**Economics**

**Why is Unemployment so high in Europe?**

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The rate of unemployment keeps fluctuation in all the countries of the world, including European countries. The unemployment in Europe has been increasing for the past 15 years or so. Researchers suggest that this high rate of unemployment is due to shocks in the economy, shocks that are beyond the explanation of economic theories. They can be explained by theories of hysteresis. One important reason is the wage bargaining, meaning if firms and insiders bargain to set wages, the economic shocks affecting the actual unemployment will also affect equilibrium unemployment. Europe has been affected by demand shocks and aggregate supply of human capital and physical capital explain the increase in equilibrium unemployment (Blanchard & Summers, 1986).

Europe has been facing high unemployment rates 1980s onwards. It has been difficult for European countries to combat undesirable economic situations caused by changes like the restructuring of industries like manufacturing and services, technological advancements and shifts in international trends. Entrants into the labor market need to update their skills, like the technological skills, to remain in the labor force (Ljungqvist & Sargent, 1998).

There is no significant heterogeneity in economic shocks to explain the differences in the economic situation in different European countries, however the unemployment is high. The relationship between the economic shocks and the labor institutions is important in the explanation of the trends in the economies (Blanchard & Wolfers, 2000).

Unemployment in Europe has been increasing since the 1970s and is still high till this time. Researchers and policy makers have been focusing on economic shocks to explain the higher levels of unemployment but now the focus has shifted to institutions. The unemployment has not been fully explained by economic theories, facts sometimes tend to deviate from theoretical explanation (Blanchard, 2006).

The economy grows in size in the long run. The variables like investment, consumption and government expenditure tend to increase. This results in more economic activity and job creation. However, ion the short run, economies may face inflation, unemployment and restricted exports. Factors like aggregate supply, aggregate demand and FDI affect the rate of unemployment and inflation. Trends like offshoring and outsourcing can also lead to an increase in unemployment in the source country.

Economic activity is also noticeably affected by the political policies and intervention. Making business difficult for exporters by removing any subsidies, taxes or any other moves that are undesirable to exporters affect the GDP and hence rate of employment. Similarly, applying tariffs and quotas on imports may drive the trading countries to limit their trade with the country in question. Ease of doing business in a country attracts FDI and it can be an important source of boosting the employment rate. The movement of economy towards a more technological type has disabled many low skilled workers and pushed them out of the market. The aggregate demand however goes on increasing every year due to increase in population and other factors which keep the economy growing in the long run.

**References**

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