

Measures that Could be Used to Reduce the Level of Unemployment in the UK.

To examine unemployment in sufficient depth, it is necessary to divide it up into component types, since each of these has a distinct cause and potential cure. Each of these types is explained in more detail in my essay, “The Causes of Unemployment in the UK in 1994”.

Frictional unemployment, as already stated, is largely incurable, and it may be better for the economy if it does exist, as it represents a natural reallocation of the economy’s resources, thus potentially increasing productivity. Search unemployment, however, indicates a problem with the reallocation itself, which can be fixed. Search unemployment is really long-term frictional unemployment, and so if the time period can be reduced, the unemployment can be said to have been cured.

Methods to reduce the time period involved were implemented in the November budget. By introducing Working Trials (or, as The Economist prefers to call them, Worktrials, in line with the rest of the state’s schemes), the Chancellor hopes to help people find jobs they are satisfied with, and Community Action gives the unemployed temporary jobs until they find a suitable position.

Other possible solutions to search unemployment include improved training, and a lowered level of expectations (of job satisfaction, working hours, and so on). These are difficult to implement efficiently, and so are less used. The use of Job Centres for information on vacancies is also important, as is increased pressure to get jobs (by reducing benefit levels).

These methods are mostly effective, and, while they may increase frictional unemployment, this can be seen as beneficial if the more pressing problem of search unemployment diminishes. Note that, ideally, although impossible in the real world, there should be no frictional unemployment, as everyone should immediately start the job for which they are best suited.

Real wage unemployment is simple to cure in principle, but the reality is less simple. In order to completely rid the economy of real wage unemployment, the average real wage level must be lowered to the market-clearing wage. The real wage is important here, as one method of achieving this would be to have a very small amount of inflation in the economy, in the hope that workers will see that wages are staying the same, while in reality, their value is falling; if, however, the effects and existence of inflation are widely publicised, this tactic will not work. A disadvantage here is obviously the unwanted effects of inflation, such as adverse effects on the price mechanism and exchange rates, but these can be cured independently and are outside the narrow scope of this essay.

Alternatively, labour could be made to accept lower wages. There are a number of mechanisms for this, all self-explanatory. Firstly, benefit levels could be lowered (or benefits removed), thus decreasing the effect of the poverty trap. Benefits could also be placed on top of low wages as well (this was seen in the 1994 budget; a worker would receive full Income Support for his first four weeks in a job), and, in general, benefit adjustments are adequate for most needs. If, however, further reductions are desirable, these can be made by reducing the power of trade unions (making strikes illegal, for example, or reducing membership), or by explaining the links between high wages and unemployment to labour.

The final method to reduce real wage unemployment is to use the market system to lower wages to the equilibrium level. If wages are artificially high because of trade unions, the measures described above will help (similarly with lack of knowledge). The main cause of real wage unemployment is not, however, either of these, but an unwillingness on behalf of employers to take on the long-term unemployed, who would be willing to accept a slightly lower wage (and therefore form much of the lower supply curve). By improving retraining schemes, and keeping those out of work as skilled rather than unskilled labour, the Government will keep a supply of alternative labour ready, so firms can replace those asking for excessively high wages. Increased mobility (both geographic and occupational) will have a similar effect.

This method has three main advantages; firstly, it is relatively cheap to implement, and any costs will be regained in taxes from those who gain jobs. The second advantage is relatively minor, but is still noteworthy: the standard of living in the economy will rise, because all will gain a better education. Finally, and possibly most importantly, this method is very economically efficient.

Cyclical unemployment, as explained in my previous essay, is difficult to control, but recently the effects of the business cycle have been diminishing. The reasons behind this have been shrouded in controversy over the last couple of years, but the most popular theories are as follows:

- Firstly, one possibility is that the decreasing proportion of production being of goods rather than services is the cause; if more services are produced, national output becomes more stable, due to inelastic demand.
- Also, an increase in government intervention could lead to this effect; nationalisation increases the size of the public sector, which is less effected by recessions.
- Wages are now a lot less flexible, and the stability this gives the economy has helped to cure the business cycle to a certain extent, as have better methods of stock control, which allow stocks to be kept quite low, and production to be kept roughly constant.
- Finally, an increased dependence on bank deposits helps to stabilise the economy.

Demand deficient unemployment can generally be improved by increasing the aggregate demand for money (or AMD), but care must be taken to not cause inflation. The principal ways to do this are to reduce interest rates and tax, increase the availability and desirability of goods, and advertising; these are all known to increase

consumption. Other ways of increasing consumption are by attempting to alter fashions, or by allowing loans to be taken more easily.

Alternatively, investment could be increased, by lower interest rates (as with consumption), incentives on research and development and also on general investment, or by the use of the accelerator mechanism. Unfortunately, although this last method would be very effective, the assumptions for the accelerator's working do not presently hold true, and so this can be discounted as a possible method.

Government spending can obviously be increased directly, but the main problem here is where to obtain funds. Increased tax will effect consumption and investment, as seen above, and it may be necessary to increase the PSBR to cover this. However, if tax was increased, and government spending was increased by the same amount, the balanced budget multiplier would increase national income (since not all extra money paid as tax would have necessarily been spent had it not been collected), and thus help consumption and investment to grow.

Finally, net exports can be increased. The price elasticity of demand is very important here, and we shall assume that demand is elastic; if demand is found to be price inelastic, the solutions should be inverted.

- Firstly, if exchange rates were to fall, imports would become more expensive, and the price of exports would fall; this would lead to a decrease in revenue.
- A similar effect would be observed with the introduction of import barriers, or with improved technology leading to lower costs at home.
- Net exports will also rise if the UK discovers new stocks of raw materials, if new inventions are brought onto the market, or if new markets are opened up.

Increasing AMD will be a lot more efficient if the aggregate supply is first made more elastic, as unemployment will be a lot more likely to respond if firms are willing to increase their productivity.

Very little can be done about seasonal unemployment, but if new industries are formed in areas which operate during normally slack periods, seasonal unemployment may be minimalised. By opening indoor sports centres at seaside resorts, for example, the number of workers of unemployed during the winter will fall.

Structural unemployment, however, like frictional unemployment, is economically desirable, as it indicates reallocation of resources; sectional unemployment indicates workers moving out of inefficient industries (voluntarily or otherwise), while regional unemployment indicates geographical reallocation. The government can, however, help those who are changing jobs, by extending benefits into a short period of occupation, or by free retraining. Also, grants could be offered to industries setting up in areas of high unemployment, and where traditional industries are closing. These methods require funding, however, and thus the problems mentioned above regarding government funding will apply.

Structural unemployment can also be regarded as a type of real wage unemployment if wages are prevented from falling, and all the methods described above for real wage unemployment should be implemented. Regional unemployment can be tackled by regional diversification, which will cause a multiplier effect within the region.

Finally, technological unemployment is potentially self curing; those remaining in work will receive a higher wage due to an increased productivity, and they will increase AMD, reducing unemployment.

Overall, therefore, this essay offers the Chancellor the following methods to reduce unemployment in the UK at present:

- An improvement in job centres, and an incentive for the unemployed to either study or aim for part time or informal labour.
- Further schemes to reduce the numbers of long term unemployed by community service or working trials.

Tim Miller:

“Measures that Could be Used to Reduce the Level of Unemployment in the UK.”

(from <http://www.economic-truth.co.uk/>)

- Stricter legislation concerning trade unions, preventing them from keeping wages artificially high.
- A decrease in benefit levels for the unemployed, with slightly higher benefits for those who have either a low paid or a new job.
- An increase in taxes and government spending, particularly on Britain's infrastructure; this is, however, *politically* unsound.
- Interest rates should be lowered to encourage investment, amongst other effects.
- Research and development should be encouraged (possibly by lower taxes), and possibly the government should fund exploration for raw materials.
- Encourage performance related pay, which will help the self-curing process of technological unemployment.

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*Tim Miller, October 1994.
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