

Unit 8: Unemployment

1. Labour market

Of all the markets that exist in an economy, the most significant is, without doubt, the labour market. Because of the singularity of the goods exchanged (the labour force of the people), because of the social repercussions of their imbalances, the labour market has special treatment in all economies by the economic authorities.

1.1 The actors in the labour market

The job offer shows the predisposition to work by people in exchange for a certain salary. It is important not to confuse the term "job offer" with job offers that companies publish in the media. In fact:

- **Companies demand work**, which they need to be able to produce goods and services. Therefore, they will be willing to pay a certain salary.
- **People offer their work force, and they do it in exchange for a certain salary**, since they need income to be able to consume.

■ What does the job offer depend on?

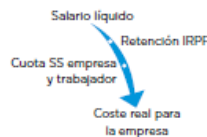
The job offer depends on several factors, among which the salary is determining. In fact, the offer of work is, generally, increasing with respect to the salary (to greater salary, greater amount of work a person is willing to offer). The job offer also depends on the salary paid in other occupations, the level of wealth or non-salary income and the individual assessment made of the leisure time that is waived by working.

■ What does the demand for work depend on?

Companies demand work because they need it to produce goods and services. The salary, for the companies, supposes one of the most important costs of production, the reason why this one becomes one of the crucial factors at the time of demanding a major or minor amount of work. The demand for work will, therefore, decrease with respect to salary. Another factor is the scale of production, the existing technology, the prices of the rest of the productive factors and the productivity of work (relationship between the production obtained and the work employed).

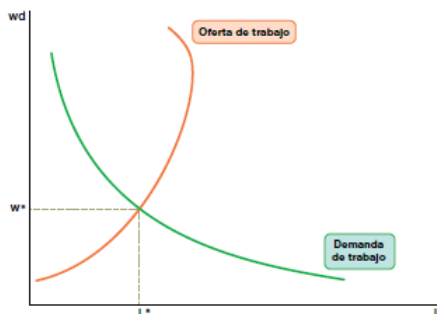
Salary and labour cost:

The gross salary is the sum of what the worker receives (liquid), what the Treasury withholds in taxes (IRPF) and what is paid into the National Health Service (NHS workers' quota). If to the above we add the social quota that satisfies the company for the worker, we will have the real cost of the job for the company.



1.2 Labour Market

We understand the labour market as the meeting point between the offer of work and the demand for work. In the labour market, these forces interact to determine the amount of labour exchanged at a given salary. If we represent the salary in ordinates by the variable "W", and in abscissa the amount of work by the variable "L", we will obtain the following graph:



In the graph we see how the labour market is placed in equilibrium at a given wage W^* , for which the amount of work is demanded and offered L^* .

The special nature of the labour market

The asset exchanged in the labour market (the labour force) makes it a special market.

Any maladjustment in its functioning will cause that there are people who wish to work to obtain income and cannot do it, or that those who obtain it do so in exchange for precarious salaries. In addition, the

employment relationship is an asymmetric relationship, where the parties do not often enjoy the same situation of force. In most economies, this market is not free, but it is strongly regulated by the State.

Activities

1. Look at the graph of the labour market proposed in this section.

a) According to the job offer, what will happen to the work offered as the salary increases? Why do you think that is the case? Ask your teacher why the curve turns to the left when salaries are very high.

b) According to the demand for work, what will happen to the work demanded as the salary increases? Why do you think that is the case?

c) Imagine that the salary increases above the equilibrium wage (W^*). Mark it out until it reaches the curves of demand and supply, finding the quantities demanded and offered work. What's going on?

Which of the two quantities of work do you think will be exchanged in the market? Do you know what this situation is called?

2. Taking into account the situation of the last section of the previous year, what would happen if the demand curve were shifted to the right because the sales of the companies increase? Reason the answer.

2. Unemployment

One of the biggest concerns of our society is the high level of unemployment that exists in our economy. The concern is greater when this problem affects certain groups with greater intensity, such as young people, women, people over 45 and the long-term unemployed population. In addition, it is a problem that transcends the economic issue, by virtue of the psychological consequences suffered by those who suffer.

2.1. Unemployment

We talk about unemployment when there is unemployed population, that is, people who want to work at a salary level and cannot find where. It is a very serious imbalance of the labour market, due to the social implications that it triggers.

The causes of unemployment are not solely due to the level of salary. Mismatches between required training and required qualification, geographical mobility, types of contracts or agents involved are, among others, some of the variables that make this market one of the most difficult to manage.

• When is an unemployed person considered so?

At the time of taking the data on unemployment into account, we have two major sources. On the one hand, the Active Population Survey (EPA), and on the other, the information offered by the state employment services (SEPE) and the regional ones.

The EPA considers that a person is unemployed if they are 16 or older and if during the week prior to the conclusion of the survey they have been without work, available for work and actively seeking employment. The SEPE refers to the figure of the unemployed person as the person who simultaneously meets the following requirements: not having a job, being available to work and doing some kind of management in order to get a job...

Related concepts

- Active population: It is divided into working population and unemployed population.
- Working population: 16-year-old people or older who work at least one hour a week, in exchange for a payment in cash or in kind.
- Unemployment rate: is the quotient between the number of unemployed and the number of assets.

$$\text{Unemployment Rate} = \frac{\text{unemployment population}}{\text{active population}} \cdot 100$$

2.2 Types of unemployment

Unemployment can be caused by several causes and, therefore, we have several ways to solve or analyze it. Next, we will expose the types of unemployment according to their origin.

- **Frictional unemployment:** It is the lightest type of unemployment. Its origin must be sought in the time it takes people to change jobs or replace those who retire. It is a temporary unemployment and typical of the process of entry and exit of assets to the labour market.
- **Structural unemployment:** It is a serious and lengthy process. It is caused by the existence of lags between the supply and the demand of work, due to different requirements in terms of qualification. Technological advances, the change of economic model or the decline of a sector (for example, construction) motivate companies to demand work with a qualification or location different from what

the offer can supply. In other words, the training and skills of workers do not conform to what companies demand. This unemployment must be tackled with employment policies that recondition the supply of labour to the demand, before it becomes entangled in the economic structure.

- **Conjunctural unemployment:** It is cyclical in nature. It appears when the economic activity declines and companies experience, therefore, a fall in their levels of production and sales, demanding less work. It can be temporary, if the economy is reactivated and there is no change in the productive model. However, if the economic crisis is motivated by the collapse of a sector with a lot of weight in the economy, (case of the construction sector for the Spanish economy), it can become structural unemployment if one does not act on the qualification of the job offer

Unemployment and population

- **Youth unemployment:** unemployed population under 25.
- **Female unemployment:** Female unemployment rates are generally higher than those for males.
- **Long-term unemployment:** affects unemployed people who have been actively seeking employment for at least 12 months without getting a job.

3. Knowing that the unemployment rate of an economy is calculated by comparing the unemployed population with the active population and that it is expressed as a percentage, calculate the unemployment rate with the following data:

Employed: 23,015,500 people.

Unemployed: 5,149,000 people.

4. Based on the following information, calculate the youth unemployment rate (under 25) for our labour market.

2018 T1	Total	16-19	20-24
Employed	22,670,3	238,08	1,181,30
Unemployed	3,796,1	132,8	382,4

Datos en miles de personas. Fuente: INE. 2018.

3. The labour market in Spain

As we mentioned at the beginning of the unit, unemployment is one of the main concerns of our society. And this is as much for its volume as for the economic and social consequences it generates.

Next, we will try to dissect the big figures to know the details of this economic and social scourge.

3.1. Recent developments in unemployment:

At the beginning of the 21st century, the unemployment rate in the Spanish economy was around 10%, while GDP was growing at very high rates and price growth was around 3.5%. This situation was maintained until 2008, although in the immediately preceding quarters a change in trend was observed.

As a result, we could say that the structural unemployment rate of the Spanish economy during those first years of the century was around 10%, a rate that could be considered very high in other economies.

As of 2008, the indicators are accelerating. The world crisis has a brutal impact on the Spanish economy, and more specifically on the construction sector, which is dragging the rest of the economy. The unemployment rate is soaring, peaking in the first quarter of 2013 at 26.94%. In turn, GDP stops growing and begins to register negative growth rates. As for prices, they have not increased since 2013.

- **What relationships do we notice?**

The graph on the next page shows a significant relationship between the growth of economic activity (GDP) and the unemployment rate. On the other hand, prices react with the level of activity, ceasing to grow when the economy is depressed and growing (at the beginning of the century) when activity is intense.

The challenge for the Spanish economy is **enormous**: the brutal gap between the unemployment rate and GDP growth must be reduced. And it must do so by preventing cyclical unemployment from becoming structural, because if so, these unacceptable unemployment rates could coexist with economic growth.

The other duality

If we analyse the labour market data disaggregated by gender, we find differences that are also entrenched over time. As a general rule, women have a lower participation rate, a lower employment rate, a higher unemployment rate (both general and youth) and a greater temporariness in terms of contracts.

1T 2018	Women	Men
Activity	69.57%	64.29%
Occupation	43.12%	54.53%
Unemployment	18.65%	15.18%
Unemployment16-18	55.55%	56.61%
Unemployment 20-24	30.40%	34.05%
Temporary	27.20%	25.10%

3.2. What happens with employment?

The main characteristic of our labour market is the high seasonality of recruitment. Labour regulations allow the conclusion of temporary contracts that have a very specific purpose. In this way, there are internship contracts, designed for newly qualified people to complete their skills; training contracts, designed to enable unqualified people to enter the labour market; temporary contracts, which enable companies to deal with unforeseen situations of demand, etc.

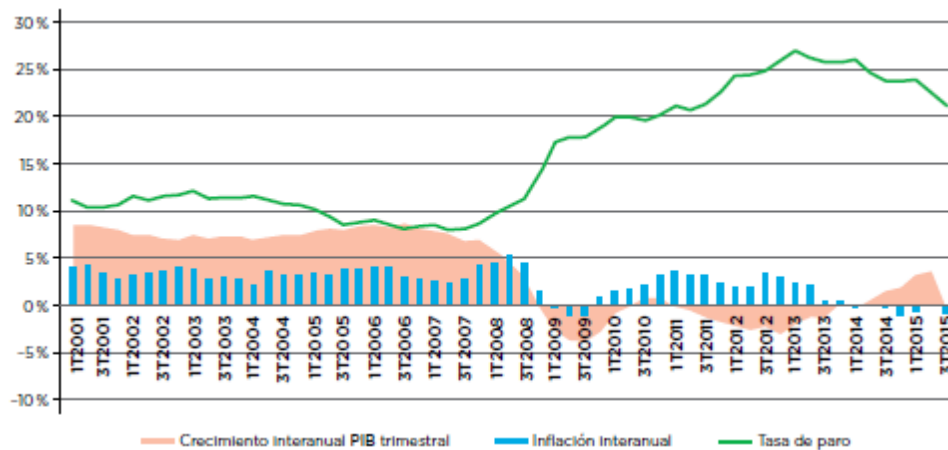
However, temporary rates range between 30% and 25% (temporary employees / total employees) on a permanent basis and, therefore, unyclical (32% in 2002, 34% in 2006, 25% in 2015). This seems to indicate that our labour market is naturally resistant to indefinite contracts and that there is a significant part of production and economic activity in the form of temporary contracts.

The result is the coexistence in the same labour market of people employed with different degrees of intensity in terms of rights, protection, stability and the accumulation of experience. The abuse of temporariness prevents the consolidation of the necessary skills and prevents the attainment of adequate levels of pay to avoid the figure of the impoverished worker. The Spanish economy has a challenge to face and must ask itself why temporality is at the margins of the economic cycle.

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Activities:

Both genders			
	Total Employees	Employees with an indefinite contract	Employees with temporary contract
	Total	Total	Total
2002 T1	13,303,4	9,039,2	4,264,3
2008 T1	17,010,1	11,906,7	5,103,4
2018 T1	15,792,2	11,669,0	4,123,3

5. From the table in the section "The other duality", compare the rates calculated between genders as follows (female rate / male rate). Express the result in percentage and explain its meaning.

6. Calculate the seasonal rates for each year, based on the following table (thousands of people). Discuss the results.

4. Unemployment. Consequences and policies

Throughout the unit, we have highlighted the dramatic nature of unemployment, indicating that unemployment generates undesirable economic and social consequences for any society. We will try to analyze them in this section, as well as to identify some of the solutions.

4.1. The economic consequences

At the individual and economic level, being unemployed reduces income, which is usually the only or most important source of income for the family economy. This drastic reduction in personal income will lead to:

- **Reduce** the amount of **savings** that have been made so far.
- Impossibility to generate new savings.
- Significant **reduction** in consumer **spending**.
- Difficulty in dealing with the debt, if any.

According to the Living Conditions Survey, by 2014, the average income per household in our country was 26,154 euros, 2.3% lower than in 2013, and the population at risk of poverty was 22.8% of the population, 1.8% more than in 2013.

At the aggregate level, high unemployment and seasonality rates are also reflected in economic activity, prices and public accounts.

- Household final consumption expenditure has been falling up to the fourth quarter of 2013, and is beginning to pick up again thereafter.
- Despite the above, demand remains weak, and prices are reluctant to grow.
- The public accounts suffer an increase in expenditure and a decrease in revenue. On the expenditure side, expenditure on social protection and unemployment benefits increases (see Table 3.2 of Unit 6). On the revenue side, lower employment is equivalent to lower income from social security contributions and also from tax collection (especially VAT and personal income tax)

4.2. Economic theory

If we analyze the labour market represented in the graph on the following page, with an initial unemployment situation at the existing wage level «W», we can easily deduce that the excess supply (unemployment) can be eliminated if the demand for labour (which companies carry out) moves to the right. There are other solutions that would eliminate unemployment: lowering wages or expelling part of the labour supply. Here ends the role of economic theory. Deciding which way to go will come hand in hand with economic policy.

Psychological and social consequences

Long-term unemployment (more than a year actively seeking employment without finding it) has serious consequences for people, such as the loss of routines and habits, stress, anguish, guilt, disruption of family roles, etc.

4.3. Employment policies.

Given the minimum interprofessional salary levels (€ 648,60 in 2015) and the current activity rates (59.50% in the third quarter of 2015), it seems inappropriate to propose a reduction in wages or an expulsion of workers from the market. What is logical, if it is intended to reduce unemployment, is to act on the employability of enterprises and on the quality of labour supply (active employment policies).

Launched by the public administrations, active employment policies are actions for guidance in job search, training to retrain workers, promotion and training for entrepreneurship and job search for groups at risk of social exclusion.

No less important are all those economic measures that seek to shift the demand for work to the right, such as bonuses and reductions in social contributions or tax benefits associated with levels and types of employment.



Activities

7. How would the following measures affect the labour market? Respond by using the labour market graph and reasoning your answer:

- a) Tax credits for the companies they hire.
- b) Migration of part of the labour force to other countries.
- c) Generalized rise in the wage level.

5. Unemployment and education system

The economic crisis that started in 2008 has highlighted the need to coordinate the education and productive systems in our country, a pending issue that makes the problem of unemployment much more serious in Spain than in other nearby economies.

5.1. The scenario of the crisis

The brutal employment adjustment in the construction sector initially affected the rest of the system, extending unemployment to sectors such as agriculture, industry and services.

Economic sector	2010	2011	2012	2013	2014	2015	2016	2017
Without previous employment	356,600	378,471	368,468	367,860	376,791	346,816	314,247	292,320
Agriculture	126,829	145,961	187,876	200,064	212,526	194,029	169,375	155,111
Industry	49,638	509,474	543,055	508,954	453,397	393,580	345,571	306,563
Construction	753,067	775,928	755,832	652,697	543,114	453,291	376,042	314,300
Services	2,371,939	2,612,529	2,993,492	2,971,763	2,861,883	2,705,792	2,497,739	2,344,487
Total	4,100,073	4,422,359	4,848,723	4,701,338	4,447,711	4,093,508	3,702,974	3,412,781

As shown in the table above, the adjustment in terms of employment has been very strong, especially in the construction sector. As this is also the engine of the Spanish economy, the rest of the sectors followed this evolution.

Thus, the Spanish economy is facing the following situations related to employment:

- A large number of unemployed people who are trained in low employability sectors or who have suffered a strong impact after the economic crisis (the unemployment rate in the third quarter of 2015 stands at 21.18%).
- Lack of entrepreneurial culture in society, which causes a low level of entrepreneurship.
- A large number of young people who join the labour market with training that do not meet the requirements of companies, which leads to disproportionate youth unemployment rates (63.73% for young people aged 16 to 19 and 42.89% for young people aged 20 to 24 by the third quarter of 2015).

The solution to these problems lies, among other things, in improving the education and vocational and occupational training system.

5.2. Labour market needs

In the document "State Labour Market Report. 2015 », prepared by the State Public Employment Service (SEPE), details the training needs of Spanish society.

Among the generic needs are: languages (English, German, Chinese, Russian), telephony and computers, home automation, robotics and automation, video games, image, multi-platform applications, business IT services, customer service and energy management in construction, among others.

With regard to the skills required by companies, they highlight the need for staff with skills related to entrepreneurship (creativity, teamwork, empathy), employee retraining and business organization. The SEPE report establishes the following priority areas of training: entrepreneurship, the internationalization of the company, logistics, energy efficiency, innovation and technological development of production processes.

Activities

8. From the table presented in section 5.1, calculate the variation rates to analyze the evolution of unemployed claimants - in the different sectors and in the total. According to the results obtained, make a comment identifying the most critical periods and the most affected sectors.

9. Elena is 34 years old, and in the last six years she has worked as a denoted officer. She has a degree in Law, a good command of the English language (C1 level certificate) and, although she does not practice as such, she is a member of the Bar Association. After several complicated months due to the sharp fall in the real estate business, she was finally fired for economic reasons.

In a mental map, set out the alternatives that Elena can take to face this new situation and establish, for each of them, advantages and disadvantages.