

Unemployment

7

Unit highlights:

- ⇒ Problems, measures and categories of unemployment
- ⇒ Beveridge curve
- ⇒ Labour market in

Lesson-1: Problems, Significance and Measures of Unemployment

Lesson objectives:

After reading this lesson you should understand and know the answers to the following questions:

- w How persistent is the problem of unemployment?
- w How pervasive are the effects of unemployment?
- w How are official employment and unemployment figures obtained?
- w What are the flaws of the methods of measurement used?

Problems of unemployment and its significance

Some amount of unemployment is inevitable in any economy, however efficient the economy is. Unemployment beyond this inevitable level, tolerable or intolerable, is a problem which is experienced by all the countries irrespective of their stage of development. Unemployment may some time imply not only the under-utilisation of labour force but also under-utilisation of other factors of production and low level of output too. Unemployment, if it is a prolonged one, brings great misery for the victim. It also entails huge social cost to the extent that the whole social fabric may be endangered. Though high rate of unemployment as experienced during the great depression is less likely to occur at present in advanced market economies, whenever unemployment rate approaches double digit figure in such countries, government, political parties, industrialists and businessmen as well as common men express deep concern.

In underdeveloped countries like ours official unemployment figures do not reflect the gravity of the problem. Production activities in such countries are carried out under arrangements significantly different from those in advanced countries. Composition of output in underdeveloped countries is different from that in developed countries too.

An appraisal of types, causes and impact of unemployment are essential for better understanding of the implications of unemployment.

Measures of unemployment

Total population in a country may be seen as sum of total labour force and number of persons not in the labour force. Total labour force, on the other hand, includes civilians employed, armed forces involuntarily and unemployed people.

Official unemployment rate for the Civilian Labour Force is the ratio between number of total involuntarily unemployed people and number of persons in the Civilian Labour Force. Those who are found to be employed and those who look for job but remain unemployed in the reference period are considered to be part of the Labour Force.

Till 1989 different census surveys of Bangladesh considered labour force to be constituted of only those who were above 10 years of age and were employed or were looking for employment. A person helping his family members in the agricultural field without receiving cash or kind specifically in exchange of the services was also considered to be a part of the labour force. 1989 labour force survey included activities like post harvesting operations (threshing, parboiling etc.) and raising poultry, livestock etc. in the homestate as economic activities and hence for the first time a substantial number of women engaged in those got recognition as a part of the labour force. That practice continues till date. People who seek job in the reference period (usually a week) but can not get any are considered to be involuntarily unemployed and are considered to be a part of the Labour Force. But those who are unemployed but still do not or can not seek any job in the reference period are not considered to be a part of the labour force. Unemployment rate for civilian population is obtained by using the following expression.

$$\text{Unemployment rate (U)} = \frac{\text{Number of total involuntarily unemployed (TU)}}{\text{Civilian Labour Force (CLF)} \times 100\%}$$

where CLF = Civilian Unemployed and Civilian Employed Labour Force or Civil Labour Force

The above expression gives unemployment rate for civilian labour force. For Total Labour Force (LF) unemployment rate is given by $U' = \frac{TU}{LF} \times 100\%$. As is obvious $U > U'$. Problems faced by this method or similar methods as practiced in other backward, and developed countries are manifold and serious too.

In the above formulation each unemployed person who is seeking a job in the reference period is assigned equal weight. Duration of unemployment is not at all considered. All employed persons are also assigned equal weights though. There are part-time employees and these may be disguised unemployment among the employed people. These formulations also ignore the problem suffered by those who badly need job but are sure that they won't get any and out of frustration they stop seeking jobs. On the other hand a simple reference period for all economic activities, as is obvious, may exaggerate or under report unemployment problems as a significant number of jobs are season-specific.

A modified measure or rate of unemployment, U'' is given by the following expression:

$$U'' = \frac{(TU/LF).t}{(LF-TE).t} \text{ or } \frac{(TU/LF).t}{(LF-TE).t} \text{ (LF)}$$

Major problem of official employment or unemployment figures is that those do not take into consideration different features and aspects of employment and unemployment.

where t is the proportion of total time the unemployed are, on average, out of work and TE is total employed.

Some other problems are encountered in measuring the rate of unemployment for the economy as a whole. How many days a year and how many hours a day a person has to be engaged in work in order to be considered to be employed in a year. We may agree about number of days and number of hours for a particular industry, location and community. But such number will vary across different sectors, communities and locations.

Rate of unemployment for the economy as a whole also fails to reflect the following: A person fully employed in terms of time criterion may have a very low level of income too inadequate to meet the basic needs. An employed person may not be satisfied with his job because he does not have a job appropriate to education and skill acquired by him. He may have neither job satisfaction nor a satisfactory level of income. In family-based economic activities in agriculture and cottage industries work and output are shared by family members. There may arise situations when some of the workers can be shifted from those activities without adversely effecting the level of output. The positive relationship between employment and output apparently does not hold in this case if we do not adjust employment rate by actual length of time an individual worker work in a year. As surplus workers leave the activity family members left at home will have to work longer hours, and or greater number of days a year.

Lesson-2: Types of Unemployment

Lesson Objectives:

After reading this lesson you should understand and know about the following:

- w Different types of unemployment.
- w What is Beveridge Curve?
- w Economic interpretation of different types of unemployment.
- w Categories of Unemployment.

Firstly we introduce three categories of unemployment: Open or Visible Unemployment, Hidden Unemployment and Disguised Unemployment.

Official unemployment figures published from time to time present Open or Visible Unemployment figures. Openly unemployed people make a part of the labour force. They are reported to be looking for job in the reference period without any luck. Hidden unemployment refers to the people who are not even considered as constituting a part of the labour force by the official statistics. These people had unsuccessfully searched for jobs for a pretty long period of time without any success. They become so frustrated that they subsequently abandoned job search. When the government conducted the labour force or employment survey, such people reported that they were not looking for jobs. Such reporting reflects frustration rather than deliberation.

Natural unemployment is consistent with both full employment and less than full employment situation.

More complex is the phenomenon of Disguised Unemployment. This unemployment occurs in case of family based enterprises with small amount of land or / and capital. Family members do all the work. While work load is shared by all working members of the family, output is shared by both working and non working members of the family. There may be instance (too many family members with too little capital and land to work with) when some of the workers can be withdrawn from the family work without causing any decline in level of output. Working members left in the family farm, will have to work for longer hours a day. Assuming that they will have to work so many hours considered as the norm, the number of withdrawn persons represent Disguised Unemployment equivalent.

We can also distinguish between two other types of unemployment: Natural Unemployment and Cyclical Unemployment. The latter type of unemployment occurs during recessions. Natural rate of Unemployment refers to a roughly stable rate of unemployment below which the actual rate of unemployment seldom dips. Natural Unemployment is comprised of Frictional and Structural Unemployment. Structural Unemployment occurs due to mismatch between location and skill requirements of vacancies and location and skills possessed by the unemployed persons. Frictional Unemployment occurs even if wages are perfectly flexible and appropriate and adequate number of job opportunities are available in the

locations where unemployed persons live. This type of unemployment occurs mainly because job search and recruitment of personnel are time consuming processes. Cyclical Unemployment occurs when aggregate demand expressed in money terms declines and at the same time presence of long term wage and price contracts prevent the inflation rate from shifting down rapidly enough in response to slower nominal GNP growth. In this case level of real wage that prevails is found to be greater than the level necessary to clear the labour market. At that wage number of persons seeking job exceeds the number the employers demand giving rise to Involuntary Unemployment. Voluntary Unemployment at a particular wage is represented by number of persons in the work force who are not willing to work at that wage level.

The last type of unemployment we consider is Seasonal Unemployment. This type of unemployment occurs due to presence of some season-specific production activities and uneven spread of employment opportunities throughout the year. Seasonal Unemployment may be considered as Natural Unemployment.

Natural Unemployment

No market economy has ever fully employed its labour force. There seems to be a minimum level below which the rate of unemployment seldom dips. This rate of unemployment is called natural rate of unemployment. When the rate of unemployment equals the natural rate, the number of people involuntarily unemployed is equal to number of job positions remaining vacant, i.e. theoretically speaking there is full employment or equilibrium in the labour market. If an attempt is made to reduce the rate of unemployment below the natural rate there would be an upward pressure on wages. Conversely, if unemployment rate is higher than the natural rate wages would tend to decline. In the absence of change of labour productivity rise of wages would lead to rise of prices, while fall of wages would lead to fall of prices. That is why natural rate of unemployment is also called Non-Accelerating Inflation Rate of Unemployment (NAIRU).

Beveridge Curve

If the vacancy rate is a reasonable measure of excess labour demand, then the vacancy rate is inversely related to the rate of unemployment. The inverse relationship between the vacancy rate and the unemployment is known as the Beveridge curve. In the figure 7.1 below we present a family of Beveridge curves. Beveridge curve would shift leftward to the origin as the labour market becomes more efficient in matching the workers with the jobs. The point of intersection

Beveridge Curve expresses the relationship between rate of unemployment and rate of vacancy.

From the viewpoint of who had experience of remaining unemployed. Frictional unemployment is duration structural

between the relevant Beveridge curve and a 45° straight line through the origin shows the natural rate of unemployment associated with theoretically full employment level of income. As the figure 7.1 shows with a higher level of efficiency (E_2) of labour market natural rate of unemployment rate is 6% while with lower level of efficiency (E_0), natural rate of unemployment rises to 12%.

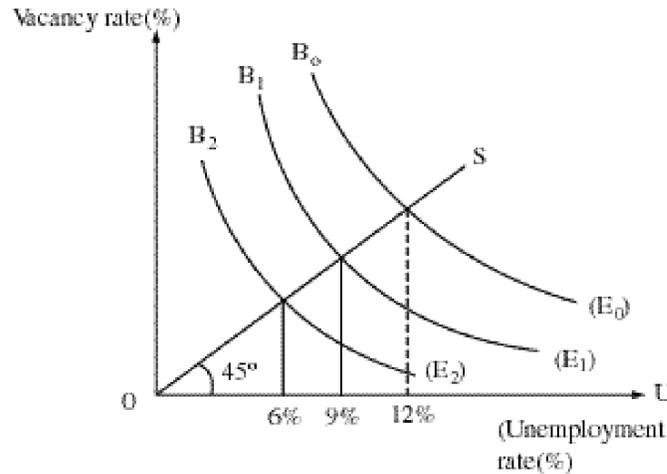


Figure 7.1: Beveridge Curve

As said earlier Natural unemployment is comprised of two different types of unemployment: (1) Frictional (turnover) and (2) Structural (mismatch) unemployment.

Some Frictional unemployment is inevitable, voluntary and not that harmful. It occurs not because appropriate jobs are not available but because it takes time to find a suitable job and recruit a suitable person for a vacant position.

Frictional Unemployment

This type of unemployment occurs even if wages are perfectly flexible and appropriate job opportunities are available for the unemployed in the same location. In the real world there will always be some workers who have retired from or just entering into labour force. Some workers voluntarily quit their jobs or are suspended, and search better or similar jobs or are in the midst of the process of accepting and subsequently joining a new job. Some laid off workers may get their jobs back in the same firm. Finding suitable jobs and filling vacancies both are time consuming processes. There will always be some job jeezers who are between jobs. Frictional or Turnover unemployment refers to the unemployment experienced by those groups of workers.

Economic Interpretation of Frictional Unemployment

There may be valid economic reasons why a youngster should refuse a job offer rather than accept it or why should he quit a job. Foregone earnings from such jobs may be considered as an investment for job search. If the return of this investment in the form of offer of jobs ensuring higher wages for longer period in the future and better working condition, the investment may appear to them to be worthwhile. Increase of rate of tax on wage or/and increase in unemployment benefits have the potential to make the length of search time longer. Many workers on lay off may not have the incentive to seriously search new job- they would rather wait to be recalled to their old jobs. Entry into job search may be lessened by reducing the reasons behind quitting and re-entry and initial entry into labour force in order to reduce frictional unemployment. Alternatively or simultaneously economic incentives that unnecessarily prolong the search may be reduced. Providing easy access to information about appropriate jobs may be useful in both the options.

Structural Unemployment

This type of unemployment occurs when vacancies and unemployment coexist but locations and skills of the vacancies do not match with the locations and skills acquired by the unemployed people. While Turnover or Frictional unemployment for a group of workers may be of short duration, Mismatch or Structural unemployment has much longer duration. Unemployed people must know what skill they must learn or what location they must go for getting jobs or both. They need to learn new appropriate skills and or meet necessary expenses to move to a new location to get a job.

Economic Interpretation of Structural Unemployment

For the sake of convenience let us assume that there is a mismatch between the skill requirements of vacant jobs and present skill of currently unemployed individuals. Such a mismatch can be partly accounted for inflexibility of relative wages. High level of minimum wage, it is argued, is responsible for higher unemployment rate among the teenagers and the black in the USA. On the other hand, if difference between wages of skilled and unskilled workers is small, the incentive to acquire skill may be impaired. Ability to read, write, understand

instruction, perform arithmetic is essential for receiving training. But such education is not provided by industrial employers. Same is the case with some training which is general in nature. Due to the public good nature of education and basic skills those have to be provided solely by the government. Employers cannot reap the full benefit from such training investment. The employee may quit long before completion of the training programme conducted by the employers. When the skills taught are specific to a particular job in a firm, the training can be financed by paying the employee less than his productivity during the training period. Sometimes employees choose much older or otherwise less qualified people for training so that probability of quitting after the completion of training programme is lessened. Private sector provision of specific skills may turn out to be inadequate as well as inappropriate due to change of demand of different skills caused by unforeseen expansion or contraction of the size different industries. Besides, there may be a lack of synchronisation between graduation of technical or general students on the one hand and emergence of vacancies and commencement of recruitment. On the other structural unemployment may also result from discrimination against a particular sex, race or region. In certain cases those occur due to long standing customs, values and social pressure while in some cases there may be some valid economic reason for employers in discriminating. Mismatch due to inappropriate location is mainly caused by the inability of the married people with children to move from one city (or town) to another city (or town) especially when both husband and wife work. Another reason for such mismatch is simply the fact that the unemployed persons do not know location of vacant job positions.

7.4 Cyclical Unemployment

An economy with an unemployment rate above the natural rate is said to have Cyclical unemployment. Cyclical unemployment, hence, is the difference between actual rate of unemployment minus the natural rate of unemployment. This type of unemployment occurs during recessions. During recession total spending and output fall, prices keep on falling. Aggregate demand falls short of aggregate supply in the product market. In the labour market too overall demand for labour is low compared to over all supply. During recession unemployment does not

remain confined to few economic activities, individuals or groups, rather it becomes pervasive.

Economic Interpretation of Cyclical Unemployment

As a response to the above definition of cyclical unemployment the pertinent question would be why market wages do not fall to bring the equality between demand and supply of labour and reduce the unemployment rate to the natural rate.

Voluntary and Involuntary Unemployment

Classical and Neoclassical economists would argue that in a frictionless economy with perfectly flexible wages and prices involuntary unemployment is ruled out. Figure 7.2 shows demand and supply of labour curves D_L S_L and equilibrium money wage OW_0 in a perfectly competitive framework. If there is no friction (an unrealistic assumption), at OW_0 money wage there will be no involuntary unemployment. Some in the labour force may remain unemployed at this level of wage, because they won't work at any wage rate below or equal to OW_0 . But they are regarded as voluntarily unemployed. Voluntary Unemployment at a particular wage level is number of persons in the labour force who are not working at the wage level.

In the classical or neoclassical world both Involuntary and Structural unemployment can-not occur but for a short period.

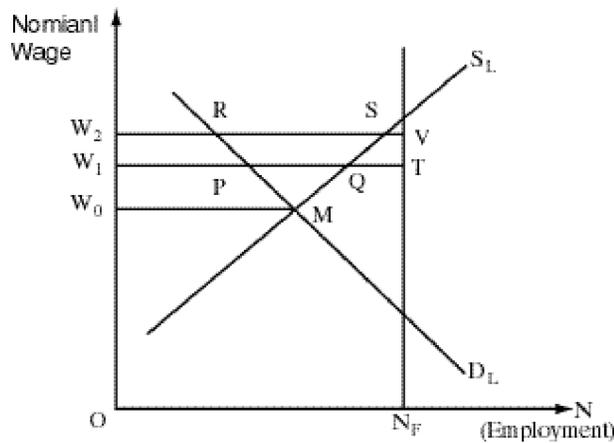


Figure 7.2: Voluntary and Involuntary Unemployed

At any wage above OW_0 there will be varying level of unemployment rising with the increase of money wage. At OW_1 , PQ level of unemployment, known as involuntary unemployment emerges. Voluntary unemployment at this level of

Cyclical unemployment occurs due to downward pressure of money wages.

wage QT. At OW_2 involuntary unemployment shoots up to RS while voluntary unemployment declines to SV. Involuntary unemployment at a particular wage level is the number of persons in the labour force who want to work at that wage level but do not get any work. If wages are flexible involuntary employment cannot exist but for a very short period of time as excess supply of labour would drive wage downward to equilibrium level of wage OW_0 . Frictional unemployment if it once occurs due to mismatch between location and skill of vacancies and those of unemployed persons, would disappear over time if relative wages are flexible. In a changing world, however there will be some Frictional unemployment, as the mismatch could frequently occur. Similarly some unemployment due to information and search problem would prevail irrespective of the degree of flexibility of wages.

Involuntary unemployment except for a vary short period is ruled out by flexible wage. But economic history records periods of recessions when a large number of qualified works are unable to get jobs at the going wage for a long period of time. Keynes on other hand, opined that labour market is characterised by downward rigidity of money wages. When there is a downward shift of demand for labour for labour consequent on a decline on aggregate demand for goods and services, downward rigidity of wage cause involuntary unemployment (see figure 7.3)

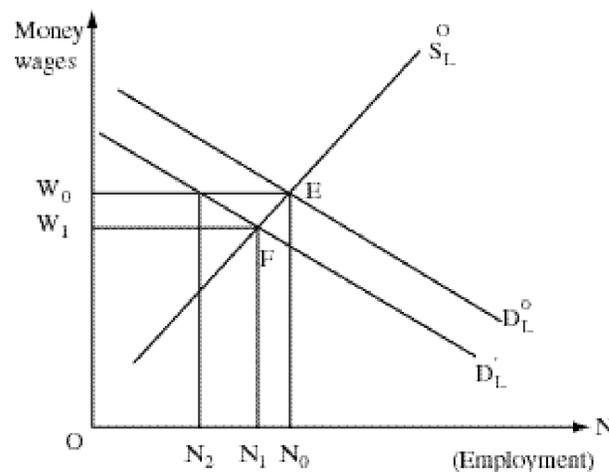


Figure 7.3: Wage rigidity and unemployment

In figure 7.3 OW_0 represent pre recession equilibrium level of money wage at which full employment occurred. The equilibrium level of wage is determined by supply and demand of labour represented by S_L^O and D_L^O curves respectively. Equilibrium level of employment was ON_0 . As recession sets in aggregate demand

Downward rigidity of wage... accounts for the following... Employers... the wage... level so that... workers... shirk, b... Employers... some bargaining power as...

for goods and services shifts downward which causes a downward shift demand of labour curve to D'_L . If money wage fails to move downward at all or if it moves downward by a magnitude less than what is the necessary to bring equality between demand and supply of labour again in changed circumstances, involuntary unemployment would emerge. If money wage level does not fall at all level of involuntary unemployment would be equal to N_2N_0 .

At this stage we must explain why money wage fails to fall from a certain level in spite of the presence of excess supply of labour at that wage level.

There are several reasons which are not mutually exclusive for the downward wage stickiness (or rigidity).

(1) Wages may be kept at a level higher than equilibrium money wage by employers themselves so that workers find it costly to shirk and have the incentive to self monitor. Employees may shirk whenever they are not monitored. If workers are paid low wages, one may take the risk of shirking since loss of job following his being caught while shirking may imply insignificant financial loss. He may have another job probably with a slightly lower wage level. If, on the other hand, the wage is set at a high level (above the market clearing level), the worker won't take the risk of shirking as job loss will imply a significant financial loss. Besides, low level of wage induces workers to take part time jobs and or spend time in searching better jobs. Higher wage would ensure more attention, time and effort to the work.

(2) Whatever may be the level of unemployment the workers working in a firm for pretty long period of time, may acquire some bargaining power. They might have already received some on job training. At minimum they have learnt about the working condition, have been familiar with different formalities and procedure practiced in the firm. If a new man is employed, time and money have to be spent for him to make him as knowledgeable and efficient as his senior co-workers. Besides, there are search and retrenchment costs associated with new recruitment. This reality may often lead to higher wage offer in the face of wage bargaining rather than dismissal of old workers even in a situation characterised by excess supply of labour.

(3) Lastly, workers and employers may enter into an implicit or explicit long term contract. There is no scope of reducing the wage level within the contract period. When the contract period expires there may be no need to reduce wage as there is

during a
ion wage
low and
g a boom
be high.
timing of
changes
cannot be
ly brown

prevalent optimism in the business environment. If employers and workers are risk averse they will prefer a specific wage rate to a set of wage levels with different probabilities. So fixed wage level will actually be contracted in workers -firm negotiations especially if firms are risk neutral.

Lesson-3: Costs of Unemployment

Lesson Objectives:

After studying this lesson you should understand and know the following:

- w Causes of, and costs inflicted by different types of unemployment.
- w Structure of labour force, relative contribution of different sectors to employment, wage setting process and extent of unemployment at various aggregate levels in Bangladesh.
- w Problems of unemployment faced by youth, skilled and educated labour force in Bangladesh.

Cost of Frictional and Structural unemployment

We learnt earlier that natural unemployment is the sum of Frictional and Structural unemployment. People may decline to accept the first available job(s) which may pay little or have unattractive working condition or is not appropriate for the skill and education received by those and keep on looking for jobs. In some instances people may accept those but later leave the job to look for better jobs. In such cases frictional unemployment is inevitable. In assessing cost due to this type of unemployment we should consider the following: (1) cost arising from loss of output, (2) disutility from doing an unsatisfactory job, and (3) non utilisation or incomplete utilisation of skill, education of actual or potential workers.

Structural unemployment comprises the rest of natural unemployment. It occurs as we have learnt due to a mismatch between the skill and or location requirement of job vacancies and the present skills and or location of unemployed individuals. This type of unemployment entails:

- (1) Private costs to the individuals: These include lost income and erosion of job skills and reduction of the probability of getting a suitable job in the future
- (2) Social costs. These include unemployment and welfare benefits to be paid by the government, costs of additional crimes committed by the unemployed people as well as costs of illness and even suicide experienced by the unemployed or his family. If such unemployment is concentrated in a particular region and or in a particular community the social harmony may be destroyed.

In general unemployment generates both private and social cost.

Costs of Cyclical Unemployment

Okun's Law states that for every one percent rise of unemployment over the natural rate of unemployment actual real GNP would fall from the potential real GNP by approximately 2.5 percent.

Costs of cyclical unemployment include among others output lost because the economy is not at full employment and an unemployment rate greater than the natural rate of unemployment. The rate of unemployment in excess of natural rate of unemployment is found to be positively associated with actual real GNP relative to natural real GNP. Using recent data of US economy it was found that for every 2.5% of GNP fall relative to potential GNP actual unemployment rate relative to natural rate of unemployment rises by 1%. The exact nature of the positive association was first identified by Arthur Okun. Okun's law implies that if unemployment rate falls from 6% (natural rate of unemployment) to 7% GNP would fall from 100% of its potential (full employment output consistent with 6% natural rate of unemployment) to 97.5% of its potential.

Output declined by a higher percentage during recession than unemployment rate for the following reasons:

- (1) The loss to the society in terms of wages the unemployed workers could get and taxes they could pay as some of the unemployed become discouraged and drop out of the labour force.
- (2) Take home pay of many of the people who are still employed declines as overtime hours are cut.
- (3) Business profits decline sharply as firms are forced to keep some of the employees (with valuable skill and or at key positions) even when demands for the product progressively declines.
- (4) As recession continues government revenue receipts fall leading to a fall in government expenditure too.

While Okun's law estimates income lost due to the increase in unemployment, the loss may not be evenly distributed among regions, income classes or communities. Such uneven distribution of misery may furnish or destroy the harmony in the society. Unemployment is found to hit the poor & people harder.

Human costs of cyclical unemployment is immense and appalling. Prolonged unemployment breeds loss of self respect and sense of being abandoned. These have pervasive impact not only on the unemployed individuals but also on their family life and children's upbringing.

Labour market in Bangladesh: An overview

Unemployment: Pattern and Trend

Bangladesh labour market is characterised by a very high rate of labour force growth, low employment growth rate and declining labour absorption in the manufacturing sector. Agriculture still remains the major source of employment while 82% of labour force is engaged in rural sector. Both agriculture and manufacturing sectors share of employment suffered a decline over time. The decline in the relative share of agriculture employment was not matched by an increase in the share of manufacturing employment, as expected in the development process. The share of non tradable sector spread across formal and informal economic activities in the urban areas increased significantly. Male workers still dominate the labour market of Bangladesh. Female-male ratio in the labour force had risen even during the era preceding the recognition of some of the activities performed by women as economic activities in 1989. The ratio however seems to have declined or stagnated to approximately 6:10 in the late 1990s. Another important feature of the labour market in Bangladesh is that informal sector employment provides 87% of total employment in the economy. Contribution of informal sector to total employment ranges from as high as 97.3% in agricultural and 43% in manufacturing to as low as 20% in financial and business services in case of employed male. In case of female employed those proportion are 98.8%, 65.9% and 26.7% respectively. It may be noted here that informal sector employment is characterised by low level of income, job insecurity and absence of fringe benefits, leave, medical facilities etc. Informal sector is a more important source of employment for female than male labour force.

Though labour law of this country does not permit employment of children labour it constitutes more than 10% of the labour force. Most of them are engaged in informal sector. A significant part of child labour was displaced from the RMG industries (formal private sector) during the early 1990s following the enactment of Harkin Bill in the US senate. Most of these children of poor or broken families have no honest means of surviving other than working in the informal sector.

Visible or open unemployment rate in the economy was estimated to be 2.3% of labour force in 1981. It dropped to 1.1% in 1986 but rose to 2.5% in 1996. Urban unemployment rate in 1996 was 4.5% while rural unemployment rate was estimated to be 2.1%. Rate of rural unemployment rate for women is lower than that for men. The case is reverse for urban areas. While rural unemployment rate is found to be lower rural sector experiences significant underemployment. Most of the studies show that on the average around one third of the available labour

time remains unemployed. Public sector of Bangladesh alleged to be overstaffed, appear to have significant underemployment too.

Wage setting process

In Bangladesh the movement of real wages (general as well as sectoral wages) exhibits a slight upward trend with year-to-year fluctuation around the trend. The behaviour of real wages which show some measures of downward stickiness reflects the wage setting and wage adjustment mechanisms operating in the economy. In the public sector Wage and Productivity Commission awards wage structure from time to time. Minimum Wage Board declares, at irregular intervals, minimum wages for different activities in the formal sector. In general, minimum wages are fixed for industries marked by absence of organised labour. In the formal private sector characterised by organised labour wages are determined by collective bargaining. However public sector wages work as reference level in the wage negotiations especially for industries spread over both public and private sector. In the vast private and informal segment of labour market wage is determined by market forces. For most of the activities/industries in informal private sector oligopsonistic market for labour is found to exist.

Public sector wages are found to have poor link with productivity. Public sector wages are found to have risen even when the public sector enterprises had been persistently incurring losses or labour productivity had fallen. In the formal sector dominated by state owned enterprises a positive association was found between trade union presence and wage and employment at the industry level. Such impact has somewhat dampened in case of employment in the past ten years or so.

Problems of Different Categories of Labour Force

We will consider problems faced by three categories labour force of Bangladesh: (1) Youth labour force, (2) Skilled labour force, and (3) Educated labour force. It may be noted here that these categories and female labour force are not mutually exclusive. Some aspects of problems of women labour force have already been discussed. Some are pointed out in the discussion below. Women labour force faces discrimination in Bangladesh as they do in other developed as well as backward countries.

Youth labour force

Youth (aged between 15-17 years) constitute from one third to two fifth of the labour fore. They are likely to be more mobile, skilled as well as educated than

In Bangladesh male workers dominate the labour force. Agriculture sector is the main provider of employment. Informal sector dominates over the formal sectors in terms of employment. Visible unemployment rate is low-but there is significant underemployment. Labour market of Bangladesh is far from perfect.

Rate of unemployment in Bangladesh has been rising among the labour force as skilled labour force as well as educated

those in higher age groups. Unfortunately the most unemployed in Bangladesh belong to this age group. Unemployment rate among this labour force has increased rather significantly since the mid 1980s.

Skilled labour force

During 1985-1994 number of skilled personnel almost doubled. Government make primary education universal. In recent time incentive in the form of scholarship and food grant was given to encourage female education. Government expenditure on education rose up sharply in the last decade and half or so. The irony is that unemployed skilled and semiskilled workers are found to coexist with significant number of vacancies in both private and public sector. This paradoxical outcome can be accounted for by:

- (1) Low revenue earning of government and donors pressure led to retrenchment of redundant labour and staff
- (2) Training provided by formal institutions are inappropriate, inadequate and outdated in a significant number of cases.
- (3) Personal attachment to employers gets significant importance during recruitment Relatives, friends, people coming from the same village or district from which the employer himself hailed get preference over others. Such recruits appear to be more trustworthy to the employers and they can be easily caught if they happen to cheat or commit any crime.
- (4) Unskilled workers are given on-the-job training or they simply learn by doing and seeing. During the learning process unskilled workers are given wages less than their productivity- so that investments in those workers are automatically financed.

Educated Unemployment

Side by side with increase of literacy rate and significant increase of the number of graduates and post graduates unemployment rate for persons with education actually increased during 1983-1984 to 1995-1996. It is interesting to note that unemployment rate of persons with no education actually declined. Concentrating on sex and location specific unemployment rate, it was found that unemployment rate among educated male has gone up irrespective of level of education received or place of residence. Same thing has happened for educated female who has received education beyond S.S.C level. For women who received education below S.S.C level unemployment rate has declined both in urban and rural areas.

The above situation can be explained by the following developments. On the supply side, there has been mushroom growth of intermediate and degree colleges until the recent past. At present the authority approves the setting up of degree college under more stringent term, while Honours and Master degree programmes have been introduced in many government and private colleges in the recent past. A good number of universities, medical colleges and business institutes have been set up by the private sector in the past decade and half or so.

The government sectors ability to absorb new graduates has substantially declined following the privatisation of state owned enterprises and rationalisation of labour forces in the public sector. But the government sector has traditionally been and still is the most important employer of educated manpower. Though private sector has achieved significant growth rate it failed to create enough jobs for the swelling masses of university graduates.

The employment situation for educated labour force appears to be dismal even if we allow for the fact that some of the educated persons are always on the move from one job to another and wont accept any job that is available. The decline of unemployment rate among the less educated female labour is not as comforting as a casual onlooker may think. The decline can atleast partly be attributed to recognition of some household activities as economic activities and women engaged in those as employed. Besides a significant proportion of employed women are engaged in the informal sector. NGOs working in urban and rural areas and considering poor women as target group may have contributed in lowering the unemployment rate among such less educated women.

Concepts for review

Laboure Force	Official Unemployment Rate
Beveridge Curve	Visible (Open) Unemployment
Downward Wage Stickiness	Hidden Unemployment
Disguised Unemployment	Natural Unemployment (Non Accelerating Inflation Rate of Unemployment)
Okun's Law	Fictional (Turnover) Unemployment
Cyclical Unemployment	Seasonal Unemployment
Involuntary Unemployment	Voluntary Unemployment

Exercises

1. Give tick marks in the appropriate box to show whether the following statements are true or false. Explain why they are true or false.
 - a. Open unemployment rate is low in Bangladesh

- True False
- b. Unemployment rate is low in Bangladesh
True False
- c. Unemployment problems do not exist in advanced market economies
True False
- d. Disguised unemployment does not exist in formal private sector industries.
True False
- e. Providing easy access to information about available jobs can help reduce the Fictional unemployment.
True False
- f. Providing easy access to information about available jobs can help reduce the Fictional unemployment.
True False
- g. Beveridge curve shows inverse relationship between unemployment rate and rate of inflation.
True False
- h. Cyclical unemployment does not occur in industrially advanced countries.
True False
- i. If wages rate flexible downward both Voluntary and Involuntary unemployment cannot exist but for a short time.
True False
- j. Wage higher than equilibrium wage prevent workers from shirking.
True False
- k. costs of Cyclical unemployment are more than those of Frictional unemployment.
True False
- l. Bangladesh labour market is far from perfect.
True False
- m. Bangladesh has no serious unemployment problem as open unemployment rate is very low in this country.
True False
- n. Educated unemployment rate has risen in Bangladesh because recently public sector is not playing the role it used to play in the past.
True False
- o. In Bangladesh unemployment rate among educated women has fallen
True False

3. Answer briefly the following question:

- a. Why does not official figure of unemployment rate truly reflect the problem of unemployment in Bangladesh?
- b. Present a brief account of unemployment problem of Bangladesh. Do you think that low open unemployment rate of Bangladesh is but a poor indicator of the serious unemployment and underemployment problem of this country? Why or Why not?
- c. Show that perfectly flexible wages can reduce, but not eliminate, both involuntary unemployment and structural unemployment.
- d. Why do we observe wages higher than market clearing wages?
- e. Why is educated unemployment rate rising in Bangladesh?
- f. 'No market economy, however efficient, can get rid of natural unemployment'. Explain the comment.
- g. What measures can be taken to reduce frictional unemployment.
- h. Briefly discuss what can be done to reduce Structural unemployment rate.
- i. Why is the problem of Cyclical unemployment more appalling than that of Structural or Frictional unemployment.