

Joey Chan (BA IBA)

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Describe the condition, ‘Full Employment and why is it a major target for governments?’

“ Full employment” will always be the main goal of the globalization of the world economy. All countries are desperate for moving towards to “full employment”. There is no unique definition of “Full employment”. However, the majority of economists agree that unemployment cannot fall to zero since there are always be some frictional unemployment caused by people moving into the labor market, searching for work, and others switching between jobs and experiencing short periods of time out of work. The definition of frictional unemployment is the short-term unemployment associated with the process of matching workers with jobs. Full employment might also be defined as a situation where the labor market has reached the state of equilibrium, when those in active labor force who are willing and able to work at going wage rates are able to find work. At this point, a remaining unemployment would essentially be frictional. Another interpretation of full employment is when total people out of work matches the number of unfilled job vacancies. The problem with this is that estimates of scale of job vacancy vary considerably.

The major target for governments is to achieve economic progress and social justice. Governments want to enable every individual to develop their potential, whatever their background or talent. High fulfilling jobs are central to realize this. A job is the first rung of opportunity, without a job, people have no hope of clambering up. They can lose self-respect. Social justice and economic progress go hand in hand, the goal of government is “full employment” with social inclusion, so that everyone shares in the raising prosperity of the nation, higher employment, higher productivity leading to

higher incomes. People should have the opportunity of fulfilling, well paid employment. Unemployment is a waste of human potential, and a source of social exclusion, as well as a drain of economy.

Lack of employment opportunities creates the conditions for poverty, despair and disengagement. However, “full employment” is always difficult to achieved, so understanding the causes of unemployment and finding ways to reduce are major target for government. In assessing the level of economic activity in a country, governments look at a variety of statistics. Besides real GDP, one statistic that receives a great deal of attention is the rate of unemployment. Unemployment has a negative impact on economic growth, it is the existence of a section of the labor force who are willing and able to work, but cannot find work and also it is the sensitive indicator of conditions in the labor market. When the unemployment is low, jobs are secure and relatively easier to find. Low unemployment is often associated with improving wages and working conditions as well, as employers compete to attract and retain workers. Unemployment is measured in the UK using two methods, the Claimant count, where all those seeking unemployment benefits are classed as unemployed, and the Survey, where market research techniques are used instead. There are five causes of unemployment have been identified.

Frictional unemployment is caused by those people who are between jobs. Most people who lose their jobs move into another job relatively quickly, but this transition is far from smooth and there will always be some short term unemployment, e.g. due to immobility of labor. In fact, the costs of unemployment are low and may even be negative; that is, frictional unemployment may be economically beneficial. First, frictional unemployment is short term. So its psychological effects and direct economic losses are minimal. Second, to the extent that the search process leads to a

better match between worker and job, a period of frictional unemployment is actually productivity, in the sense that it leads to higher output over the long run. In deed, a certain amount of frictional unemployment seems essential to the smooth functioning of a rapidly changing, dynamic economy.

Structural unemployment is unemployment, which rises because of changes in the structure of the economy. In a dynamic economy there will always be industries that are expanding and declining as a consequence of structural decline. There are three areas of structural unemployment: the industries in structural decline may be regionally concentrated resulting in regional unemployment, technological unemployment may arise due to a change in the structure of a particular industry as it accepts new technology e.g. the financial sector, finally, sectorial unemployment is when one industry collapses leaving skilled workers unemployed, e.g. the shipbuilding trade.

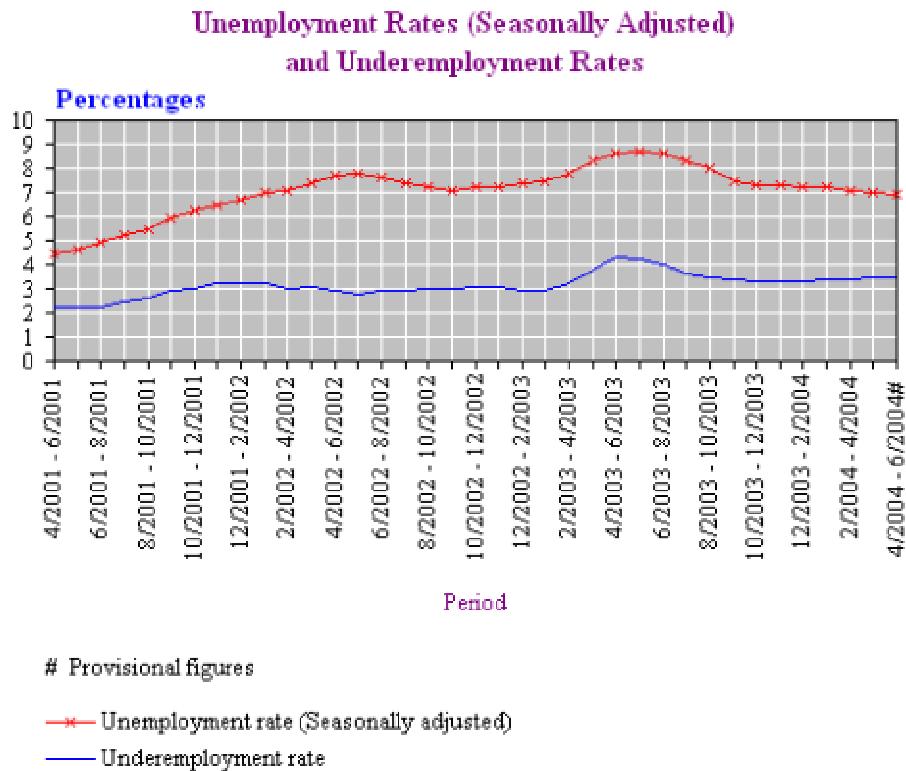
Some industries, because of their nature are highly seasonal and companies in this sector may well only employ people in season, an example is the tourist industry, employment will peak in the summer months and fall away during the winter period.

Real wage unemployment exists when the real wage is above that needed to clear the labor market even when the economy is booming. Jobs exist, but workers choose not to take them because they are not prepared to accept the wage rates being given or they are unable to take them due to union power or government legislation.

Finally, there is cyclical unemployment, this occurs during the periods of recession, which is periods of unusually low production. Increase in cyclical unemployment, although they are relatively short-lived, are associated with significant declines in GDP and are therefore quite costly economically.

For example, Hong Kong's externally-oriented economy is greatly affected by global developments. The hardships they current face are stem from both cyclical and structural factors.

In the past few years, Hong Kong has been an obvious slowdown in the major markets, which indicates a cyclical adjustment, as previously mention, the cyclical adjustment of an economy is usually short-lived, however, the serious terrorist attacks in the U.S on September 11 not only caused major losses and deep grief, they also depressed consumer sentiment in the overseas markets and created greater uncertainty in the global economy. The gloomy outlook world economic growth has adversely affected Hong Kong. As a result, H.K faced an accelerated economic downturn, a rise in unemployment.



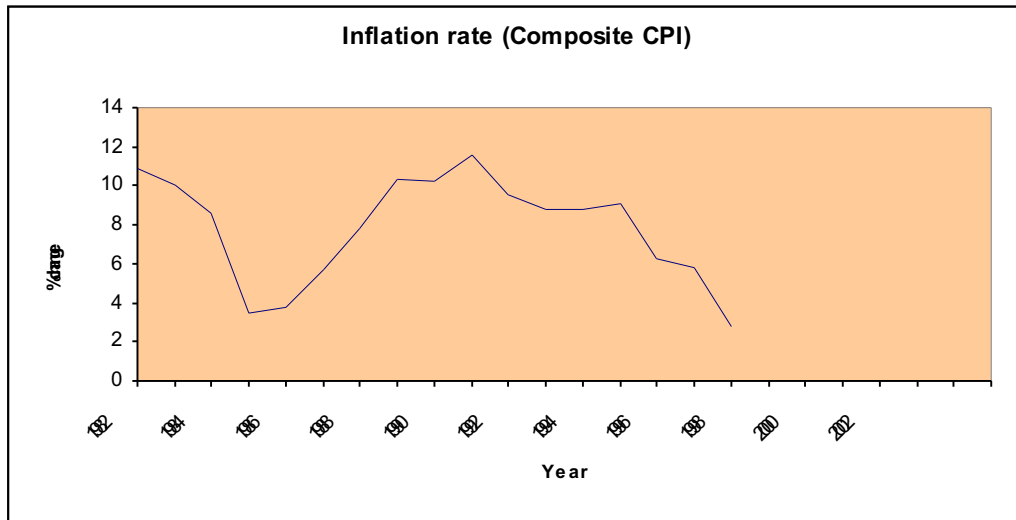
According to the graph above, it shows that H.K unemployment rates between the years 2001 to 2004, which is taken from Census & Statistics Department. As we can see, the unemployment rate increases gradually from April 2001 to June 2002, after that there is a trough between June 2002 and April 2003, and then the unemployment reaches a new high figure of almost 9% in July 2003. The major problem in July 2003 is that the impact of Sars outbreak leads to the decline of purchasing power, the aggregate demand suddenly drops, many companies and restaurants closed down, and thus, negative wealth effect is resulted. In fact, despite of the Sars outbreak, the bubble economy which surfaced H.K's transition period also created a serious problem, the Asia financial crisis H.K, it deflated the bubble, and this has changed the way people spend and invest their money, because the sheer speed of change, it has been harder for the city to handle. Thus, H.K's stock market plummeted, and the property bubble burst making the unemployment rate in H.K hit all time high. This unemployment results from the existence of a deficient aggregate demand, which is not enough to support full employment is called cyclical unemployment.

Moreover, another reason is that *"the over supply of middle to low level unskilled labor coming from mainland china over the last few years."*¹ Thus, the supply of labor is greater than the demand, low skilled jobs have been lost to China, and it gives pressure on employment.

On the other hand, in the past few decades, H.K has undergone several transformations, from an ordinary middleman for export, to a base for light

¹ George Leung, chief economist of HSBC Holdings Plc unit Hong Kong and Shanghai Banking Corp, Business Breaking news, Jul 15,2003.

manufacturing, and present position as renowned financial, trading and services center.



As we can see, the graph above shows the H.K inflation rate between the year 1982 to 1999, the continuous high inflation rate of H.K during 1985 - 1992 made the production cost of Hong Kong enterprise, especially the labor cost increase tremendously. On one hand, this encourage the enterprises move their labor-intensive industries to other place where labor cost is cheaper. On the other hand, those enterprises try to dismiss labor or reduce the engagement of workforce but change to more capital and technology dedication in order to reduce the production cost, increase standardization and productivity. Also many enterprises could not stand the high rent and closed down. A lot of labor are then released out and became unemployed. As a result, economic structure in H.K has changed from manufacturing oriented to service oriented industries, due to the reason that the manufacturing factors move to China for cheap labor, this caused a tremendous job lost, many labor are released from manufacturing industries. Though there are great demands of labor in service sector, many of unemployed still cannot find their jobs because of job

matching problem. They do not have the skills demanded in job market, so there are both a lot of vacancies of jobs and a lot of unemployed labor, this is called structural unemployment.

Currently, the globalize economy is continuously developing. Advances in I.T have ushered in new knowledge-based era. The rapid rise and development has brought new business opportunities as well as new challenges. All the major trends make it imperative for HK's economy to be restructured. Due to the advances IT and better transport links have globalize work markets. Popular product and service are now marketed worldwide, manufacturing industries have been able to relocate from high cost to low cost locations. In addition, business now requires substantially fewer staff because of developments in I.T. The emphasis in the past was fine division of labor, whereas today it is on multi-skill, in consequence, people who are lack of multi-skill is going to be unemployed, they will find short-term or temporary job time to time, but never stay in one job for very long, this also fit the definition of structural unemployed.

As previously mentioned, unemployment impose costs upon the economy and effects its rate of growth. A high rate of unemployment in the economy mostly affects the taxpayer. On the one hand, government has to pay out increased benefits and the government loses revenue because these workers would have paid taxes if they had been employed. For instance, they would have paid income tax and National Insurance contributions on their earnings. They would also have paid more in VAT and excise duties because they would of been able to spend more. So taxpayers not only have to pay more taxes to cover for increased government spending but they also have to make up the taxes that the unemployed would have paid if they had been in

work. This increase in taxes would lead to a decrease in take home pay of the taxpayer and this eventually would lead to a decrease in living standards.

Costs to the economy, as a whole should not be under estimated. Firstly, Taxpayers paying money to the unemployed is not a loss of the economy as a whole. It is a transfer payment, which redistributes existing resources within the economy. The actual loss to the whole economy is two-fold. Firstly there is the loss of output, which those workers now unemployed could have produced had they been in work. The economy could have produced more goods and services, which would then have been available for consumption. Secondly, the social cost of unemployment is a result of the economic and psychological effects. People who have been unemployed for a while tend not only to face severe financial difficulties but also to feel anger, frustration, despair. Not surprisingly, increase in unemployment tends to be associated with increase in crime, domestic violence, alcoholism, drug abuse, and other social problems. The cost created by these problems are borne not only by the unemployed but by the social general, as more public resources must be spent to counteract these problems, for example, by hiring more police to control crime.

Overall, “ Full employment” is the key to prosperity and social inclusion. That is why every country would like to push employment to the top, make itself the most competitive, dynamic and socially inclusion knowledge-based economy in the world. Hence, a high employment level is important to individuals and society as a whole, and also maintains the financing of social welfare. In order to meet the target employment rate must rise in all groups, especially those where it is below average and the government must take measures to attain it.

