SECTION 5.3 DIFFERENT TYPES OF UNEMPLOYMENT

- **Frictional unemployment** results from persons being temporarily between jobs; it is short term and results from the normal turnover in the labour market.
- Geographic and occupational mobility are considered good for the economy, generally leading human resources from activities of relatively low productivity or value to areas of higher productivity, increasing output in society as well as the wage income of the mover. Hence, frictional unemployment, while not good in itself, is a by-product of a healthy phenomenon, and because it is short-lived, is therefore not generally viewed as a serious problem. It tends to be somewhat greater in periods of low unemployment, when job opportunities are plentiful.
- **Structural unemployment** reflects the existence of persons who lack the necessary skills for jobs that are available. Structural employment makes it wise to look at both unemployment and job vacancy statistics in assessing labour market conditions. Like frictional unemployment, it reflects the dynamic dimension of a changing economy. Over time, new jobs open up that require new skills, while old jobs that required different skills disappear. Many persons advocate government-subsidized retraining programs as a means of reducing structural unemployment.
- The dimensions of structural unemployment are debatable, in part because of the difficulty in precisely defining the term in an operational sense. Structural unemployment varies considerably.
- To a considerable extent, one can view both frictional and structural unemployment as phenomena resulting from imperfections in the labour market. If individuals seeking jobs and employers seeking workers had better information about each other, the amount of frictional unemployment would be considerably lower. But because information and job searches are costly, the bringing of demanders and suppliers of labour services together does not occur instantaneously.
- In years of relatively high unemployment, **cyclical unemployment** may result from an insufficient level of demand for goods and services. The demand for labour is derived from the demand for goods and services, so when the level of demand decreases, the demand for labour drops as well. Cyclical unemployment is the most volatile form of unemployment. Furthermore, many economists believe that insufficiency in aggregate demand explains most pronounced variations in the rate of unemployment over time.

- Given its volatility and dimensions, governments have viewed unemployment resulting from inadequate demand to be especially correctable through government policies. Most of the attempts to solve the unemployment problem have placed an emphasis on increasing aggregate demand to counter recessions. Attempts to reduce frictional unemployment by providing better labour market information and to reduce structural unemployment through job retraining have also been made, but these efforts have received fewer resources and much less attention from policy makers.
- The unemployment rate averaged around 6.9 per cent during the 2000-2007 period. Some economists call this "average" the **natural rate of unemployment**. When unemployment rises well above 6.9 percent, we have abnormally high unemployment; when it falls below 6.9 percent, we have abnormally low unemployment. The natural rate of unemployment of approximately 6.9 percent roughly equals the sum of frictional and structural unemployment when they are at a maximum. Thus, one can view unemployment rates below the natural rate as reflecting the existence of a below average level of frictional and structural unemployment. When unemployment rises above the natural rate, however, it reflects the existence of cyclical unemployment.
- The natural rate of unemployment may change over time as technological, demographic, institutional, and other conditions vary.
- When all of the economy's labour resources, and other resources like capital are fully employed, the economy is said to be producing its potential level of output. That is, at the natural rate of unemployment, all resources are fully employed and the economy is producing its **potential output**, and there is no cyclical unemployment.
- When the economy is experiencing cyclical unemployment, the unemployment rate is greater than the natural rate. The economy's output can also temporarily exceed potential output, as workers take on overtime or moonlight by taking on extra employment.
- **Employment insurance** is designed to partially offset the hardships of unemployment. To qualify, recipients must have worked a certain length of time. However, it also leads to more frictional unemployment encouraging longer periods of job search by it lowering the opportunity cost of being unemployed. Longer searches might mean a better match, but it comes at the expense of lost production and greater amounts of tax dollars.
- Although many believe technological advances displace workers, this is not necessarily the case. If new equipment is a substitute for labour (e.g., self-service beverage bars), then it might displace workers. However, new capital equipment means that new workers will be needed to manufacture and repair it, and it may generate a whole new growth industry that creates jobs (e.g., computers). The key point is that new inventions are generally cost saving, and these cost savings will generally generate higher incomes for producers and lower prices and better products for consumers, benefits that will ultimately result in the growth of other industries. The problem is that it is easy to see just the initial effect (displaced workers) of technological advances, without recognizing the implications of that invention throughout the whole economy over time.