

UNEMPLOYMENT IN THE TIME OF ECONOMICAL CRISES

Roșca Mihaela Gabriela
University of Oradea
Faculty of Economic Sciences

Gal Anișoara
University of Oradea
Faculty of Economic Sciences

This article is a brief presentation of the periods of economical crises that occurred along history as well as a presentation of the effects that these crises had on the evolution of unemployment among the working population. The total effort the population, economy, and society in general can undertake subsequently to economical crises is immeasurable, and one can prefigure the adaptation of economic theories to the conditions and demands of the actual epoch to be a lasting and laborious process.

Key words: unemployment, unemployment rate, economical crisis, economic theory

JEL Code: J60

1. Great economical crises and the appearance of unemployment

World economy has been hallmarked by periods of upsurge and recession. Economical crises, irrespective of the period they occurred in, had the same negative phenomenon – the emergence and increase of unemployment within the working population.

The Great Depression between 1929-1933 had severely shaken the edifice of world economy. The great economical crisis or the Great Depression was a period characterised by the sudden, dramatic plunge of world economical activity. The first signs of the crisis were manifest from 1928. The extent of this world-scale event had catastrophic consequences: downsizing national income to half, drastic reduction of employed persons and the sudden increase of unemployment, the disequilibrium between merchandise demand and offer. All these revealed the fact that it was not the disequilibrium between merchandise demand and offer, as the word among economists at that time went, but due to more complex and serious causes in the market economy.

Of all contemporary western economists, J. M. Keynes was the one who adapted most efficiently and rapidly to the new situation. The serious and urgent problems he witnessed actually marked a double crisis: the economical crisis itself that encompassed the entire economical system, as well as an ideological crisis in the third and fourth decades of the past century that manifested through the above-mentioned crisis taking by surprise most economists: “evidence indicates that full, or even approximately full, employment is of rare and short-lived occurrence. Fluctuations may start briskly but seem to wear themselves out before they have proceeded to great extremes, and an intermediate situation which is neither desperate nor satisfactory is our normal lot. It is upon the fact that fluctuations tend to wear themselves out before proceeding to extremes and eventually to reverse themselves, that the theory of business cycles having a regular phase has been founded.”¹⁷⁸

Unlike neoclassical economists who, usually supposed full utilization of production capacities and workforce, thus denying unemployment, J. M. Keynes acknowledges and recognizes the existence and emergence of involuntary unemployment, chronic mass unemployment as he would refer to it every time.

¹⁷⁸ Keynes J.M., *Teoria generală a folosirii mâinii de lucru, a dobânzii și a banilor*, Editura Științifică, București, 1970, p. 261.

The crisis of the 1970s, the second economical crisis, is important in its depth, encompassing sphere, duration, and its consequences. For two decades after the war, developed countries experienced a growth based on the driving policy without relevant recessions managing to reduce considerably unemployment. But the experience of these years showed it is not enough for unemployment to decrease for economical instability to be attenuated, but one has to take account of the activities the former unemployed are doing at the moment. At the middle of the seventh decade and beginning of the eighth a series of data and facts considerably accentuated economical instability. Among these we can speak of the emergence of *stagflation* and *slumflation* i.e. the simultaneous presence of inflation, unemployment, and economical stagnation, that of inflation and recession which became ever more worrying. Trying to mend unemployment and economical blockages, monetary and budgetary policies became the source of other evils – inflation and the currency-financial crisis with a prolongation of negative effects on a global scale.

The catastrophic decrease of production was the major cause of the great depression from 1929-1933. The economical crisis in that period was characterized by underproduction resulting from poor crops as a consequence of natural factors (as drought, flooding) or due to wars. The crises occurring in modern times are due to overproduction. These crises do not merely refer to a certain branch or activity sector, but they encompass different branches and sectors of activity, economy as an ensemble, and, under certain conditions, the entire world economy. They have important economical and social consequences: between 1929-1933 the plummet of production in the USA was of 46%, while that of prices was of 30%, and the number of registered unemployed persons was of 13.5 million. In UK the unemployed were numbering 3 million, and in Germany the figure was of 5.5 million.

Comparing the two unsatisfactory state of economy during the two economical crises of the 1930s and of 1970s, Joan Robinson speaks of two distinct crises: “The first crisis surfaced out of a theory that could not explain the occupation level. The second crisis was born out of a theory that could not explain the content of occupation.”¹⁷⁹

In other words the events of the 1930s proved the inability of neoclassical theory to explain involuntary unemployment and economical crisis, just as the events in the 1970s proves the new Keynesian and neokeynesian trend failed to explain how it reached the fantasy of “digging useless holes” mentioned by Keynes.

Greek academic Angelos Angelopoulos, in his work *A World Plan of Occupying Workforce. For an International-Scale Keynesianism*, published in France in 1984 and translated into Romanian in 1987, tackles by Keynesian means the issue of underdevelopment of countries in the third world and its causes. He forwards a series of measures to trigger their development a at fast pace and to achieve durable international cooperation among peoples. In the view of the Greek economist unemployment is a deeply negative phenomenon to be encountered not only in developed countries, but on a large scale and under different forms in under-developed countries. Causes of unemployment in developed and developing countries reside in the insufficient productive investments and modern technology. To avoid a future crisis Angelopoulos, adapting the Keynesian policy and theory, proposes a global plan to relaunch economic activity in all categories of countries by attracting and stimulating international cooperation of the countries in the North with those in the East and South “nowadays everybody wishes for a better, more righteous, and more humane world not only on a national scale, but on a global scale as well.”¹⁸⁰

Thus, according to statistics presented by Angelopoulos in *A Global Plan of Occupying Workforce. For Keynesianism on an International Scale* “Between 1979-1981 in EU the unemployment rate increased by 55%, while between 1981-1983 by 32%. In the US the increase

¹⁷⁹ Robinson J., *Contributions to Modern Economics*, Academic Press, New York, 1978, p. 9.

¹⁸⁰ Angelopoulos A., *Un plan mondial de ocupare a forței de muncă. Pentru un keynesism la scară internațională*, Editura Politică, București, 1987, p. 28.

was devastating higher than 75%. The lowest unemployment rates were in Canada – of 12.3% and in Britain where unemployment rate reached 13.5% in 1983.”¹⁸¹

During the economical crisis absolute size and unemployment rate were not uniform. They varied from one country to another and within each country they also varied from one (activity) branch to another. Therefore, according to the information presented by the great Greek statistician during 1976-1981 the textile industry in the EU suffered 8.8 million workplaces loss, the shoemaking and clothes industries went through a 9.1 m workplaces loss, metallurgy – 8.3 m, the automotive and shipbuilding industries – 6.3 million workplaces.

The evolution of workforce occupation, under-occupation, and unemployment were directly influenced by the labour market dynamics, especially by its absorption capacity, that of creating new workplaces for the active under-occupied population. According to calculations referring to the 1970s out of 100 active persons on the labour market 89 in Japan, 85 in USA, and only 25 in four EU countries actually found a job. During this interval there were countries that registered rather low unemployment rates, such as Japan, Norway, Switzerland, and Sweden. Due to this fact there was a full occupation of the workforce.

According to these statistics one of the main structures of unemployment is that of the youth. Taking a look at its evolution in different countries and periods we reached the conclusion that at the beginning of the 1980s the number of young unemployed persons reached 6.5 million in Europe, compared to 1 million ten years before. In 1984 every fifth person apt for work was unemployed. In 1995 the percentage of young unemployed individuals aged 15-24 was as follows: 26.9 in Canada, 39.1 in Italy, 31.7 in Holland, 32.1 in Spain, 29.9 in Britain, 35.4 in USA, and 50.3 in Romania.

Women unemployment rate is another worrying figure. Therefore the rate of unemployed men represents 10.6%, while unemployment values referring to women indicate 18.4%. In some countries these indicators have the following values: 9.8 and 13.9% in France, 8.5 and 15.8% in Italy, 9.6 and 11.4% in Germany, 5.9 and 8.8% in Holland, and 5.4 and 7.3% in Romania.

Despite the fact that in the last two decades following the economical crisis of the 70s, other ideological currents made way in the history of economics (neoclassicism and neoliberalism), yet some major features of Keynesianism and driving policy continuing to raise interest: macroeconomic approach and state support for the private entrepreneurs by adopting new macroeconomic policies (budgetary, fiscal, monetary, and commercial policies). In this context positive results of these policies materialised in Austria – that ensured full workforce occupation up to 1981, while in all other OCDE member countries unemployment continued to increase. After 1981 unemployment surfaced in Austria as well, yet this country registered a high level of workforce occupation.

The economical crisis we are experiencing nowadays has as a starting point the year 2007 when on the mortgage market in the US the first transient financial signs manifested, consequently these would determine a very economical crisis that is fully manifesting. Therefore, according to the devastating implications this would have, one considers that the present economical crisis is the greatest after the one recorded 8 decades ago. The present economical crisis has repercussions on the global unemployment degree which is quickly bursting.

According to Eurostat statistics the number of unemployed persons in the EU is close to 22.9 million in November 2009, out of which more than 15.7 million coming from the Euro zone. Compared to the previous month the number of unemployed individuals increased by 185,000 in EU and by 102,000 in the Euro zone. Compared to November 2008 the number of jobless persons increased by 4.978 million in the EU and by 3.04 million in the Euro zone. At the end of last year (2009), lowest unemployment rates were recorded in Holland (3.9%) and Austria (5.5%), while the highest were reported in Latvia (22.3%) and Spain (19.4%). According to

¹⁸¹ Angelopoulos A., *Un plan mondial de ocupare a forței de muncă. Pentru un keynesism la scară internațională*, Editura Politică, București, 1987, p. 56-57.

studies carried out it was noted that the most affected by unemployment are persons with secondary education. Therefore, a continuous professional training determines the potential jobless person to cope better in case of a possible layoff. In fact “unemployment rate tend to be reversely correlated to the qualification degree.”¹⁸²

Romania does not report data referring to the monthly evolution of unemployment rate according to the standards of the International Work Bureau (IWB), only to quarterly data – the latter being for the third quarter of 2009 when the unemployment rate was 7.2%, nlike the third quarter of the previous year (2008) when Romania had a 5.9% unemployment rate, as Eurostat shows.

The evolution of the unemployment rate in the previous period (November 2008) and the current period (November 2009) shows that among men this has gone from 7.2% to 9.7% in the EU, while the increase in the Euro zone was from 7.5% to 9.9%. for women unemployment rate went up from 7.8% to 9.2% in November 2009 in the EU, respectively from 8.6% to 10% in the Euro zone.

More recent data shows that in Romania unemployment rate reaches ever higher levels, fact which determines us to assert that Romania has not exited the economical crisis, but on the contrary it deepens ever more. So “in January this year unemployment rate continued to increase, reaching 8.1% compared to 7.8% in the last month of the past year, nad 4.9% in January 2009 according to the information of National Workforce Occupation Agency (ANOFM). In the first month of 2010 unemployment rate exceeded 8%, such a level in this period being unprecedented from 2003, when in January there were 781,388 jobless persons, the national level being of 8.6%. In January 2010 740,982 jobless persons were reported, 459,158 were on redundancy payment and 281,824 were not. According to ANOFM most jobless persons, respectively 605,371 (over 81%) come from the private sector.”¹⁸³

An outline of the current crisis can not be made but approximately because this is fully in process, and the causes of its start off as well as its characteristics could only be exactly presented when the economical crisis is over.

We are nevertheless attempting to present some similarities and differences between the Great Depression of 1929-1933 and the current economical crisis.

2. Similarities between the present crisis and that of 1933

Even if the period between the two economical crises is considerable and the current economical crisis is still manifesting, there are some obvious similarities with the one from 1929-1933. Firstly both crises have as a starting point the US and the financial market of this country. These similarities must not be viewed as random, they should be analysed very minutely considering the fact that it is happening in the most developed country in the world where every wrong step has serious repercussions on global economy.

Secondly, the present economical crisis, like that from 1929-1933, has a global nature affecting most of the countries (including our country which admitted entering the crisis rather late).

The third existing similarity between the two crises is their global nature. Thus, just like the Great Depression “the crisis that recently began will involve, to a different degree, all sectors, respectively both those of real economy, and those of nominal economy.”¹⁸⁴

Fourthly, but more importantly than any other arguments presented above, the present economical crisis just as the Great Depression of the 1929-1933s anticipates to be a lasting one. It is very difficult to predict the length of the present crisis what is more because we are at its debut and we do not have enough data yet regarding the content, depth, and its encompassing sphere.

¹⁸² Becker, S. Gary, *Capitalul uman*, Editura All, Bucuresti, 2000, p. 32.

¹⁸³ Bălan, Ionuț, *România în stagflație: recesiunea, inflația și șomajul se adâncesc concomitant*, Săptămâna Financiară, February 12, 2010, p.1.

⁷ Adumitrăcesei, I.D., Niculescu N.G., *Criza economică globală (2009-20..?) cauze, implicații, soluții*, Editura Academiei, Iași, 2009, p. 25.

The history of economy and the aspects analysed from the perspective of economical crises emphasize the fact that in contemporary times there are a series of factors both in favour of renewing economic theory, and in favour of protecting and diffusing the old into the modern. In the confrontation to take place again between the new and the modern at the level of economic theory, one can foresee and claim the birth of a new theory that would lead us to a new economic science of the 21st century. To consent with the previously-stated, Nicoale N. Constantinescu noted: “Under the current conditions... we need, more than ever, an economic theory based in contemporary realities, ... a theory free of any prejudices and mastered only by the truth.”¹⁸⁵

Bibliography:

1. Adumitrăcesei Ioan.D, Niculescu Niculae.G, *Criza economică globală (2009-20..?) cauze, implicații, soluții*, Editura Academiei, Iași, 2009.
2. Angelopoulos Angelos, *Un plan mondial de ocupare a forței de muncă. Pentru un keynesism la scară internațională*, Editura Politică, București, 1987.
3. Băcescu Marius, Băcescu Cărbunaru Angelica, *Macroeconomie intermediară*, Editura Universitară, București, 2005.
4. Bălan Ionuț, *România în stagflație: recesiunea, inflația și șomajul se adâncesc concomitent* (2010), în revista Săptămâna Financiară, 12.februarie 2010.
5. Hardwick Philip, Langmead John, Khan Bahadur, *Introducere în economia politică modernă*, Editura Polirom, Iași, 2002.
6. Keynes J.M, *Teoria generală a folosirii mâinii de lucru, a dobânzii și a banilor*, Editura Științifică, București, 1970.
7. Krugman Paul, *The Return of Depression on Economics and The Crisis of 2008*, W.W. Norton & Company, London, 2008.
8. Robinson J, *Contributions to Modern Economics*, Academic Press, New York, 1978
9. Sută-Selejan Sutana, *Doctrină și curente în gândirea economică modernă și contemporană*, Editura All, București, 1992
10. Voinea Liviu, *Sfârșitul economiei iluziei: criză și anticriză: o abordare heterodoxă*, Editura Publica, București, 2009.

¹⁸⁵Adumitrăcesei, I.D., Niculescu N.G., *Criza economică globală (2009-20..?) cauze, implicații, soluții*, Editura Academiei, Iași, 2009, p. 189.