

Theories of Unemployment and its application in Ethiopia: A Review

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Abstract:

Unemployment is an integral part of a market economy, with socioeconomic consequences for the population of the countries in which these processes occur. For most of the able-bodied population growing unemployment normally means catastrophe. Unemployment often brings terrible consequences, such as declining incomes and purchasing power, which in turn leads to an inability to raise their living standards. For many emerging economies this phenomenon has the character of a disaster. The purpose of this article is to show the unemployment theories and applications of its significant, and which variables can define it. During the recent years, unemployment has risen high enough, and the opportunity to find a job for the working population is still quite an acute problem. The rise of prices is continuing rigorously, as it can see from increasing prices for goods and services. So, based on the study material, it's obvious that from the historical point of view the connection between job creation and unemployment does exist. Most of economists agree to the opinion that in the short-term, there is an inverse relationship between unemployment and inflation. As for the long-term, such a relationship is absent. Therefore, the government's efforts to stimulate aggregate demand to increase the volume of GDP at full employment should lead to an increase in job creation.

Keywords: Unemployment, Job creation, Classical theories, unemployment theories, Economic growth, Ethiopia

Introduction:

Despite the recent encourage economic growth in Ethiopia, unemployment is high and remains to be one of the socio economic problems in the country. Many economists, different institutions and authorities have said much on the issue of unemployment. To mention few, “unemployed are those who have no jobs while they are actively searching for job and are willing to be employed at the going wage rate” (Smith, 1991.)

There are three important aspects to this definition

First a person has to be qualified for job. A person is not involuntarily unemployed if one seeks jobs that one is produced from obtaining because of a lack of training experience, and education .Second a person is not considered unemployed if he/she is not seeking a job and willing to work at the market wage rate. Some may decide to with draw their labor services because the prefer leisure to work at the market. According to what Todaro (1994) wrote, we must take into account, in addition to openly unemployed, the larger numbers of workers who may be visibly active but in economic sense are grossly underutilized. He said that Edwards has identified the following forms of labor underutilization or unemployment.

- a) Open unemployment: both voluntary [who exclude themselves from some jobs implying some other means of support than employment] and involuntary [where workers are willing to work but unable to find jobs].
- b) Under employed: those working less than they would like to do.
- c) The visibility active but underutilized: Those who would not be under employed or unemployed but who in fact have found alternative means of making time including.
 - I. Disguised unemployment: many people seem occupied on farms or employed in government on a full-time basis though the services they render may actually require much less than full time.
 - II. Hidden unemployment: Those who are engaged in second choice non-employment perhaps notably education and household chores, primarily because job opportunities are not available at the level of education attained or for women, given social mores.
 - III. The prematurely retired: This is evident and apparently growing in civic service because in many countries retirement ages are failing.

- d) The impaired: Those who may work fulltime but whose intensity of effort is seriously impaired through malnutrition or lack of common preventive medicine.
- e) The unproductive: Those who can provide the human resource necessarily for productive work but who struggle long with inadequate complementary resources.

Unemployment is defined by the 13th international conferences of labor statisticians (Geneva, 1982) and Godfrey (1985) that the “unemployed” comprises all persons above the specified age who during the reference period were:

- a) Without work: i.e. were not in paid or self-employment
- b) Currently available for work: i.e. were available for paid employment or self-employment.
- c) Seeking working: i.e. had taken specific steps in specified reference period to seek paid or self-employment

Unemployment had been a serious problem of international economy from the period of great depression when high level of unemployment existed in the world. Structural unemployment in Europe, Job in security in the United States and restructuring problem in Soviet Union were some of the international economic problems concerned unemployment. (Ramonet, 1998).

Though in different magnitude, unemployment still exists in the world. The seriousness of the problem may vary from one country to another. But it is a concern of both the developed and underdeveloped nations.

High population growth, increasing rural-urban migration and low level of economic growth present high unemployment level. The prospect of unemployment in developing countries, especially in sub-Saharan Africa has worsened because of high population growth and low level of economic growth and also other reasons. (CSA, 2005)

There are also external factors to mention few, shortage of foreign exchange, balance of payment problem and unfavourable term of trade that aggravated unemployment (Teclé, 2002).

In this regard, Ethiopia is one of these countries highly exposed to complex social and economic problems like high unemployment. Unemployment rate has been constantly increasing from 7.15% in 1994 to 32.2% in 2005.

Internal migration that enlarged in the country regarded as the major contributor to the creation of large number of unemployed labor force in different years.

The overall incident that is why the country now days it confined with a large number of unemployed and since there is no unemployment benefits, unlike it is the case of on developed

countries, there unemployed are enjoying a life which is very much tragic even if labor force is one of the factors of production, Ethiopia did not exploit it efficiently.

The Government of Ethiopia (GoE) gives due emphasis to employment creation and different policies and strategies have been introduced and implemented by the government for employment generations. Those policies and strategies on the demand side of the labor markets include the special incentives and supports provided to private sectors and the public employment generation schemes. On the supply side of the labor markets, there are significant efforts to improve labor productivity in both farm and off-farm activities.

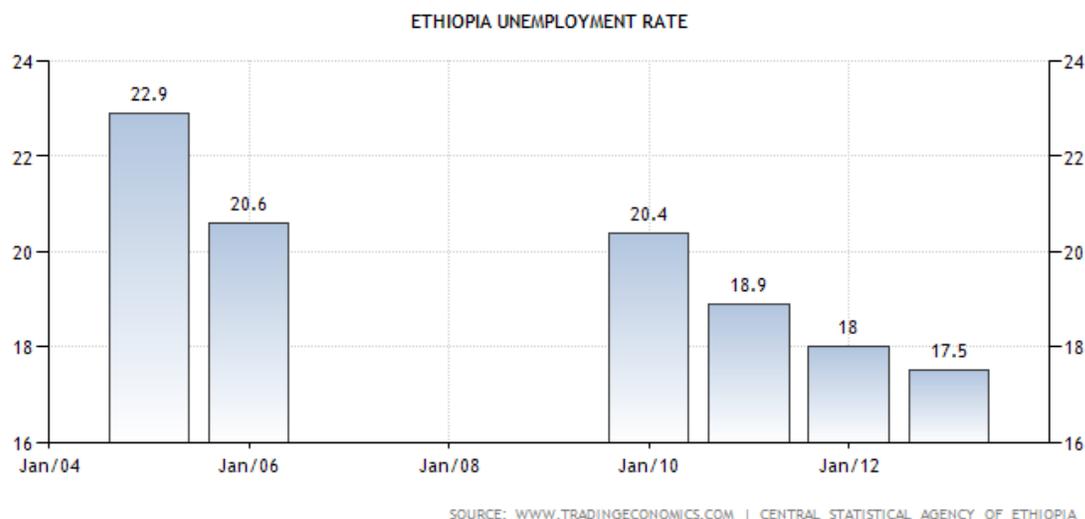
Objective:

Objective of this paper is to assess and prepare the theories, Applications and situation analysis scenario on macro-economic concepts of unemployment in Ethiopia, as well as other interventions aimed at creating a job.

Population growth and unemployment in Ethiopia

According to the May 2007 Population and Housing Census of Ethiopia, the population of the country is estimated to be about 73.9 million (50.46% male and 49.54% female). The total population of the country reached 79.8 million by the year 2010 and assumed to be 129.1 million by the year 2030 (WB, 2007). Although the rate of population growth has been on a declining trend over the last three decades (3% per annum in the 1980s, 2.73% up until the early 1990s and 2.6% from the mid-1990s up to 2007), Ethiopia's population growth is still considered to be high given its size and demographic profile. The overwhelming fact of the labor market in Ethiopia is the rapid growth of labor supply. The labor force is growing much more rapidly than the population as a whole because of the young dominated demographic profile. Ethiopia's population depicts a classic pyramid with a higher proportion of young people at the bottom and narrow band of the elderly at the top. Ethiopia's population is predominantly young with about 45% of the population being below 15 years of age. The proportion of working age population (15-64 years) was estimated at about 52% (CSA, 2007).

Over the last two decades, the total labor force of the country has more than doubled. It increased from 14.7 million in 1984 to 26.5 million in 1994 and further to 33 million in 2005 (It is projected to increase to 81.9 million in 2030). And this has placed a huge strain on the labor market even under the most optimistic growth scenario. Employment creation for such a rapidly increasing labor force (4.4% per annum), has become increasingly challenging.



1. Employment Generation policies in Ethiopia

According to Ethiopia's National Employment Policy and Strategy (NEPS) (2009), employment generation has two important dimensions - the demand and supply side of job creation. The first dimension (*the demand side of job creation*) refers to the ability of the economy to create jobs for various skill categories as per the requirement of the economy. The second dimension (*the supply side of job creation*) deals with whether or not the skill levels of available pool of persons match with the type of skill that the economy requires. Besides, there is a third dimension (i.e. labor market institutions) that relates to the governance of labor market relations and labor market services.

1. Employment Generation in the Private Sector

The future of employment expansion in Ethiopia is with the private sector. The public sector can no more be the biggest employer. Thus, enhancing private sector productivity (both formal and informal) and creating mechanisms for strengthening their linkages and complementarities is critical to create decent and remunerative jobs to reduce poverty.

Since the early 1990s, there have been encouraging improvements in a number of policy areas for private sector development in Ethiopia. The Ethiopian policy regime since 1992 has been more hospitable to entrepreneurship, including for small and informal businesses. Whereas Derg policies (-1992) were "openly aimed at curtailing (if not eliminating) the private sector," there has been liberalization alongside some proactive measures.

2. Employment Generation in the Public Sector

Employment can be generated and enhanced in the public sector through investments in employment-intensive infrastructure development and through other Public Employment Programmes (PEPs). It is clear that a labor-intensive approach, in a country where there is massive underemployment and unemployment, would create job opportunities for many thousands of people from a given amount of investment without the need to compromise on quality and efficiency. Although there is room for employment creation through the adoption of labor-based approaches in infrastructure, the actual employment gains via such approaches have been limited in Ethiopia. However, the envisaged employment generation of the construction sector, as indicated in the Growth and Transformation Plan (GTP) of the country can serve as a witness of the GoE's commitment towards employment generation through labor-based approaches in infrastructure. Between 2010/11-2014/15, major infrastructure constructions are expected to generate employment for as much as 1,264,598 persons of different skills and qualifications.

Employment Policies and Strategies

In Ethiopia, there are different policies and strategies that affect employment. Ethiopia has issued proclamations in the effort to improve employment outcomes through improving employment relations. Ethiopia has one consolidated Labor Law (Labor Proclamation 377/2003), supported by regulations, codes of practice and collective bargaining agreements. Labor rights are enshrined in the constitution. The rights include the security of the person, the prohibition against inhumane treatment and the abolishment of slavery and servitude, and forced and compulsory Labor. Ethiopia's Labor Law was proclaimed in 2003 to ensure that worker-employer relations are governed by certain basic principles, to guarantee the rights of workers and employers to form associations, and to strengthen and define Labor administration. Ethiopian Labor Law does not prescribe minimum wages through statute. Usually wages are fixed by the employer or by collective agreements or by the employee's contract of employment.

The law needs to consider minimum wage. As the private sector expands taking advantage of the market economy, laborers could be subjected to exploitation.

The Ethiopian Labor Law applies to the entire labor force, though some specific provisions may be more relevant for the vulnerable parts of the society such as the youth, women and children than others.

3. Theories of Unemployment

3.1. Classical school theory of the unemployment

The essential feature of the theory is that the labor market forces of supply and demand respond to changes in real wages. Thus, unemployment is the consequences of real wages being remaining too high to allow the labor market to clear, government wage regulation and especially powerful trade unions are identified as significant causal factors. Thus, unemployment in the classical system hangs or not creating markets. The policy implication flowing from classical analysis of unemployment is that in order to reduce unemployment it needs to reduce government regulation and reduce trade union power and make the labor market more competitive (Smith).

3.2 Keynesian school theory of unemployment

This school of thought focuses, on fiscal policy regulation like tax cut by creating the relationship between the government expenditure and unemployment. Keynes argued that to expand national income and then expand employment by reducing taxes, "The tax was intended to stimulate expenditure on consumption and investment and thus lead to higher income and employment". (Mankiw, 2002).

The causes of the tax were followed by an economic boom which in the unemployment rate falls. According to supply spicers, which workers are allowed to keep a higher fraction of their earnings they supply substantially more labor (Mankiw, 2000).

3.3. New Keynesians theory of unemployment

The new Keynesians also argued that most, sometimes do not clear even when individually and looking out for their own interest. Because of both information problem and costs of changing prices lead to some price rigidities and as result, create a possibility of fluctuations of employment. For example in the labor market firms that cut wages not only reduce the cost of labor but also likely to wind up with poor quality labor force. Thus they will be reluctant to cut wages. If it is costly for firms to change the prices they charge and the wage they pay the change will be infrequent, but if all firms adjust prices and wages infrequently, the economy wide level wages and prices may not be flexible enough to avoid occasional periods of even high unemployment (Darbash; 1981).

3.4. New classical school theory of unemployment

The new classical school argue based on the assumption of market clearing. “There are no reason why firms or workers would not adjust wages or prices if that would make them better off”. Accordingly prices and wages adjust in order to equate supply and demand in other words, market clear. The implication of this assumption is: that there is no possibility for involuntary unemployment. Any unemployed person who really wants job will offer from some employer. Flexible adjustment of wages and price leaves all individuals on work at the going wage and firms can produce and sell as much as they want to the going price, (New classical theory).

4. Applications of unemployment in Ethiopia

Institutional provisions and protections:

Government should support efforts aimed at strengthening and establishing labor market institutions. There is a need for government intervention in the labor market to protect workers from unfair treatment and safeguard the basic rights and interests of workers while ensuring labor market flexibility and employment security. To this end, government institutions need to work closely with trade unions, associations of business operators, women and youth groups, and employers’ associations to address existing problems in labor legislations and administrations. The rights of informal sector employees may be secured through extending the scope of existing legislation for public sector employees (with necessary modifications), promoting collective bargaining agreements, enforcing labor standards, promoting equitable policies for formal and informal enterprises and devising mechanisms and institutions to ensure wider coverage. Minimum wages should be set for employees of the private sector as well. And in practice it should apply to all employees including majority of the unskilled workers in the formal sector.

4.1 Employment and labour force issues

The main story regarding the labor market is the rapid growth of the work force, as result of high population growth. Combined with fewer farming opportunities for the next generation, and relatively slow creation of new jobs in the modern sector this is resulting in growing unemployment and under employment pressure. Economic activity rates in urban areas are relatively low, and have been declining somewhat (from 66% in 1999 to 58% in 2003), although

this is to some extent reflection of growing school enrolments that keep youth out of the labor force longer (MOFED, 2005/06).

The incidence of unemployment was relatively lower for those with non-formal education (9%) and holders of diploma and above (12%) unemployment, on the other hand is very high, especially among youth surveys of the last 5 years (1999-2004) in Ethiopia show that slight decline in urban unemployment among males and slight increase among females, and also the duration of unemployment has shortened. As in most countries unemployment is highest among youth (who have less marketable skills and experiences but who also tend to live with their families, and often not subject to the same immediate pressures of find work that apply to slightly older married men and women). It is also generally higher among women than men of wage employment the public sector still account for about 40% (source MOFED, 2005/06) wages and low, and for less educated wages, in urban employment are just about at the poverty line.

Wages rise dramatically with education levels while schooling clearly pays, in the future it is likely that completing primary and secondary education will be less of guarantee of finding employment than it was rise past, as the labor market becomes more saturated.

None the less with the expansion of educations, the average skill level of the work force is increasing and this should pay off in productivity gains (Ibid). There are big urban-rural formal-informal and gender gaps in employment and wages labor mobility is limited especially between rural area and towns, although there is increasing evidence of step migration, from smaller to larger town. As in most countries, immigrants start out near the bottom of the urban job market, but their evidence that their lot improves over time(Ibid).

3.2 Classical vs. Keynesian theory application Approaches

(a) Equilibrium at full employment:

- (i) According to classical theory, the economy can only be in a state of equilibrium at full employment level. Any deviation from full employment would be of short period.
- (ii) Keynes' theory is of the viewpoint that an economy can be in equilibrium even at less than full employment level. There is a small possibility of full employment in a country.

(b) Statics vs. Dynamics

- (i) The classical theory is based on the conception of static economy.
- (ii) The Keynesian theory is based on the conception of dynamic economy.

(c) Full employment theory vs. General theory:

- (i) The classical theory relates only to full employment.
- (ii) The Keynesian approach is a general theory which has a very wide application at all situations, i.e., unemployment, partial employment and near full-employment.

(d) Theory of money and prices:

- (i) The classical economists had segregated the theory of money from the theory of value and output, and dealt with them as if they are unrelated to one another which is actually not the case.
- (ii) Keynes' theory is more realistic. He has integrated the theory of money and prices with the theory of income and employment in the country.

(e) Budgeting:

- (i) Classical economists believed in orthodoxy finance and balanced budgets.
- (ii) According to Keynes' a country's budget should reflect the financial situation, and should vary in accordance with the requirements. Keynes has not emphasised on balanced budget, because there are several developing countries with deficit budgets dictated by their economic conditions and requirements.

(f) Supply of money:

- (i) According to classical economists, increase in money supply would bring about inflation and should be controlled in order to avoid the employment less than full employment.
- (ii) Whereas, the Keynes' theory states that an appropriate increase in money supply would increase employment and output and does not necessarily bring inflation.

(g) General Price level vs. Individual commodity prices.

(h) Level of employment in a community vs. Employment of a particular class of labour.

Criticism on Keynes' Theory:

1. According to Schumpeter, the Keynes theory is a *depression theory*, which has limited applications.
2. Some socialist or communist economists had said that *Keynes' theory is dead* if communism comes. However, even the socialist countries have strived to raise their national income by using Keynesian theory.

3. *Keynesian theory is not as much dynamic* and it may more properly be called comparative statics.
4. *Keynesian theory has ignored microanalysis* and is not helpful in the solution of the problems of individual firms and consumers.
5. *Keynes has not given any place to the accelerator principle.*
6. *It pays excessive attention to money in economic analysis.*

Relevance of Keynes' Theory to Less-Developed Countries (LDCs) (Extended Criticism):

1. The *Keynesian theory is primarily for fighting depression.* The assumptions on which Keynesian theory is based are:
 - (a) The multiplier, and
 - (b) Short-term analysis.
2. In the short-term analysis, *Keynes assumes that capital equipment, technology, organisation, labour and their efficiency remains constant.* He thinks that the problems relating to employment in developed countries arises only on account of the deficiency of demand.
3. But the problem in case of LDCs is to increase capital equipment, to improve technology and labour efficiency. *Solving this problem will take a long process;* it cannot be solved in short-run.
4. The developing countries like Pakistan and India, *the basic cause of unemployment is low rate of savings and investment.*
5. Most of the LDCs are agriculturists and *the Keynesian approach is industry-oriented.* Therefore, increase in national income by deficit spending will lead to increase in demand for food. This will raise the prices of food grains. Therefore, heavy reliance on Keynesian approach could mislead the economists, and can plunge the economy into inflationary spiral.
6. The *principle of multiplier does not much work in LDCs.* Suppose new investments are made in the country, increased investment will lead to the establishment of new factories, workers will get employed, income will increase, demand will increase, but it does not guarantee the increase in the supply of goods because there is no excess capacity, and the supply of productive factors is not elastic. Increased income will be absorbed in high prices.

5. Types of Unemployment

Smith has identified four types of unemployment.

- (a) **Structural Unemployment:** It is also known as Marxian unemployment or long-term unemployment. It is due to slower growth of capital stock in the country. The entire labour force cannot be absorbed in productive employment, because there are not enough instruments of production to employ them.
- (b) **Seasonal Unemployment:** Seasonal unemployment arises because of the seasonal character of a particular productive activity so that people become unemployed during the slack season. Occupations relating to agriculture, sugar mills, rice mills, ice factories and tourism are seasonal.
- (c) **Frictional Unemployment:** It arises when the labour force is temporarily out of work because of perfect mobility on the part of the labour. In a growing and dynamic economy, in which some industries are declining and others are rising and in which people are free to work wherever they wish, some volume of frictional unemployment is bound to exist. This is so because it takes some time for the unemployed labour to learn new trades or to shift to new places, where there is a demand for labour. Thus, frictional unemployment exists when there is unsatisfied demand for labour, but the unemployed workers are either not fit for the jobs in question or not in the right place to meet this demand.
- (d) **Cyclical Unemployment:** It is also known as Keynesian unemployment. It is due to deficiency of aggregate effective demand. It occurs when business depression occurs. During the times of depression, business activity is at low ebb and unemployment increases. Some people are thrown out of employment altogether and others are only partially employed. This type of unemployment is due to the fact that the total effective demand of the community is not sufficient to absorb the entire productive of goods that can be produced with the available stock of capital. When the businessmen cannot sell their goods and services, their profit expectations are not fulfilled. So the entrepreneurs reduce their output and some factors of production become unemployed.
- (e) **Disguised Unemployment:** Disguised unemployment is the most widespread type of unemployment in under-developed countries. In under-developed countries, the stock of

capital does not grow fast. The capital stock has not been growing at a rate fast enough to keep pace with the growth of population, the country's capacity to offer productive employment to the new entrants to the labour market has been severely limited. This manifests itself generally in two ways:

- (i) The prevalence of large-scale unemployment in the urban areas; and
- (ii) In the form of growing numbers engaged in agriculture, resulting in '*disguised unemployment*'.

In disguised unemployment, there is an existence of a very backward agricultural economy. People are engaged in production with an extremely low or zero marginal productivity. Since the employment opportunities in non-agricultural sector are not sufficient, therefore, most of the workers are bound to work in agricultural sector. This gives rise to the concept of '*disguised unemployment*', in which people are unwillingly engaged in occupations, where their marginal productivity is very low.

5.1 Economic Growth and the Unemployment Rate

In the short run, the relationship between economic growth and the unemployment rate may be a loose one. One reason that unemployment may not fall appreciably when economic growth first picks up is that some firms may have underutilized labor. Laying off workers when times are bad and rehiring them as conditions improve has costs. Therefore, up to a point, firms may be willing to pay for more workers than they need to satisfy the depressed demand for their goods and services. As a result, at the end of a recession as demand increases, some firms may, at first, be able to increase production without adding workers. In other words, firms may be able to increase their output by raising the productivity of the labor on hand, which yields a temporary boost in measured labor productivity above its longer-run trend rate of growth.

Once the labor on hand is fully utilized, output will grow no faster than the rate of growth of labor productivity until the firm begins to add workers. As the economic expansion progresses, output growth will be determined by the combined rates of growth of the labor supply and labor productivity. As long as growth in total output exceeds the rate of growth of labor productivity, then employment will rise. If employment growth is more rapid than growth in the labor force, then the unemployment rate will fall. Over the longer run, there tends to be a link between changes in the rates of real economic growth and unemployment. It has been included in a list of "core ideas" that are widely accepted in the economics profession.

The key to the relationship between the rate of economic growth and the unemployment rate is the rate of growth of what economists refer to as “potential output.” In brief, potential output is an unobservable measure of the capacity of the economy to produce goods and services when the available resources, such as labor and capital, are fully utilized. The rate of growth of potential output is a function of the rate of growth of potential productivity and the labor supply when the economy is at full employment. When the unemployment rate is high, as it is now, then actual GDP falls short of potential GDP.

Nature of Unemployment in Ethiopia

At least two issues deserve particular attention in relation to the problem of unemployment at the macro level – its level and distribution. High level of unemployment generally signifies the failure of an economy to put to use its scarce resources. Such has been the feature of most developing countries. Poor to modest macroeconomic performance, low level of employment creation and a rapid increase in the workforce are some of the most important reasons behind the high level of unemployment the developing world is associated with. Distribution wise, unemployment is generally found to be rampant among certain sections of society. The consensus in this regard is that the youth and women bear the brunt of the problem. Any increase in the level of general unemployment worsens the position of Bizuneh et al. (2001), Serneels (2001) and Krishnan et al. (1998) are some of the studies dwelling on the situation of the youth/‘young’ in Ethiopia. Findings reported in various publications of the UN give a similar account on the youth situation in Ethiopia. Youth unemployment is part and parcel of the general problem of unemployment. It deserves particular attention for the reasons outlined in the first section of this study. The question of what makes youth unemployment different from the general unemployment needs to be addressed here, and the following part attempts to do that. Characterising labour market conditions in developing countries using established labour market theories has always been a formidable task. Such is even more so when it comes to the youth labour market. In relation to the youth labour market, in developing countries, the human capital theory (Becker, 1962) is probably the one with some relevance. The human capital theory explanation of high level of youth unemployment could be that the youth embodies less human capital, specific or otherwise, and, as a result, is likely to be at the end of the job queue. This seems to provide a good account of the situation in developing countries such as Ethiopia where

majority of the youth hardly gets a job. However, the fact that there are not that many jobs, forthcoming is the most important reason behind the high levels of unemployment in these countries.

5.2 The effect of unemployment on our society

Unemployment affects not just the person himself but also his/her family and in the long run the society where he lives. Unemployment brings with it despair, unhappiness and anguish. It forces people to live their lives in a way they do not wish to live. The life expectancy is negatively affected.

Life expectancy is the ease by which people living in a time/place are able to satisfy their needs/wants. Here are the main aspects:

1. **Mental health:** Mental health problems like: Low self-confidence, feeling unworthy, depression and hopelessness. With the lost income and the frustration involved in it, the recently unemployed may develop negative attitudes toward common things in life and may feel that all sense of purpose is lost. Frequent emotions could be – low self-esteem, inadequateness and feeling dejected and hopeless.
2. **Health diseases:** The unemployment overall tension can increase dramatically general health issues of individuals.
3. **Tension at home:** Quarrels and arguments at home front which may lead to tension and increased numbers of divorces etc.
4. **Political issues:** Loss of trust in administration and the government which may lead to political instability
5. **Tension over taxes rise:** Unemployment also brings up discontent and frustration amongst the tax paying citizens. In order to meet the demands of the unemployment fund the government many a times may have to increase the taxes thus giving way to restlessness amongst the tax paying citizens.
6. **Insecurity amongst employees:** The prevailing unemployment and the plight of the unemployed people and their families may create fear and insecurity even in the currently employed people.
7. **Crime and violence:** Increase in the rate of crime.
8. **Suicide cases:** Increase in the rate of suicide attempts and actual suicides as well.
9. **Social outing:** Unemployment may bring a decrease in social outings and interactions with other people, including friends.

10. Stigma: Unemployment brings with more than just 'no work'. It also brings with it the disgrace that the person has to bear. Nobody likes to be termed as unemployed.

5.3 Causes of unemployment:

It is however, difficult to mention all of them. Majority of them are: - educational system, growing of rural urban migration and non-work status of the societies in Agriculture.

5.4 Consequence of unemployment

Social consequences: -“Of all wills of modern society unemployment is the worst of all”. It demoralizes the people who loss respect. Life become contempt for the society complete the unemployed to retort to evil practices like dacoit robbery pick pocketing etc.... mass unemployment may even endanger political stability. It therefore, wiser to sacrifice output levels to employmen (Giant, 1986).

Economic consequences:-Though economies can never grow without some unemployment. But, nor can they grow with too much of if prolonged unemployment generally erode human capital and finally it involves psychic costs.

6. Conclusions and Policy Implications

Despite the recent encourage economic growth in Ethiopia, unemployment is high and remains to be one of the socio economic problems in the country. The modernisation of an economy implies paramount changes in its labour force. The size, location, and structure of the workforce progressively lose the indefinite status connected to the rural way of life where biological and working life nearly coincides. In the modern sector, instead, people are either in or out of work. The study of working status and unemployment is hence meaningful only where the prevalent economic framework is not traditionally rural. Being Ethiopia among the countries with a rapidly growing population coupled with a still backward economy the proper management and efficient utilisation of its work force is essential.

In this respect, the capacity of the economy in absorbing the potential labour force needs to be monitored regularly, and appropriate employment policies should be adopted consequently. From this consideration stems our first suggestion to make frequent surveys on the labour market status. These surveys may normally be limited to urban areas till when also rural areas will be involved in a market economy.

The typical dynamism of a fast changing socio-economic environment induces a high variability in the quantity and quality of demand for work in towns. Many of the informal jobs are casual, insecure and irregular, carried out as 'marginal activities' in the field of services to persons or properties. This variability can also create pockets – even quite large ones – of unemployment. Employment, underemployment, and unemployment are work status which can overlap frequently in reality as well as in the worker's perception.

Since, urban and rural unemployment is a reflection of the performance of the Ethiopian economy, special initiatives targeted at employment to bring about fundamental positive changes should be undertaken.

Improving the rural economy: As Ethiopia being predominantly agricultural rations, must be improve the development of its agricultural sector to make the rural people and there by improve the industrial and service sectors. This is so because modernization of agricultural and rural transformation through integrated development programs that can open new employment opportunities for labor force.

Developing the urban and rural informal sector: In Ethiopia, where the development of industrial sector is limited, the potential of the informal sector should be properly developed and utilized so that it could supplement the informal sector of the economy in the creation of jobs and training opportunities for urban unemployed. This can be done by adopting appropriate measures such as introducing business development services, industrial parks, appropriate skill training, technology and improved access to credit by unemployed to undertake various income generating activities and self-help programs.

Improving the educational system: The disparity between the demand and supply of skills of unemployed labor force implies there is great need for providing support to the revision of the content and quality of the educational and training system and it is reorientation in the direction of improving or acquiring employable skills, in order to meet the development of employment creation activities within the different sectors of the economy, the government of Ethiopia should develop and mobilize its human resources through the improvements of its educational and training system. More important practical educational and skill development will enable the individual to obtain employable skills.

Retraining unemployment: Retraining programs are important for the unemployed to develop a sense of confidence and be able to complete in the labour market. The causes would have the

advantage of withholding some of the unemployed from labor market for limited period then of re-training them equipped with a skill that could increase both employment and job creation obviously; the skills to be given to those persons would be given attention that they should be compatible with resources availability of the nations.



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