The Keynesian Theory And European Unemployment

One key indicator of economic activity is unemployment. Unemployment rate usually rises significantly, during an economic recession then falls as the economy recuperates. Individuals view the typical unemployed worker as suffering long-lasting despair and destitution, so the media publicise high unemployment as a significant social problem. This paper will analyse various economic trends and the relationship with the labour market.

The Keynesian Theory of Unemployment

Keynesian economics stipulates that unemployment occurs when the economy does not have enough aggregate demand. Generally, if there is a decrease in demand for goods and services, then there is a less need to produce and ultimately a lesser need to have workers. According to the scholars of Keynesian Economics employment majorly depends on the quantity of output, which is either the aggregate income or production that a company will produce assuming that the prices will majorly remain constant. Besides, a firm's production is determined the market demand (Herr and Ruoff 2016, p. 66). As an outcome, the aggregate demand for goods that are produced sets up the income at a specific price, which ultimately results to new employment; this is mainly because firms are most likely to hire new workers according to the demand of their products in the market (Stockhammer 2016, p. 375). Wages are later directed by the wage equation when firms have employed the needed workers.

It is important to note that as per the Keynesian Economics, market economies or capitalist economic systems would naturally undergo through a boom and bust cycle. A boom cycle is a stage that is characterised by economic growth, many employment opportunities, and high market returns for investors. In the bust phase, the economy shrinks, people lose their jobs and investors are likely to lose money in the equity market. Both economic phases vary in the length of time and the severity of their impacts (Stockhammer and Ali 2018, p. 359). Therefore, as per the tenets of the Keynesian theory, unemployment takes a role of explaining the cyclical unemployment, since it depicts the effects of standard shifts in business and economic cycle on the labour market (Fernández-Huerga 2018, p. 53). Since a cyclical nature majorly characterises the unemployment and founded on critical arguments of the Keynesian Economics, on the importance of government interventions, this economic model advocates for government based aggregate demand to decrease the rate of unemployment, enhance consumer confidence and revitalize production when the economy is in recession (Sebastiani 2016; López-Bernardo, López-Martínez, and Stockhammer 2016, p. 201). Government intervention was demonstrated during the Great Depression and the 2008 Financial crisis.

The Unemployment Rate in Europe

The increase in unemployment in Europe, especially in the Scandinavian countries from percentages close or below 2% to values close to 10%, is an indicator of a critical financial, social change in the past decades. It constitutes one of the critical features of the Neo-Liberal age in Europe. This is mostly expressed in various treaties that have marked the path of European Monetary Unification between the 1980s and the 1990s (Dosi, Pereira, Roventini, and Virgillito, 2017, p. 704). The Treaty of Amsterdam echoes the policy goal of 'high employment,'

and recommends that member states should report on the labour market performance and policies, these provisions have primarily remained unpractical. Unambiguous numerical objectives were established for the sake of inflation and budget deficits in the Maastricht Treaty.

OECD Data

The OECD data used in this study will involve five countries in the European Union. These countries were randomly selected to establish a relationship between economic boom and bust cycles and the rate of employment. The study will use data from 2014 to 2018; this is because, during this period, most European countries were recovering from the effects of the 2009-2012 economic recession. Therefore, it is expected that at this point the GDP per capita (which in this case is the measure of economic progression) will be on the rise since the GDP will be improving as compared to the previous years. As per the tenets of Keynesian Economics, since the economy will be improving, the employment rate is also expected to be improving.

From the data collected from the OECD website, it is evident that as the economy improves, the rate of employment also adopts a similar trend. According to the arguments of the Keynesian economics, an improvement in the economy implies that the demand of products from various firms have increased, which lead to a demand for human labour to help in the production process to meet the market demands. The same notion has been proved in the data collected from the countries above within the European Union.

However, it is evident that the GDP trends are not entirely similar with employment trends; this can be explained by the fact that the labour market is affected by various facets apart from economic stagnation/ development. Factors such as unionisation, immigration, and minimum wage bill, play a huge role in the labour market. Although from the data collected above, economic dynamics play an essential role in the development of the labour market. The same data also highlights some assumptions/ weaknesses of the Keynesian theory of unemployment. As per the Keynesian model arguments, economic factors are the only elements that affect the labour market; if this statement was right, then it is expected that both the GDP trend and the Unemployment trend ought to be ideally the same. The fact that there are some slight variations shows that various factors affect the labour market apart from economic forces.

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