Unemployment in New Zealand Economy

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**Why there is unemployment in developed economies**

According to Pigou, (2013), unemployment refers to a state where there are able people who are willing to work but are not involved in any kind of work. These people cannot find work to meet the ends. This means that they are unable to get employment at the current wage levels. Therefore, the causes or types of unemployment can explain why unemployment exists in developed economies. In terms of work provision, there is no stability especially when the economy does not favour growth, expansion or new entrants into the market (Todaro, 1969).

Recession causes unemployment in developing countries. The recession in the economy leads to cyclical unemployment whereby the provision of work depends on predictable factors (Todaro, 1969). Recession means that the business is operating at its minimum. At this point, the economy does not favour the operations leading to companies deciding on recovery measures. This means that some of the employees get retrenched and remain jobless. The rate of unemployment during this period is high. However, after recession, the levels of employment may go back to normal or increase further. Therefore, the existence of unemployment is a vast narrative derived from the employee. People in the developed countries rely on white-collar jobs, a situation that is not permanent. These make them not to think outside the box and be creative. Government laws and other policies constitutes to high levels of unemployment, as individuals cannot stand the cost of doing business. Increased tax rates and duties restrict some people from starting or operating business. This means that there is no creation of employment (Pigou 2013).

**How to measure unemployment**

 The rational choice theory provides the best way in which unemployment can be measured in a country. The theory provides that an individual makes a choice that will help in maximizing personal happiness. Therefore, the choice of employment depends on an individual. However, in relation to measurement, the rate of unemployment is measured using the available statistics. However, it requires an estimate of the labour force available in a country at any given time. The labour force includes those people that are able to work but still seeking employment and those that are already employed. Therefore, the percentage of those people unemployed in a country will be a factor of the labour force. That is, unemployed plus employed persons equal the combined labour force. Hence, the percentage of unemployed is equivalent to the number of unemployed people divided by the labour force in New Zealand.

 The difficulty arises when trying to estimate the labour force because it is difficult to know exactly the number of people working or not working due to the presence of formal or informal setups. For the formal setup, it is easier to obtain the numbers from the revenue collector or government’s statistics body. This may lead to an error arising thereby relying on the estimates. Hence, the computation is as follows; Unemployment rate divided by the labour force times 100%.

**Causes of Unemployment in the New Zealand Economy**

There are different causes that lead to unemployment. First, when the economy experiences a recession, there is likelihood of unemployment. The recession means that the market is not favouring the employers and they opt to lay off some of the employees. However, this issue is cyclical in nature as at the time for boom, the rate of unemployment decreases as companies absorb most of the unemployed individuals (Snower, 1995).

 Secondly, unfavourable fiscal policies contribute to unemployment. The government imposes high levels of income taxes to companies making it unfavourable for them to operate and maintain the competitive environment. The government reduces spending hence does not chip in to support businesses maintain their financial muscles in the economy (Snower, 1995).

 Poor monetary policies contribute to high levels of unemployment. Increase in interest rates and exchange rates leads to increase in borrowing costs (Snower, 1995). This discourages borrowers and investors hence reducing their investments. Reduced investments mean that there is a reduction in employment leading to increased rates of unemployment.

**Relationship between Inflation and Unemployment**

 According to Mankiw, the Philips curve theory shows that there is an inverse relationship between inflation and unemployment. This means that as inflation increases, the rate of unemployment decreases. Philips curve contributed a lot in the economics of unemployment. Between 1861 and 1960, the curve predicts inflation rates alongside the rates of unemployment. The relationship between the two variables is not a linear one hence takes an L shape. Over those years, the predictions by the curve seemed stable. However, after 1960s the predictions became unstable (Mankiw, 2001).

**Philips Curve**

Inflation rate 6 B

(Percentage)

 2 A

 3 5

Unemployment rate (percentage)

From the curve above, it is evident that inflation is inversely related to unemployment. As the rate of unemployment increases from 0 to 3, the unemployment rate decreases from 6 to 2. In addition, as the unemployment rate increases to 5, the inflation rate decreases to 2. The theory in this case seems to be stable for the years up to 1960s. However, after 1960, Philips curve cannot be used for prediction purposes as it gives contradicting results because it is not stable (Mankiw, 2001). In New Zealand, a similar case tends to appear concerning inflation and unemployment. The rates on inflation are high when the rate of unemployment is low. The New Zealanders believe there exist a trade-off between inflation and unemployment. This is a past notion, which is no longer applicable in the recent periods. Despite the economic models, predict an inverse relationship, the inflation rates persist on the downside as the unemployment rates are falling.

**Policies the Government of New Zealand can use to reduce Unemployment**

1. The government of New Zealand can use the fiscal policy to reduce unemployment. This includes government spending and taxation policies, which will have an impact on the aggregate demand. Therefore, there is need to use expansionary fiscal policy where the government will need to reduce or lower the tax rates as they increase the government expenditure. In other words, the government needs to reduce tax rates in favour of businesses and attract investors to establish companies and other new entrants. The reduction in taxes is a motivation to the investors, and it will play a major role in development.

On the other hand, government needs to increase spending especially on infrastructure and government investment so that it can create employment for the job seekers. With these actions, the disposable income will increase.

1. The government can also use expansionary monetary policy to management unemployment levels. This will in return increase the economic growth of the company and the welfare of the citizens of New Zealand. Interne st rates, exchange rates and money supply are a multiple of the aggregate demand. They contribute to the changes in the AD in the New Zealand. When using the monetary policy, it is expected that the interest rates will reduce hence encouraging borrowing by the customers. This means that the general borrowing costs for their customers including companies and investors will reduce. The reduction in the borrowing costs will encourage investments and other new developments leading to creation of jobs. Moreover, the availability of jobs will reduce the unemployment rates in the country. Not only the levels of unemployment will reduce, also the level of output in the economy will increase.
2. For structural unemployment in New Zealand, it is necessary to consider education and training policies. This means that the unemployed will receive formal training and education to support them be independent and at a position to create own employment. This is an acceptable procedure for developed economies and also undeveloped economies.
3. The government of New Zealand should provide employment subsidies to seal the gap of unemployment. This means that employment providers such as companies should be given tax breaks or subsidies. This is a factor for take along the long-term unemployed. The breaks assist in confidence creation and creating a desire to absorb the jobless who are seeking employment. However, this policy may be an expensive one since some may practice injustice ways just to take advantage of the tax breaks.
4. New Zealand needs to improve labour markets flexibility. The high structural rates differentiate the employed from unemployed. These rates restrict the employers from employing many individuals due to the nature of the costs. The restrictive labour markets discourage the employers from having many staffs. Therefore, the country needs to consider these policies in their fight against unemployment.

The above policies base their origination on particular discussions. However, for the fiscal policies the Keynesian theory of income and employment defines how it is applicable to reduce the rates of unemployment. Keyne discusses the unemployment issue that arises as a result of recession (Jackman, Pissarides, and Savouri, 1990). He provides that during this period, there is a gap in employment as both capital and labour resources reduce drastically. From the argument, he says the government needs to intervene and help sort the problem of unemployment by creating additional demand for capital and labour. In addition, the state needs to encourage the employers by awarding tax reliefs, tax breaks and other incentives to absorb the unemployed.

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