UNEMPLOYMENT – THEORETICAL OVERVIEW

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Abstract: *Unemployment is among the most severe macroeconomic diseases. Increased unemployment indicator is considered as a symptom of economic decline phase. Hence theoretical analysis takes a special importance, it allows us to define the right "medication", the relevant policies to heal or at least to appease the disease.*
One of the main objectives of the government is full employment. To fulfill this objective, the government implements programs of all kinds. It can intervene to companies through tax cuts to wages, to foreign investors through policy if fiscal or labor in order to increase foreign direct investment, or policy of subsidizing the companies for a certain period of time about wages and obligations social and health insurance contributions for new employees.
The aim of this study is the analysis of unemployment and employment by their theoretical reasons for the existence of unemployment and theories of unemployment.

Keywords: *unemployment, government, equilibrium wage, unemployment theories*.

INTRODUCTION

A person is considered unemployed if it does not have a work and is ready to work. The number of unemployed in a given economy is the number of people of working age who are able and willing to work in existing wage levels and have a work.
Two main characteristics of an economic recession are the falling GDP and rising unemployment. Changes in output measured by calculating the GDP, and changes in unemployment are measured by calculating the unemployment rate. The statistical data for the calculation of the unemployment rate can be obtained in different ways. As the main statistical sources can be used data collected from surveys of unemployment or data on the number of individuals who are registered at employment offices. Different countries use different sources to measure the rate of unemployment, but common is that an individual at a certain time, may have a work, unemployed or outside the labor force.

The busy (employed) is considered the person who has a paid work, even when absent from work due temporarily that is sick, on vacation or on strike.
The unemployed include those who work but are not actively seeking work or waiting to return to work.

Employees plus unemployed represent workforce. All others who are of working age but they don’t have a work and do not actively seek work, they are considered outside the labor force.

METHOD OF MEASUREMENT OF UNEMPLOYMENT

The definition of "standard" ILO unemployment, defines unemployed persons as persons who are not working during the reference period and who are looking for work actively, willing

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and ready to start work, whether it would be possible. There are three ways of measuring the unemployed population, based on the degree of relaxation of work search or ease of use set criteria for measuring unemployment; standard, partly undisturbed, relaxed.

If the records of the labor force, it is not possible to incorporate issues relating to the measurement of unemployment during the reference period and what actively seeking work, if it is possible. If you do not work, people were asked if they were ready and willing to start a work if possible. This can lead to the conclusion that in some cases the answer is based upon statements of persons and not on real efforts to find a work. It can be said that unemployment took more or less the relaxed form of the definition of unemployment.

In measuring unemployment, the ILO definition referring asked people if they have search for work four weeks prior to the study, what specific steps they had taken and whether they were ready to start work within two weeks if you were offered a work. According to this study can measure the unemployed population by using two options for measuring unemployment: the standard and the relaxed definition of unemployment. Regarding relaxation standard definition, some groups as "defectors", "seasonal workers", "discouraged workers" - who seconded margin workforce - can be considered as unemployed.

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The assumption is fully justified in the Albanian context characterized by a significant number of discouraged workers.

On the other hand, it also is observed in developing and transition economies when used standard definition, especially low numbers of unemployment in rural areas, reflecting high levels of underpaid work in agriculture. As recommended by the ILO, in these circumstances, the employment situation can not be described only by data on unemployment, but should be supplemented by information about the work of underpaid.

Also, many countries do not apply "a criterion of hours the prosecutor" standard, but use a different limit for him to classify a person as employed.

As government agencies typically measure the rate of unemployment in the economy? There are two basic ways:

Count of claimants. A simple way is to count people who benefit payments for unemployment in the form of transfers. Since the benefits are paid by agency of state, it will be easy to collect data on the number of claimants. The government also has a good idea of the total work force that is unemployed, receives those payments for taxes on personal income. By this way, the unemployment rate is:

Unemployment rate (%) = (number of claimants) / ((number of claimants + Taxpayer)) × 100

Labor force surveys. The second method and perhaps most trusted is going out and asking people, based on the definition of unemployment. Surveys of the labor force, based on the definition of standardized unemployment by the International Labour Office (International Labor Office) ILO, is that someone who is unemployed and who is ready to start work within two weeks and subsequent, or They have been looking for a work within the past four weeks, or is waiting to start a work. When the government decided to all individuals covered by the survey in a category, it calculates various statistics about the state of the labor market. The labor force is defined as the sum of employed and unemployed.

Labour force = Number of Unemployed + Number of Employees

Then the unemployment rate measured as a percentage of the labor force unemployed.

Unemployment rate = (unemployed) / (workforce) × 100

The same survey results are used to produce statistics regarding the participation in the labor market.

Participation rate in the labor market = (Labour Force) / The population × 100

This statistic shows the population that chose to participate in the labor market.

Besides the statistics above, the survey data may be calculated statistics about unemployment and participation in the labor market for different categories of society such as women, men, young, old, according to breeds, education, etc. which can serve the government during its policymaking.

MAIN THEORIES OF EXISTENCE OF UNEMPLOYMENT

Unemployment theories can be classified based on the opinion that why mechanism labor market may fail. Specifically, consider an unemployed worker who offers his working hours to work in a particular firm for less than the firm is actually to pay and what is the difference for workers who are considered homogeneous. There are at least four possible answers that the firm can do for this offer.

First, we can say that the firm does not want to reduce wages. The theory according to which pays higher wages that labor market equilibrium is known as the theory of efficiency. This theory comes from the idea that higher wages may increase labor productivity or labor efficiency.

Second, companies can cut wages, but an explicit or implicit agreement with its workers prevent it, making arrangements and contracts affect workers in the labor market, these are known as contracting models, or the economics of the trade unions.

Thirdly, firms can respond to the offer of workers unemployed and says he does not accept the premise that the unemployed worker is identical to current employees of the firm. Heterogeneity among workers and workplaces can be an essential feature of the labor market. In this view, to think the labor market as a single market, or even as a number of related markets. According to this view, every worker and every work should be thought of as distinct, as a result, the process of matching workers with works is not on the market, but through a complex process of research. Models of this type are known as search and matching models.

Finally, one other reason why economies experience a certain level unemployment, are laws which set a minimum wage level, under which companies are required to pay their workers above this level, regardless of type or labor productivity.
Now let's treat these theories in a broader way.

Efficiency wage theory. One reason why some economies experience unemployment is efficiency wage theory, under which firms operate efficiently if firms pay wages that are above the equilibrium level. Why do firms want to keep wages high? The decision may seem strange, because wages are a very important voice of the firm's costs. Normally we expect firms to maximize their profits, maintain low costs and wages as low as possible. Innovation capacity efficiency wage theory is that paying high wages could be profitable, because they can increase the efficiency of a firm's workers. There are several reasons according to efficiency wage theory of why firms are willing to pay higher wages. Let us now consider some reason.

Health worker. The first and most basic of efficiency wage theory emphasizes the link between wages and worker health. Well paid workers are those who eat a more nutritious diet and workers who feed a better diet are healthier and more productive.

Employee turnover. Workers leave the work for many reasons, for employment at other firms, to move to other parts of the country, to leave the labor force and so on. The frequency with which they leave depends on a whole set of incentives with which they face, including retirement benefits and the benefits of staying. The more a firm to pay its workers, so rare they decide to leave. So a firm can reduce the circulation of its workers by paying them a higher salary.

Endeavour employee. In many workplaces, workers have some discretion about how much it should work. As a result, the firms monitor the efforts of their workers and if in case they caught avoiding their responsibilities, they fired. But not all those who are caught immediately diverted because monitoring workers is costly and imperfect. A firm can respond to this problem by paying wages above the equilibrium level. High wages make workers more eager to win, and thus give an incentive for workers to express their efforts better.

The quality of the worker. When a firm employs young workers, it can not to fully gauge the quality of candidates. By offering a higher salary, the firm attracts a better group of workers to run for works.

Economics of Trade Unions.

A trade union is an organization of workers that makes an agreement with the employer for wages and working conditions. A union is a kind of cartel. Like any cartel, the union is a group of sellers acting together, the hope of the appearance of their united power of the market. Workers in a union act as a group when discussing their wages, benefits and working conditions with their employers. The process whereby the unions and firms agree on the terms of employment is called collective contract. When a collective agreement with the union makes a firm, it requires higher wages, better benefits and better conditions of work than would offer companies in the absence of a trade union. When a union raises the wage above the equilibrium level, through the pressure that the firm, it increases the amount of work provided and reduces the required amount of work, leading to result in unemployment. So when unions achieve to raise wages for some workers that are syndicated, then a certain number of workers remain unemployed while the rest are employed at higher wages, this causes the number of unemployed in the economy to grow and for thereby to increase the supply of labor in industries not syndicated and to reduce the level of wages.

Simple wage contracts.

A simple type of contract specifies a fixed salary and then allows the company to select the number of workers arising that comes from the level of A. According by this contract the unemployment and wage hardening immediately arise. A decrease in demand for labor, makes workers or firms to reduce working hours with fixed wages, while labor supply doesn't change and this way unemployment is created. But this is not a very accurate explanation of unemployment and real wage rigidity. The difficulty in this type of contract is ineffective under Liontief (1946), Barro (1977), Hall (1980). Since salary is fixed and firm chooses to employ workers with salary data, the marginal product of labor is independent of A. But employment varies depending on A, marginal work dissatisfaction depends on A. The marginal product of labor is generally not equal to the marginal labor discontent, therefore it is possible for the parties to make a better contract.

Contracts efficiency.

To see how it is possible to improve a contract page, suggest that any firm offers for every worker a contract specifying hourly wage by realizing A. Contracts that are not specified by the state known as implicit contracts. The firm must offer workers a minimum level of benefits expected u0. Since Li and wi determine the level of Ci, we can assume that firms choose variables L and C for any occasion, then L and w. The problem of the firm may be submitted via Lagrange.

$$L = \sum_{i=1}^{K} pi[AiF(Li) - C] + \gamma\left(\{\sum_{i=1}^{K} pi[U(Ci) - V(Li]\} - u0\right) - pi + \gamma pi U'(Ci) = 0 \quad (16)$$

$$U'(Ci) = \frac{1}{\gamma} \quad (1)$$

The above equation implies that the marginal utility of consumption is constant in all situations. And the firm has natural risk.

According to the contracts of efficiency, the real incomes of workers are constant. This model implies real wage rigidity, because L is high when the A level is high.

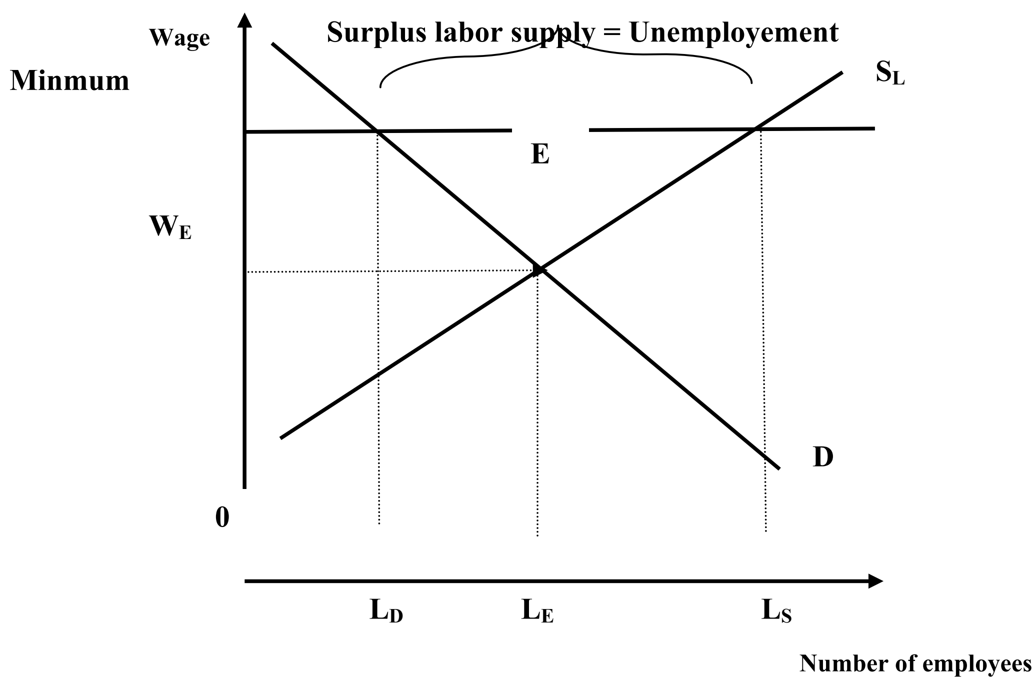
Searching for a work.

One reason why economies always experience some unemployment is the search for a work. Searching for a work is the process of pairing workers with adequate working places. If all workers and all workplaces would be homogeneous, if all workers would be well-adjusted to all works, work search would not be a problem. Disabled workers will quickly find new works, which would be well adapted to. But in fact, workers differ in their tastes and skills, works are distinguished by their attributes and information about candidates for works and work vacancies is slowly dispersed among many firms and households in the economy. Unemployment resulting from the process of pairing workers with works, called frictional unemployment. This type of unemployment explains the relatively short periods of unemployment.

As soon spread information about works and the availability of workers, the more rapidly the economy can pair the workers with work vacancies. Government policies strive to facilitate work search in different ways, as p.sh through employment agencies or employment offices, which are administered by the state, but this is not enough as most of the research process works in the economy it occurs without the intervention of the state, where the majority of economies in transition firsthand role plays "comes alive".

Minimum wage laws.
To understand unemployment we should review how unemployment arises from minimum wage laws. Although minimum wages are not the main reason for unemployment in the economy, they have a significant effect on certain groups with particularly high levels of unemployment rate. When the law of the minimal wages forces the wage to remain obove the level that balances supply and demand, it increases the amount of work provided and reduces the required amount of work, compared to the equilibrium level. Minimum wage laws are not a definitive reason for unemployment, the majority of workers in the economy have wages much higher than the legal minimum. Minimum wage laws are binding for members mostly less skilled and less experienced labor markets, such as the Young adults. Only among these workers, minimum wage laws explain the existence of unemployment.

Figure 1.1. Unemployment of a wage above the equilibrium[232].



[232] Mankiw, N. and Taylor, P. "Economics", South-Western, Centage Learning.(p.177)

In this work market, wages in which supply and demand balance is WE (wage equilibrium). In this equilibrium wage, labor quantity supplied and quantity of work required to reconcile both LE (the number of workers in equilibrium). In contrast, if the salary is forced to remain on the level of eluilibrit, perhaps because of a law on minimum wage, labor quantity supplied increases in LS and the amount of labor required falls in LD. Resulting surplus labor, LS - LD represents unemployment.

Conclusions

Although the reason that higher wages will ensure higher productivity firm, taking into account the costs of oversight, resulting from a better health of workers, a lower turnover, greater efforts of employees and a short senior workers recruited to work.
Efficiency wage model shows how the efficiency wages can affect the growth of unemployment, in addition it implies that real wages do not differ from change request to work.

When the economy is growing, the demand for labor increases, real wages remain unchanged and unemployment tends decrease. In conclusion unemployment reaches zero, at this point, further increase in labor demand brought real wage growth.

Workers increase their efforts in a particular salary when unemployment is high and less when trying other firms for the same work pay more.

When unions achieve to raise wages for some workers that are syndicated, then a certain number of workers remain unemployed while the rest are employed at higher wages, this causes the number of unemployed in the economy to grow and consequently increase the supply of labor in industries not syndicated and further reduce the level of wages.

As soon spread information about works and the availability of workers, the more rapidly the economy can pair the workers with work vacancies. Government policies strive to facilitate work search in different ways, as p.sh through employment agencies or employment offices, which are administered by the state, but this is not enough as most of the research process works in the economy It occurs without the intervention of the state, where the majority of economies in transition firsthand role plays "comes alive".

When the law of the minimal wages forces the wage to remain above the level that balances supply and demand, it increases the amount of work provided and reduces the required amount of work, compared to the equilibrium level.

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