraging establishment of self-help projects and hence more self employment. This involves mobilizing local savings and investment to sustain economic growth and thus employment generation.
11. **Developing (establishing and improving) of infrastructure** such as roads, dams for power generation, railway lines. This is increasing geographical mobility of labour to places with jobs opportunities and it is also improving various economic activities, hence generating more jobs.
12. **Availing information about available job opportunities and investment opportunities.** This is through advertisement such as job slots on radio, television and news papers making people aware of various job opportunities.
13. **Improving the land tenure system/Land reform policy.** This is being done in various parts of the country to ensure clear land ownership and control, hence better maintenance of land to increase economic activities and hence more employment creation. The land tenure system is being changed to avail the landless people with land to employ themselves.
14. **Carrying out market expansion programmes, both internally and externally.** For example emphasizing economic integration like the East African Community (EAC), which is increasing the market for goods and services produced, encouraging investments and thus creating more job opportunities.
15. **Restructuring of the civil service.** This involves encouraging of the aged workers to retire by paying their pensions or carrying out forced laying-off to open up employment to the young more productive people.
16. **Integrating gender and employment planning.** This is because the rate of unemployment is much higher among women than men, as they do not have access to proper skills and productive assets such as land. More programmes are being put to cater for women economic empowerment such as soft loan schemes.
17. **Fighting against corruption and nepotism** such as by using the justice arm of government. This is ensuring that resources are put into productive activities

instead of private pockets. It also liberalizes the economy—making investment simple and thus creating more employment opportunities for the people.

18. **Emphasizing rural transformation programmes.** Since many people stay in rural Uganda, government is encouraging and promoting rural transformation such as through developing transport infrastructure, and rural electrification. this creates meaningful employment in the rural areas with higher incomes.

THEORIES ON CAUSES AND SOLUTIONS TO UNEMPLOYMENT

There are two basic theories which explain the causes and solutions to unemployment:

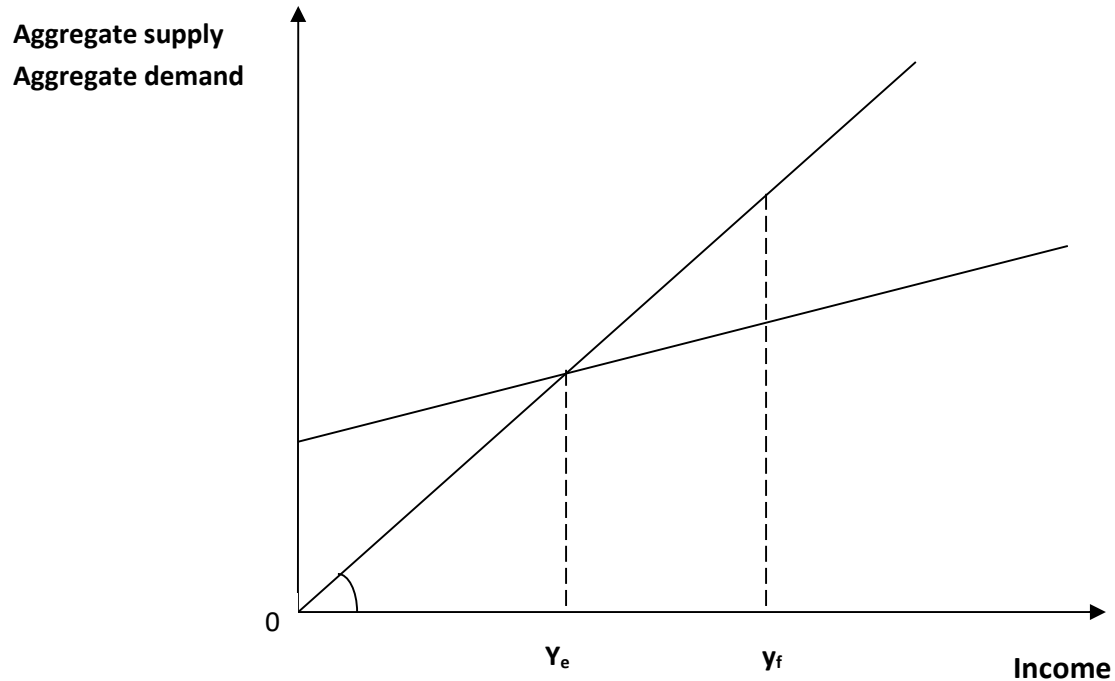
- (a) The Keynesian theory of unemployment
- (b) Rural-urban migration theory of unemployment

The Keynesian theory of unemployment

The Keynesian theory of unemployment states that ***unemployment arises due to deficiency in aggregate demand for final goods and services especially during economic depression/ slump.***

Due to falling aggregate demand (*short of aggregate supply*), the producers reduce their output level to reduce the variable costs, investment is discouraged, income falls and eventually less labour and capital are employed. It results into laying off workers and even worse still some workers income and weekly hours may be reduced.

Illustration of Keynesian unemployment



Due to deficiency in aggregate demand ab , the level of unemployment that results is $y_e y_x$.

(According to Lord Keynes once aggregate demand falls, the firms / producers accumulate inventories i.e. entrepreneurs find themselves with unsold goods. They will be forced to reduce investment and eventually lay off workers).

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According to Keynes the major remedie/ solution to this type of unemployment is to increase aggregate demand. This is done by:

- 1) Using expansionary monetary policy. This increases the amount of money in circulation and eventually increases aggregate demand. (For example buying securities from the public, reducing the bank rate, reducing legal reserve requirement to increase credit availability).

- 2) Expansionary fiscal policy/ increasing government expenditure—to create employment and income, hence increasing aggregate demand.
- 3) Reducing of direct taxes, on people's incomes—which increases the consumers' disposable income and hence increase in aggregate demand.
- 4) Increasing wages/ wage policy –increase in wages increases the purchasing power of workers, hence leading to increase in aggregate demand.
- 5) General investment promotion through good investment climate tax holidays, subsidies, political stability etc as well market research/expansion for goods and services.
- 6) Increasing exports/ export promotion to expand demand for local products—which stimulates demand for labour.

Assumptions of the theory

- a) Keynes concentrated his theory on the aggregate demand side and assumed aggregate supply to be fixed.
- b) He also assumes a closed economy—there is no international trade with other countries.
- c) Assumes a large and developed/ strong private sector
- d) Existence of idle resources (labour, skills, entrepreneurs etc) which only need to be reactivated./ the theory assumes that cooperant factors of production are easily acquired such as capital, land.
- e) The theory assumes a highly monetized economy. There is no barter exchange system.
- f) *Assumes full employment level in the economy.
- g) Assumes that the product market and money markets are highly developed and functional.
- h) Assumes existence of the investment multiplier.
- i) Assumes that firms should quickly and effectively respond to changes in demand.

Applicability /relevance of the Keynesian theory of unemployment to developing countries

1. At times unemployment in developing countries is caused by a fall in aggregate demand for commodities, both domestic and from abroad. Due to lack of effective demand for goods produced labour has to be laid off.
2. The theory is likely to be more applicable in the longrun when the supply of cooperant factors of production increases. For example as capital increases, there is an increase in investment level and thus an increase in employment level.
3. Investment climate affects employment level and therefore promotion of investment in developing countries expands employment as stated by Keynes.
4. In developing countries there is some element of industrialization on which Keynes based his theory. *In developing countries, there is an element of industrialization making the theory a bit relevant to the industrial sector.*
5. Keynes suggested that aggregate demand can be increased by increasing the export base since export earnings boost people's incomes and later increase the demand for goods, which then calls for more labour to produce them.
6. The use of expansionary fiscal and monetary policies can reduce unemployment by increasing the purchasing power and aggregate demand as Lord Keynes prescribes (such as reduced taxation, increased government expenditure, reduced bank rate etc). This is part of the structural adjustment programs adopted today.
7. In LDCs there are measures to stabilize export earnings through IMF compensatory arrangements to ensure stable export markets. This is an attempt to reduce unemployment through increased production earnings.

Irrelevance / criticisms/ limitations of the Keynesian theory of unemployment to developing countries

1. The Keynesian theory is mainly concerned with deficiency in aggregate demand and ignores the fact that unemployment in developing countries is basically originating from the supply side i.e. there is lack of cooperant factors to employ labour such as capital.
2. The theory is applicable under conditions of full employment, which conditions are rare/ not found in developing countries.

3. As a solution to this type of unemployment, Keynes prescribes policies of increasing aggregate demand like expanding money supply but this is likely to be inflationary.
4. Keynes based his theory on a closed economy, yet all economies in the world today are open—participating in international trade (Modern economies are inter-linked with each other and LDCs are dependent economies based on foreign trade to develop, export of primary products and import manufactured goods).
5. The theory is based on a highly monetized industrial economy. However many economies of developing countries are still having a large subsistence sector and people produce for their own consumption (yet even agriculture forms the backbone of the economies).
6. The theory is based on the existence of big and strong private sector. However most economies of developing countries have a big public sector and the private sector is small and underdeveloped.
7. The theory emphasizes investment multiplier as the major contributor to employment. In developing countries however it is the export multiplier which contributes more to employment. *(Yet also increased investment in general in LDCs may not be followed by expanded effective demand).*
8. In many developing countries, there are structural difficulties making firms unable to respond quickly to increase in demand as the theory states. Even when demand increases, firms may not immediately increase the employment level.
9. The theory assumes existence of idle resources, skills, economic and social infrastructure etc which only need to be rejuvenated to be operational. This does not apply to LDCs whose economies are 'static' and have limited or lack all the essential resources mentioned above.
10. The theory concentrates on involuntary cyclic unemployment. In developing countries however, unemployment is chronic unemployment. LDCs for example are faced by disguised unemployment and other types of unemployment to which Keynes does not offer a solution.
11. Unemployment in developing countries is not only caused by deficient aggregate demand. But there are a variety of other causes such as rapid

population growth rates, low job creation, IMF policies etc. The theory as such becomes insufficient to developing countries' trends.

12. The product market, factor market, and money market in developing countries are not functional as assumed by Keynes. This makes the application of policies suggested less relevant to developing countries.

Guiding questions

- 1) (a) Explain the Keynesian theory of unemployment (6mks)
(b) To what extent is this theory relevant to developing countries? (14mks)
 - 2) (a) What according to Keynes (J.M) are the solutions to the unemployment problem? (6mks)
(b) Explain the limitations of the Keynesian theory of unemployment in developing countries (14mks)
 - 3) The Keynesian theory of unemployment was formulated in 'a developed economy' context. To what extent is this theory applicable to your country?
 - 4) (a) 'Open –urban unemployment is best explained by rural—urban migration' discuss (10mks)
(c) Suggest solutions to the problems of urban unemployment (10mks)
- 5) ***Under what conditions is the Keynesian theory of unemployment applicable to an economy?***
- When the investment climate is favourable such as low taxes, subsidization of producers.
 - When the economy is closed
 - When the economy is highly monetized
 - When the industrial sector is highly developed
 - When the co-operant factors to labour are easily acquired such as capital, land, entrepreneurship
 - When the marginal propensity to import is low. This helps to save foreign currency which is used for investment and thus creating employment.
 - When there is full employment of all factors of production

- When the factor, product and money markets are highly functional
- Where firms quickly and effectively respond to changes in demand. This enables them to continue producing thus creating employment.
- Etc

Rural-urban migration theory

There are economic and non-economic factors that exist in urban areas which attract people from rural areas. There are pull factors and push factors that are responsible for rural-urban migration.

Pull factors are the favourable factors which attract people to migrate to urban areas such as good social services.

Push factors are the unfavourable factors which force people out of the rural areas and therefore migrate to urban areas such as high level of unemployment, poor infrastructures.

Causes of rural urban migration

1. Presence of better social services in urban areas such as medical services, banking, insurance services.
2. Poor education system which does not train students to find jobs in their villages but trains people to work in offices.
3. Unproductive land in the rural areas, which forces people to move to urban areas in search of better economic activities.
4. Unfavourable weather conditions in rural areas.
5. Political instabilities in some rural areas. Urban areas are often guarded by the government more than the rural areas.
6. The government minimum wage is always effected in urban areas unlike the rural areas.
7. There are higher chances of getting employed in the urban areas unlike the rural areas.
8. Government's reluctance to develop rural areas has left most of them backward and under developed such as with poor infrastructure.

Solutions to rural urban migration

1. Government should countrywide minimum wage policies for all the workers. This encourages individuals to work in rural areas.
2. Government should improve the education system from being theoretical to practical such emphasizing the teaching of agriculture at all levels. This is to encourage people to settle and work in the rural areas.
3. Population control policies should be adopted such as through family planning methods.
4. Government should ensure political stability throughout the country. This is to encourage economic activities in rural areas and thus their development.
5. There should be promotion of small scale industries in rural areas so as to create employment opportunities such as cottage industries which are mainly labour intensive. Like small bakery, brick laying.
6. Agricultural modernization so as to produce more output and yet of better quality. This command better prices and thus increasing incomes and savings of farmers.
7. There should be urban-rural migration initiated by government. This is through provision of incentives such as credit to those who return to rural areas.
8. There should be diversification of the economy. This creates more economic activities and thus employment even in the rural areas.
9. There should be improvement in the land tenure system to encourage more ownership of land. This increases economic activities and thus creating more employment opportunities.

Causes of rural unemployment

- Low level of education among the rural people.
- High dependence on weather conditions by the agricultural sector.
- Rapid population growth rates.

- Poor education system producing more job seekers in urban areas than job creators in rural areas.
- Physical disabilities especially the old age. There is a big proportion of old dependants in rural areas.
- Low motivation for commercial production due to limited markets for agricultural produce in rural areas.
- Use of capital intensive methods of production by large scale producers in agriculture.
- etc

Note: Employment multiplier. Refers to the number of times an initial change in employment multiplies itself to give a final change in total employment. This is the basis of the Keynesian theory of unemployment.

For example if government spends money in starting a sugar plantation, later secondary employment is created in processing, transportation and marketing of sugar.

Under employment

Refers to the underutilization of labour's full work potential/ resources, in form of working less time than desired or labour engaging in jobs below his acquired skills.

However there are other definitions:

1. Refers to a situation where people are working less hours than they are supposed to or statutory work hours.
2. A situation where labour is working full time but getting less wages than the statutory minimum wage.
3. A situation where people are in jobs whose requirements are below the level of their acquired skills through education / training.
4. A situation where people are working full time but in less productive tasks due to lack of co-operant factors of production.

5. Working full time but in socially undesirable jobs even if they are paying such as smuggling, prostitution

A situation where a person's earnings are below the market wage for that type of labour. It can also take the form of disguised underemployment in addition to those forms above.

FULL EMPLOYMENT

Generally refers to:

1. A situation when all people or factors willing and able to work at the on-going wage rate can find jobs.
2. A state in which the number of people looking for jobs equals the number of job vacancies available at a given time.
3. A situation when there are more vacancies than the available labour/job seekers in an economy at a given time.
4. A situation when unemployment is about 3% or less (to meet frictional unemployment).

It can also be said that full employment is a situation when all unemployment is frictional and structural and there is no cyclic unemployment.

(It is noted that there is always some unemployment even at full employment. At less than full employment, other types are prevalent as well. The unemployment rate at full employment is known as the natural rate of unemployment).

According to Lord Keynes, full employment occurs when there is no unemployment. Or it is where the only unemployment is frictional unemployment which should not exceed 3% of the working population.

Problems of full employment

- *Strengthens trade unions' bargaining power which may discourage employers.*
- *Full employment increases the dangers of inflation such as cost-push inflation.*
- *Difficult to achieve and the struggle to achieve it may enhance misallocation of resources.*

- *Labour quality and performance reduces because of no tension of being dismissed or laid—off.*

Note: *since full employment gives allowance of 3% for frictional unemployment, it does not imply zero unemployment. As such full employment is never full.*

To achieve full employment the measures can be taken:

- *Monetary policies*
- *Fiscal policies*
- *Budgetary policies*

Why it is difficult to attain full employment in an economy?

1. The use of capital –intensive technology which limits job creation opportunities such as the use of computers, tractors.
2. Heavy capital flight /outflow which further limits investments
3. Restrictions by trade unions on entry of new employees and maintain the wages of the employed people high.
4. High population growth rates in developing countries exceeding the rate of job creation. It causes high labour supply against low demand for such labour.
5. Continuous rural-urban migration which increases urban unemployment.
6. Shortage of / limited cooperant factors of production such as limited capital, limited land.
7. Heavy dependence on nature causing seasonal unemployment.
8. Poor man power planning in developing countries which results into surplus labour in some fields and deficit in other fields.
9. Immobility of factors of production between jobs, geographically and occupationally. For example labour tends to be immobile due to high level of specialization among others.
10. Inappropriate education system, which encourages job seekers than job creators.
11. Prevailing social barriers such as nepotism/ discrimination in the labour market.

12. Weak government policies preferring to employ foreign expatriates.
13. Structural changes in the economy causing temporally unemployment. For example structural adjustment programs of IMF—privatization, retrenchment.
14. Limited domestic and foreign markets causing low aggregate demand for goods and services, resulting into cyclic unemployment.
15. Inadequate information about the existence of job opportunities.

Guiding questions

- 1) (a) Account for the unemployment problem in your country (10mks)
(b) Explain the measures being taken to tackle the unemployment problem in your country (10mks)
- 2) (a) Account for the causes of unemployment (10mks)
(b) Explain the effects of unemployment in an economy (10mks)
- 3) (a) Distinguish between frictional unemployment and cyclical unemployment (4mks)
(b) Why is unemployment a problem of concern to the government of Uganda? (16mks)
- 4) (a) What are the causes of disguised unemployment in your country? (10mks)
(b) Explain the measures that should be taken to increase the level of employment in your country (10mks)
- 5) (a) Explain the effects of unemployment to an economy (10mks)
(b) Suggest possible remedies to the unemployment problem in your country (10mks)
- 6) (a) Discuss the general causes of unemployment in developing countries (10mks)
(b) Suggest practical remedies to alleviate the unemployment problem in your country (10mks)
- 7) (a) Distinguish between voluntary and involuntary unemployment (4mks)
(b) Explain the major causes of voluntary unemployment in developing countries (16mks)

8) (a) Examine the causes of structural unemployment in an economy(10mks)

(b) What are the effects of rising unemployment on the economy? (10mks)

9) What is meant by the following terms:

(a) Full employment (4mks)

(b) Under employment (4mks)

© Open—urban unemployment (4mks)

(d) Technological unemployment (4mks)

10) (a) Define and explain the term under employment (4mks)

(b) What policy measures are being taken to increase the level of employment in your country? (16mks)

11) (a) What do you understand by the term full employment? (6mks)

(b) Why is it difficult to achieve full employment in an economy? (14mks)