

## The Unemployment?

The term unemployment refers to a situation where a person actively searches for employment but is unable to find work. Unemployment is considered to be a key measure of the health of the economy. The most frequently used measure of unemployment is the unemployment rate. It's calculated by dividing the number of unemployed people by the number of people in the labor force.

### KEY TAKEAWAYS

- Unemployment occurs when workers who want to work are unable to find jobs.
- High rates of unemployment signal economic distress while extremely low rates of unemployment may signal an overheated economy.
- Unemployment can be classified as frictional, cyclical, structural, or institutional.
- Unemployment data is collected and published by government agencies in a variety of ways.
- Many governments offer unemployed individuals a small amount of income through unemployment insurance, as long as they meet certain requirements.

### Understanding Unemployment

Unemployment is a key economic indicator because it signals the ability (or inability) of workers to obtain gainful work and contribute to the productive output of the economy. More unemployed workers mean less total economic production.

The unemployment definition doesn't include people who leave the workforce for reasons such as retirement, higher education, and disability.<sup>1</sup>

#### Sign of Economic Distress

Unemployed workers must maintain at least subsistence consumption during their period of unemployment. This means that an economy with high unemployment has lower output without a proportional decline in the need for basic consumption.

High, persistent unemployment can signal serious distress in an economy and even lead to social and political upheaval.

### Sign of an Overheating Economy

A low unemployment rate, on the other hand, means that the economy is more likely to be producing near its full capacity, maximizing output, driving wage growth, and raising living standards over time.

However, extremely low unemployment can also be a cautionary sign of an overheating economy, inflationary pressures, and tight conditions for businesses in need of additional workers.

### Categories of Unemployment

While the definition of unemployment is clear, economists divide unemployment into many different categories. The two broadest categories are voluntary and involuntary unemployment. When unemployment is voluntary, it means that a person left their job willingly in search of other employment. When it is involuntary, it means that a person was fired or laid off and must now look for another job.<sup>2</sup>

### Types of Unemployment

The various types of unemployment refer to the different categories of unemployment based on the underlying causes and characteristics. The following are the major types of unemployment witnessed in India –

- **Frictional Unemployment**

Frictional unemployment occurs when individuals are **temporarily without a job** while transitioning from one position to another or entering the workforce for the first time. For example, a recent graduate actively looking for a job or a professional who has quit one job to find a more suitable one would fall into this category. This type of unemployment is generally short-term and is often seen as a regular and healthy part of a dynamic economy.

- **Structural Unemployment**

Structural unemployment arises when there is a **mismatch between the skills** that workers in the economy can offer and the skills demanded by employers. For instance, the automation of manufacturing processes may render certain manual jobs obsolete, leaving those without the necessary technological skills unemployed. This type of unemployment can be long-term and may require significant retraining and education to overcome.

- **Cyclical Unemployment**

Cyclical unemployment is related to the **fluctuations in the economy** over the course of the business cycle. During recessions, many industries can suffer, leading to layoffs and thus, higher unemployment. An example would be the increase in unemployment during the global financial crisis of 2008. Cyclical unemployment will decrease when the economy starts to improve.

- **Institutional Unemployment**

Institutional unemployment results from **long-term or permanent institutional factors** and incentives in the economy. Government policies, such as high minimum wage floors or restrictive occupational licensing laws, can contribute to this type of unemployment. For example, if a government sets the minimum wage too high, it might lead to employers being unable or unwilling to hire workers at that wage, leading to increased unemployment.

- **Demand Deficient Unemployment**

Demand deficient unemployment, or demand-deficit unemployment, occurs when there is **not enough demand for workers that are available**. This is often a result of a general downturn in the economy and is closely related to cyclical unemployment. For example, during a severe recession, consumer demand falls, leading to reduced production and, consequently, a reduction in the workforce.

- **Voluntary Unemployment**

Voluntary unemployment happens **when a worker decides to leave a job because it is no longer financially compelling or satisfying**. An example might be a worker whose take-home pay is less than his or her cost of living or someone who leaves a job to pursue a hobby or other personal interests. While it's a personal choice, it can still contribute to the overall unemployment rate.

Read about Voluntary Unemployment in detail.

- **Involuntary Unemployment**

Involuntary unemployment occurs when **individuals who are willing and able to work at the prevailing wage rate are unable to find employment**. This type of unemployment is not a result of a personal choice or voluntary decision to leave a job; rather, it's a situation where individuals are actively seeking employment but are unable to secure a position. An example might be factory workers who lose their jobs due to a factory closure and are unable to find new employment despite their best efforts. Involuntary unemployment can be particularly distressing as it's often beyond the control of the individual and may require broader economic or policy interventions to address. It can encompass aspects of structural, cyclical, and demand deficient unemployment, reflecting broader economic challenges and trends.

Know what is Involuntary Unemployment in detail.

- **Disguised Unemployment**

Disguised unemployment refers to a situation where **more people are employed in a job than is actually required**. It is often prevalent in the agricultural sector, especially in developing countries like India. For example, a farm may need only three workers, but the entire family of five may be working. The extra two workers appear to be employed, but their contribution to productivity is minimal or nil. Disguised unemployment represents an inefficient allocation of labor, where individuals are underemployed rather than completely unemployed.

- **Seasonal Unemployment**

Seasonal unemployment occurs when **individuals are unemployed during certain seasons or times of the year** when their skills or labor are not in demand. This type of unemployment is common in industries that are dependent on particular seasons, such as agriculture, tourism, and construction. For example, agricultural workers may face unemployment after the harvest season, while ski resort employees might be without work during the summer months. Governments and industries often address seasonal unemployment through temporary employment opportunities and unemployment benefits tailored to these fluctuations.

- **Vulnerable Unemployment**

Vulnerable unemployment refers to **individuals who are employed in precarious or insecure conditions, often lacking legal protections, benefits, or job security**. This type of unemployment is prevalent in the informal sector, where workers might be engaged in low-paying, temporary, or part-time jobs without contracts. For example, street vendors, daily wage laborers, and domestic workers often fall into this category in many developing countries, including India. Vulnerable unemployment highlights the need for comprehensive labor laws and social protections to ensure the well-being and rights of these workers.

- **Technological Unemployment**

Technological unemployment arises when **advancements in technology render certain jobs or skills obsolete**, leading to job losses in affected industries. Automation, artificial intelligence, and digitalization are common drivers of technological unemployment. For instance, the introduction of automated teller machines (ATMs) has reduced the need for bank tellers, while automation in manufacturing has replaced many manual labor positions. While technological unemployment can lead to increased efficiency and productivity, it also raises concerns about retraining, education, and social support for displaced workers, emphasizing the need for a balanced approach to technological progress.

Each of these types of unemployment has distinct characteristics and underlying causes, reflecting the multifaceted nature of unemployment as an economic issue. They provide a comprehensive view of the various ways individuals may find themselves without work in different economic contexts