**UNEMPLOYMENT**

This refers to the number of people in the country who are willing and able to work but cannot find jobs. Some people are unemployed because they are not willing to work at the going wage rate, or they simply cannot find jobs and other due to disabilities.

Unemployment is measured by the unemployment rate represented by the symbol U, and it is expressed as a percentage of the labor force multiplied by 100%.



The **Labor Force** refers to the current supply of labor for the production of goods and services in exchange for pay or profit.

The **Labor Force participation Rate (LFPR)** is the proportion of the country’s population that engages actively in economic activities.

**The state rate of unemployment rate in Uganda**

Unemployment Rate in Uganda increased to ***4.20*** percent in 2010 from ***1.90*** percent in 2007 (Uganda Bureau of Statistics 2010). It is projected that the rate is expected to be higher by 2015

*Table showing the Uganda Unemployment rates by categories in %*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **Table 4.11: Unemployment Rates by Sex, Residence, Region and Youth (%)**

|  |  |  |
| --- | --- | --- |
|   | **2005/06** | **2009/10** |
| **Background Characteristics** | **Number** | **UnemploymentRate** | **Number** | **Unemployment  Rate** |
| **Sex** |   |   |   |   |
| Male | 89,600 | 1.7 | 162,500 | 3.0 |
| Female | 120,100 | 2.1 | 317,800 | 5.2 |
| **Residence** |   |   |   |   |
| Urban | 104,900 | 6.4 | 198,100 | 9.5 |
| Rural | 104,800 | 1.1 | 282,200 | 3.0 |
| **Regions** |   |   |   |   |
| Kampala | 17,400 | 8.3 | 87,100 | 11.4 |
| Central | 3,600 | 1.7 | 154,000 | 5.7 |
| Eastern | 1,500 | 0.7 | 91,000 | 3.0 |
| Northern | 6,900 | 3.3 | 89,200 | 4.1 |
| Western | 1,500 | 0.7 | 59,000 | 2.1 |
| **Youth** |   |   |   |   |
| 15-24 | 110,400 | 4.4 | 174,700 | 5.4 |
| 18-30 | 143,800 | 3.4 | 256,700 | 4.7 |
|   |   |   |   |   |
| ***Uganda*** | ***209,700*** | ***1.9*** | ***480,300*** | ***4.2*** |

 |

Types of unemployment

1. **Frictional unemployment**

This results from the normal turnover of labor. The sources of these are; young people who enter the labor force and search for jobs, those who leave their jobs because they are dissatisfied with the job or working conditions, or because they were sacked.

People who are unemployed while searching for jobs are said to be frictionally unemployed. This can also be as a result of imperfect information in the labor market because job seekers do not know of the existing jobs.

1. **Structural unemployment**.

This is unemployment caused by structural adjustments in an economy. When the pattern of the demand for goods changes, the pattern of the demand for labor force changes too. So until labor adjusts fully, structural unemployment develops.

Such unemployment can be defined as unemployment caused by a mismatch between the structure of the labor force (in terms of skills, occupations, industries, or geographical locations) and the structure of the demand for labor. For example the existence of many teachers and less of real estate workers yet the demand requires many of real estate workers than teachers.

It can also be as a result of technological transformation in the economy- new products, new industries, new opportunities for some and reduced opportunities for others.

1. **Cyclical unemployment/ Keynesian unemployment or demand-deficit unemployment.**

This refers to unemployment that occurs whenever total demand is insufficient to purchase all of the economy’s potential output leading to a recessionary gap in which actual output is less than potential output.

Cyclical unemployment = No. of persons currently employed – No. of persons who would be employed at potential output.

Note: when cyclical unemployment is zero, all existing unemployment is either frictional or structural, and the rate of unemployment is the NAIRU.

1. **Disguised unemployment.**

This is a type of unemployment where labor is working in a redundant manner such that marginal productivity is essentially zero. This is common in the agric

1. **Seasonal unemployment**

This occurs when according to the season; certain occupations are not demanded e.g………….

1. **Classical or real-wage unemployment**

It occurs when real wages for a job are set above the market-clearing level. This can be as a result of government intervention to set a minimum wage, or labor unions.

1. **Open unemployment**

This is unemployment looked at as the “invisible hand” carrying a stick that keeps the workforce in line i.e. unemployment is a necessary structural feature of capitalism intended to discipline the workforce. If unemployment is too low, workers make wage demands that either erode profits thereby crowding out future investment or are passed on to consumers hence causing inflation.

1. **Hardcore unemployment**

It is that type of unemployment among people who have been without work for a long time and are the least likely to find jobs.

**Equilibrium in the labor market**

When the labor market is in equilibrium, there is no tendency to move away from equilibrium. That is, at the equilibrium values of wages and labor supply there are no forces acting in the labor market to move the market away from the equilibrium values.

It is implicitly assumed that in equilibrium everyone who wants a job has a job. In this sense, the equilibrium value of employment is alsocalled **full employment*.***

**Diagram**

At a higher wage the supply of labor is greater than the demand for labor and so there is an excess supply of labor in the labor market. Workers bid down the real wage until it falls to the equilibrium value.

The above graph demonstrates that when the current wage is such that it is not equal to the equilibrium real wage competitive market forces act to push the wage toward the equilibrium wage. As the wage adjusts, labor demand and labor supply move closer to equality.

**Full employment**

**Full employment**/ **Full output** or **equilibrium employment**

This refers to efficient use of labor and other resources in the economy. However, full employment does not mean zero unemployment because frictional and structural unemployment are present. It is important to note that zero unemployment is undesirable as it could be a sign of a stagnant economy. Some unemployment is natural, expected and healthy for the economy. People are trying to make their lives better resulting into natural labor turnover in the labor market.

In other words, at full employment frictional and structural unemployment are present **Due to imperfect information and dynamic changes**

**Natural rate of unemployment coincides full employment and it** is the amount of unemployment (only frictional and structural) that exists when national income is at its potential level and which if maintained will result in a stable rate of inflation.

**Other terms**

**Underemployment**

This refers to employment in jobs which occupies only a part of the workers’ available time or permits only the partial utilization of their capacities.

**Voluntary unemployment**

This is unemployment which occurs when some people of the labor force choose not to work at the market wage rate. These might prefer leisure or other activities to work at the prevailing wage rate. These may be low productivity workers who prefer leisure to low paid work.



E is the labor market equilibrium

W – Equilibrium/ market wage rate

Nt – is the available labor force

EF- are the voluntarily unemployment

**Involuntary unemployment**

This is where qualified workers who are willing and able to work at the prevailing wage rate are unable to get jobs.



Nt- available labor force

AB- are employed

BC- are involuntarily unemployed.

**CAUSES OF UNEMPLOYMENT**

1. Insufficient demand for goods and services in the economy – cyclical (according to Keynesian economists)
2. Structural problems such as technological transformation, restructuring and downsizing etc
3. High wage gap between the rural and urban
4. High population growth than the growth in employment opportunities
5. Dependence on few exports and exportation of raw materials
6. Etc…….

**COSTS OF UNEMPLOYMENT (to be discussed in class)**

1. Reduces output and aggregate income
2. Increases inequality between the employed and the unemployed
3. Brain drain
4. Rural urban migration
5. It kills innovation and creativity of individuals
6. Psychological problems – depression. Boredom, loss of respect, despair.

**MEASURES TO REDUCE UNEMPLOYMENT (to be discussed in class)**

1. Increase in information flow
2. Providing financial support
3. Export promotion-
4. Diversification,
5. Value addition
6. Market creation
7. Rural development

**Okun's Law**

[Economic study and thought has been around for centuries](http://www.investopedia.com/articles/economics/08/economic-thought.asp), and when it comes to studying the economy, growth and jobs are two primary factors that economists must consider. There is clearly a relationship between the two, and many economists have framed the discussion by trying to study the relationship between [economic growth](http://www.investopedia.com/terms/e/economicgrowth.asp) and unemployment levels. Economist Arthur Okun first started tackling the discussion in the 1960s, and his research on the subject has since become known as [Okun's law](http://www.investopedia.com/terms/o/okunslaw.asp). Below is a more detailed overview of Okun's Law, why it is important and how it stood the test of time since first being published.

In its most basic form, Okun's law investigates the statistical relationship between a country's unemployment rate and the growth rate of its economy. The economics research explains that Okun's law "shows how much of a country's [gross domestic product](http://www.investopedia.com/terms/g/gdp.asp) (GDP) may be lost when the unemployment rate is above its [natural rate](http://www.investopedia.com/terms/n/naturalunemployment.asp). Output depends on the amount of labor used in the production process, so there is a positive relationship between output and employment. Total employment equals the labor force minus the unemployed, so there is a negative relationship between output and unemployment (conditional on the labor force)."

"That rule of thumb describes the observed relationship between changes in the unemployment rate and the growth rate of real gross domestic product (GDP). Okun noted that, because of ongoing increases in the size of the labor force and in the level of productivity, real GDP growth close to the rate of growth of its potential is normally required, just to hold the unemployment rate steady. To reduce the unemployment rate, therefore, the economy must grow at a pace above its potential.

More specifically, according to [the] currently accepted versions of Okun's law, to achieve a 1 percentage point decline in the unemployment rate in the course of a year, real GDP must grow approximately 2 percentage points faster than the rate of growth of potential GDP over that period. So, for illustration, if the potential rate of GDP growth is 2%, Okun's law says that GDP must grow at about a 4% rate for one year to achieve a 1 percentage point reduction in the rate of unemployment." Okun's law predicts that growth slowdowns typically coincide with rising unemployment.