

## UNEMPLOYMENT COSTS

Prof. Gheorghe Pîrvu Ph. D  
University of Craiova  
Faculty of Economics and Business Administration  
Craiova, Romania  
Adriana Tofilca Ph. D Student  
University of Craiova  
Faculty of Economics and Business Administration  
Craiova, Romania

**Abstract:** Unemployment is an imbalance of the labor market at national level - an excess of supply over demand levels and work with different evolutionary directions of countries and periods, which currently has a permanent character, but does not rule out the existence of employment status full labor. Unemployment costs, directly or indirectly, reveals that this phenomenon is a waste of human and financial resources generated by the use of an incomplete production funds, with implications for social costs. Direct costs are highlighted in the form of financial payments to the fund for social protection of unemployed, which is mainly used to pay unemployment benefits, support allowance, qualification and retraining of unemployed. Indirect costs are generated by reducing overall production and income that could benefit the entire population.

**JEL classification:** E20, E24

**Key words:** direct costs, indirect costs, the social cost, unemployment, gross national product, national income

### 1. INTRODUCTION

Unemployment is a negative state of the working population available, which can not find jobs because of the relationship between economic development disorder, as the source of demand for labor and population trends, as the source of labor supply<sup>1</sup>. The alarming extent by complex structures, especially the dynamics of the changing rhythms and meanings, unemployment has become a subject of fierce macroeconomic arguments theoretical, methodological and political-ideological. Since literature, official statistics and international (International Labour Office, UN Statistical Commission) addresses unemployment in terms of multiple and different ways of analysis and evaluation, has created a confusing picture of the phenomenon. In some university textbooks and treatises, unemployment is considered as the aggregate amount of all those who have official status of unemployed, that is, unemployment is the total number of unemployed. In this case, the issue moves to the person - unemployed. Most common definition that economists give the unemployed person is: the person seeking paid employment and who is not currently such a place. For an unemployed person be declared must appear on official lists of job placement and be available to start work immediately and would provide employment.

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<sup>1</sup> Ghe Pîrvu, *Macroeconomics*, Universitaria Publishing House, Craiova, 2004, p. 196

## 2. VOLUNTARY AND INVOLUNTARY UNEMPLOYMENT. NATURAL RATE OF UNEMPLOYMENT.

Unemployment or lack of full employment means that about 97-98% of the population available is used effectively (active population difference is considered to be natural unemployment). Full employment is that volume and that the employment structure, the use of labor resources, which will produce goods to meet peak needs of people organized into different communities. Unemployment is voluntary in that the denial or inability vacancy people to accept the remuneration offered (this is the real one) and / or existing working conditions. Such behavior under some legal regulation of social common practice, the slow nature of collective agreements to adapt working conditions and historical processes, demographic.

Voluntary unemployment arises from wage rigidity (nominal) to decrease. So the prevailing wages are generally higher than the equilibrium wage. Claims of employees and trade unions prevent wages adjustment by subtraction. In general, the wage determination has a financial and economic conditions of the users work. As a result, a part of the work remains unrealized, so unemployment is voluntary.

Involuntary unemployment is incomplete in that part arising from the use of wage rigidity, or of those persons who would be willing to unoccupied work for real wages lower than the existing, so that when actual demand for labor will increase will increase and employment. Involuntary unemployment may be suggested by the chart below. Typically, unemployment is treated and valued in terms of involuntary. So in that unemployment is nonocupare, incomplete use of that labor, from that group of people occupied that would be willing to work for a salary lower than the existing real, so that when the force increases effective demand work will enhance the degree of occupancy. Getting a zero unemployment rate is an objective which, on the one hand, it is impossible to achieve in a dynamic market economy, and on the other hand, might even be very undesirable.

Voluntary unemployment can be considered a tool through which some people manage to increase their individual gains and the process by which the company achieve a higher level of national product. At the same time, a certain level of involuntary unemployment is unavoidable, due to changes in consumer tastes or technology. These changes cause some mismatch between supply and demand of labor, which requires a change in resource allocation from certain occupations and regions towards others. How big is voluntary unemployment and involuntary unemployment unavoidable - in other words, the unemployment rate is that it can be said that there is full employment of labor-is an element that differ from country to country and from period to period.

A reduction in unemployment with - for example of policies designed to increase aggregate demand, will increase the inflation rate, for this, this level of unemployment is called the natural rate of unemployment (or unemployment rate which does not cause an acceleration of inflation rate - NAIRU<sup>2</sup>) and can be defined as:

- unemployment rate for which there is no demand or excess supply of labor in the labor market;
- unemployment rate for the number of vacancies is equal to the number of unemployed;

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<sup>2</sup> **The literature is summarized as NAIRU - the name in English Non Accelerating Inflation Rate of Unemployment**

- the unemployment rate would be achieved in the long run, if the anticipated rates of inflation would coincide with the actual.

Natural rate of unemployment corresponds to the normal functioning of the labor market is associated with full employment and labor. Unemployment may be considered excessive in any country, if it exceeds its natural level. When an economy is in long-term equilibrium, unemployment is at its natural rate. Since the natural rate of unemployment is a theoretical concept, it can not be directly observed, and therefore must be estimated.

### **3. UNEMPLOYMENT COSTS. OKUN'S LAW**

Underestimation of unemployment used to record only those who receive unemployment benefits, and exclude, usually young people who complete the various forms of education and can not find placement, those who did not work temporarily, those underemployed (disguised unemployment). Overstatement is done by including in the category of unemployed and those who receive unemployment benefits, although not intending to engage those who work but pretend they are unemployed, those who refuse jobs that are offered on why he hopes to find a better service. The average duration of unemployment is based on two terms: the number of unemployed and the rate at which runs into and out of unemployment. For those who become unemployed, the cost of unemployment has a moral and an economic aspect. The economically, entry into unemployment means less income and therefore consumption opportunities for the whole family. Also, unemployed status entails nervous stress, a depressed mood caused by the uncertainty and expectation, however, unlike the economic consequences, while important, can not evaluate.

Accurately assess the cost of unemployment requires consideration and advantages involved in this phenomenon, unemployment benefits are linked to the following:

- determination of employees to seek better service, and safe, requiring a higher qualification, which may mean incitement to training with corresponding consequences on the growth of labor efficiency;

- creating the mobile workforce and adjust to the changes imposed by economic activity, which contributes to greater efficiency in resource allocation in the short and fast economic growth in the long run.

Finally, however, if on the one hand are taken into account costs and benefits on the other hand unemployment phenomenon in the long run, the result is negative definite, because the costs far outweigh the benefits, both for those directly involved and the economy and society, as a whole.

The most important economic and social effects of unemployment are:

- reduction in GDP caused by the fact that those who do not work do not bring work so their time is irreparably;

- increasing social protection expenditure;

- reduction of labor efficiency, become unemployed due to the experiential loss, especially if unemployment is long term;

- reduction of individual income of employees laid off, which causes a reduction in their consumption and an expansion of poverty; general social effects: rising crime, suicide, etc. beggars.

Economist Arthur Okun described the relationship between the rate of unemployment and GDP as a law that bears his name and which read: for each percentage rate exceeds the natural rate of unemployment effective, GDP decreased by 2.5 percent. Effects on mental health of the unemployed: depression, feelings of exclusion from society, etc.. Currently the link between growth rate and unemployment rate is known as Okun's law. Okun's law has a static character and is valid only for the stage that Okun did research in the U.S. economy.

Protection of the unemployed is more important than reducing unemployment, and the main ways are:

- To stimulate aggregate demand, given that aggregate supply can grow. There is a danger of inflation, as can be applied especially in conditions of deflation.

- Labor market reform in order to ensure greater flexibility of wages.

- Reducing the hysteresis effect by eliminating moral hazard. It proposes to limit the period-del unemployment aid, the imposition of compulsory courses for the unemployed, the obligation to perform their public work.

- An increased emphasis on education and training in accordance with the requirements of future work.

#### 4. UNEMPLOYMENT IN THE EU. ROMANIA, BELOW THE EUROPEAN AVERAGE

**Table No 1**

Year	Unemployment rate
2004	6,3
2005	5,9
2006	5,2
2007 January	5,4
2007 March	4,9
2011 January	7,3

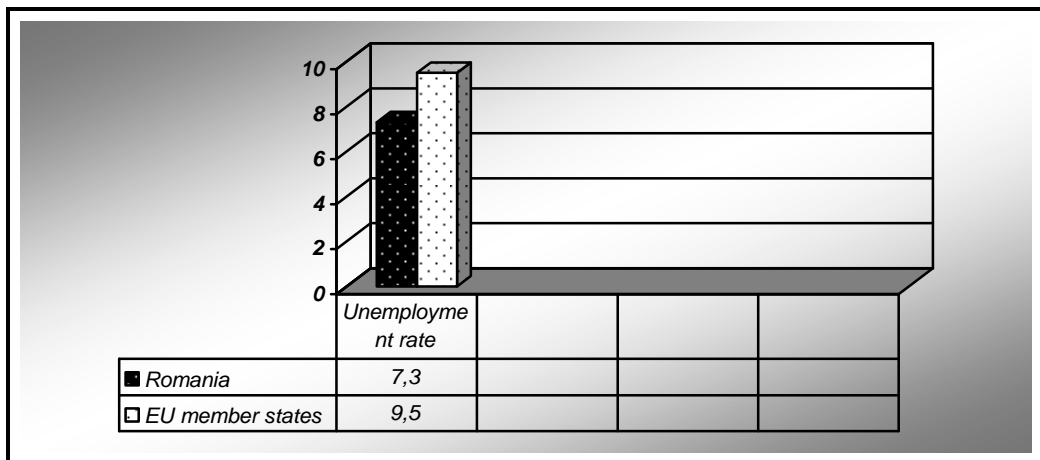


Source: EU statistical office - Eurostat

**Figure no. 1**

The number of jobless in the EU<sup>3</sup> decreases, according to the EU statistical office - Eurostat: Unemployment rate in January 2011 was 9.5%, compared to 10% as it was in December last year. The lowest unemployment was registered in the Netherlands and Austria, each 4.3% Luxembourg 4.7% and the highest rate of unemployment was recorded in Spain, 20.4%, Latvia, 18.3% in the third quarter of 2010, and Lithuania, 17.4% in the fourth quarter of 2010. Romania did not report information on the evolution of office Eurostat unemployment rate for October, November, December and January, but quarterly data for all series. According to Eurostat, according to seasonally adjusted data, Romania in January 2011 had an unemployment rate of 7.3%, below the 9.5% EU Member States.

#### Unemployment in Romania compared to EU countries in January 2011

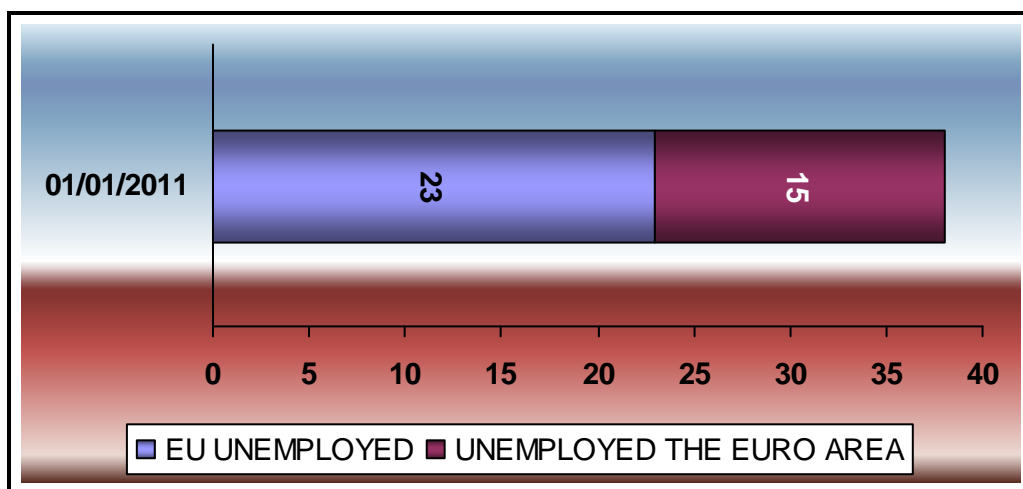


Source: EU statistical office - Eurostat

**Figure no. 2**

<sup>3</sup> EU statistical office - Eurostat

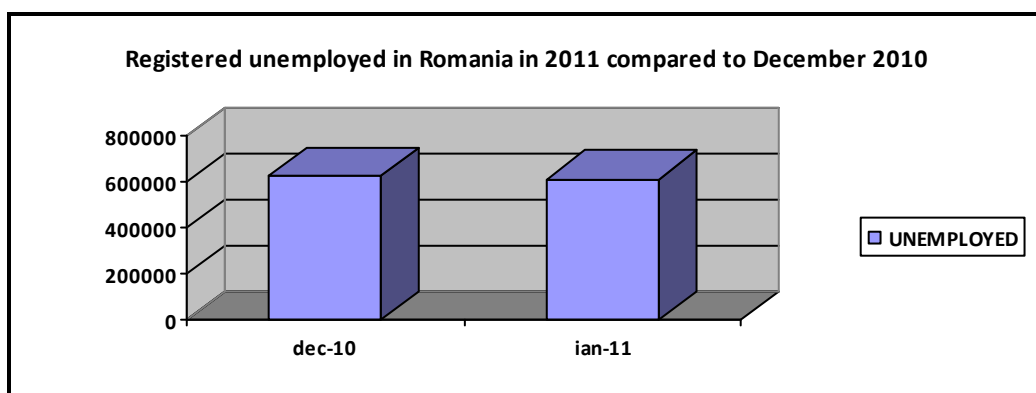
Compared to statistics from 2010, this year, in 14 EU Member States recorded an increase in unemployment and in 11 countries the unemployment rate fell at an annual rate. The highest annual rate of decline in unemployment took place in Estonia (from 16.1% to 14.3% between the fourth quarter 2009 and fourth quarter of 2010), Malta (from 7.2% to 6, 1%) and Sweden (from 8.9% to 7.9%), while the largest increases at an annual rate were recorded in Greece (from 9.7% to 12.6% between the third quarter of 2009 and the third quarter of 2010), Hungary (from 11% to 12.6%) and Lithuania (from 15.9% to 17.4% between the fourth quarter of 2009 and fourth quarter of 2010). Eurostat data show that in January 2011, in the EU over 23 million people unemployed, of whom 15 million are in the euro area.



Source: EU statistical office - Eurostat

**Figure no. 3**

In January, 614,976 in Romania registered unemployed, with 11,984 fewer than in December 2010<sup>4</sup>.

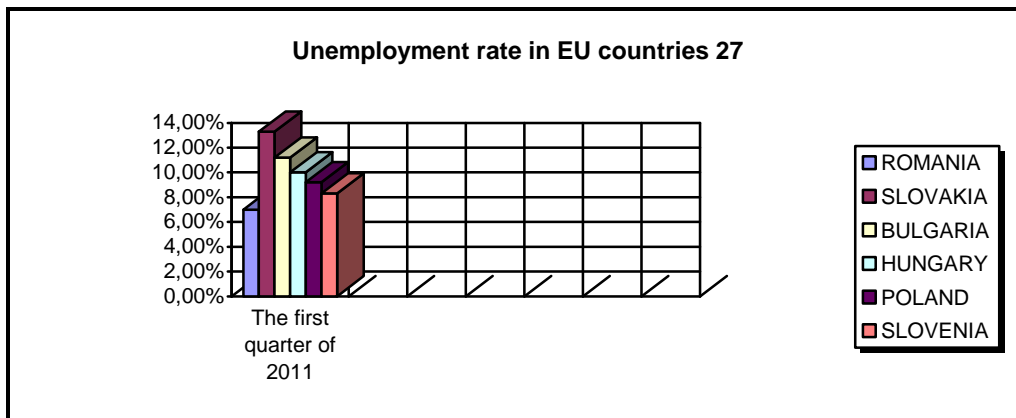


Source: EU statistical office - Eurostat

**Figure no. 4**

<sup>4</sup> EU statistical office - Eurostat

Romania Unemployment 7th place position in the EU-27, in May of 2011, being among the European countries with the lowest unemployment rates. Romania recorded an unemployment rate of 7.0% (first quarter of 2011) to the European average of 9.3%, standing in front of Slovakia (13.3%), Bulgaria (11.2%), Hungary (10.0%), Poland (9.2%) and Slovenia (8.3%)<sup>5</sup>.



*Source: EU statistical office - Eurostat*

#### Figure no. 5

Annual growth rate of industrial production places Romania on the 8th EU-23 (for which data are available) in May of 2011 compared to May last year, the increase was 7.9%, compared to European average, the 4.0%. Monthly dynamics of industrial production positions Romania 11th in the EU-23 (for which data are available) in May of 2011 from the previous month. Romania recorded a growth of 1.6%, the European average of 0.4%. Quarterly GDP Dynamics Romania 13th position in the EU-24 (for which data are available), in the first quarter of 2011 from the previous quarter. Romania's GDP grew by 0.7% against the European average of 0.8% positive. On the other hand, annual growth rate of GDP ranked 22 places Romania in the EU-24 (for which data are available), in the first quarter of 2011 compared to same quarter of 2010. Romania's GDP grew by 0.3% against the European average of 2.5% positive.

#### 5. CONCLUSIONS

For Romania, it is estimated that a capital injection in the sectors of infrastructure directed largely stabilize the economic decrease, but the problem must be solved simultaneously and already disadvantaged population, so it is necessary to keep unaltered the budgets for social spending (pensions, health, education, wages in budget), that these categories of persons is not affected by the economic crisis. These categories of persons listed above are not placed in a competitive environment, because any liquidity problems of the state will exhibit the most drastic consequences of the crisis.

Absorb the scale of population programs is essential also unoccupied state and preserve public order, as most anti-social phenomena - extremely expensive fought by society as a whole - from the fund unemployment, poor skills or lack of job work in areas without economic potential.

<sup>5</sup> EU statistical office - Eurostat

They are, therefore, two priorities for anti-crisis with implications posed. If government spending increases, then increases and investment along with increased consumer demand, leading to lower unemployment. If interest rates decrease, it increases the investment and to lower unemployment. If the facility makes a series of investments, this means increased investment and lower unemployment. If you apply protectionist policies, the import price increases, which means a decrease in unemployment. Devaluation of currency leads to an increase in exports, which implies an increase in investments in the production of substitute goods and therefore lower unemployment.

Unemployment as a phenomenon resulting from two major processes: loss of jobs by some of the employed population and increasing labor supply. Costs of unemployment is the major decision makers on the design of economic policies in the field of labor and monetary matters.

F. Economist Mankiw estimates that maintaining a low unemployment is the price of high inflation.

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