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## Methodological Basis of Unemployment

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### Abstract:

The main objective of any macroeconomic policy is to achieve a steady economic growth with a low unemployment rate. Unemployment is one of the main (if not the most important) socio-economic problem in the Balkans and some country in EU, Unemployment is the most drastic form of social inequality. Unemployment has serious consequences for social and economic stability. Unemployment, as a general socio-economic phenomenon, for a longer time, is present in all countries of the world, regardless of the level of development and their socio-economic adjustment. Currently, the goal of each country is to achieve a sustainable economic development, which requires the achievement of a steady economic growth. One of the prerequisites for economic growth is macroeconomic stability. Among the different opinions from different schools about macroeconomic stability, the main indicator of macroeconomic stability is economic growth and unemployment. In order to provide scientific work descriptions with elements of scientific classification in understanding the problem of unemployment with a parallel approach to employment policy, with this work scientific aims to analyze relevant indicators of unemployment, the phenomenon of social (insecurity) as the root cause of unemployment, and thus determine the correlation between unemployment and economic development on the one hand, while on the other hand it aims through classification to enable finding the cause of the phenomenon of unemployment. Regardless of the situation, basically all policies, including macroeconomic, infrastructure and other sectoral policies, have different social and distributional effects that need to be accurately understood and translated into fair, participatory, and non-discriminatory policies that ensure greater formal employment. and better, and thus ensures a higher level of security quality in securing livelihoods and increasing the income of the insurance system, social protection and for the promotion and realization of social inclusion.

Unemployment is one of the most difficult economic problems, as it creates an income deficit, a situation that results in inequalities and stratification in society. Sociological and economic studies emphasize that employment is not only the most important determinant of the position of people in every country, but is also important for creating meaning, income, social stability and quality of life and a condition for participation in social activity. Unemployment which in fact will be the focus in the elaboration of this paper, then the analysis of the types of unemployment, analyzing the main reasons for unemployment. The main policies, their impact on reducing high and persistent unemployment, and finally the link between unemployment and economic growth.

**Keywords:** Macroeconomic, Unemployment, Socio-Economic.

## **1. Methodological Basis of Unemployment**

In order to provide scientific descriptions with elements of scientific classification in understanding the problem of unemployment with a parallel approach to employment policy, the Scientific work aims to analyze relevant indicators of unemployment, the phenomenon of social (insecurity) as the root cause of unemployment, and thus determine the correlation between unemployment and economic development on the one hand, while on the other hand it aims through classification to enable finding the cause of the phenomenon of unemployment and the role of employment agencies in the process of implementing labor market measures. (Nickell, S. and Layard, R., 1999).

Regardless of the situation, largely all policies, including macroeconomic, infrastructure and other sectoral policies, have different social and distributive effects that must be understood *ex ante* and translated into fair, participatory and non-discriminatory policies that ensure greater and better formal employment, and thus provides a higher level of quality of security in providing livelihoods and increasing the income of the insurance system, social protection and for the promotion and realization of social inclusion (Wiman, R. Voipio, T. and Ylönen, M., 2006).

Unemployment is one of the most difficult economic problems, as it creates an income deficit, a situation that results in inequalities and stratification in society. Sociological and economic studies emphasize that employment is not only the most important determinant of the position of people in every country, but is also important for creating meaning, income, social stability and quality of life and a condition for participation in social activities (Diamond and Lodge, 2013; Farnsworth and Irving, 2010).

To define unemployment, we will analyze the views of economic theory on unemployment, with an emphasis on pre-Keynesian economic thought, Keynesian interpretation of mass

unemployment and basic modern theory of unemployment. Namely, theoretical models of unemployment are determined by the forms of social and economic environment, and the movements of the main course of economic science and theory. In general, we can state that no theory has completely given final and definitive solutions to the problem of unemployment. Namely, economic theory allocated allocative solutions on how to improve the economic growth of a country and thus approached the phenomenon of unemployment. Therefore, the approach of economic theory itself is shaped by the dependence on many factors of economic and non-economic nature.

However, the basic weakness of these theories is that they start from exclusively economic criteria when making decisions, assumptions about identical decisions of individuals in the same conditions, as well as behavior optimization. At the same time, theoretical explanations that are in the direction of delimitation in the sense that the labor market is not like other markets, and consequently, the processes and forces within it represent an area with specific characteristics with a strong need for active position and state intervention to overcome unemployment.

In addition to the already analyzed theories, economics has formed a relatively new theoretical framework, which provides new perspectives related to work and employment that can be classified into the following: theory of efficient wages, the theory of rational expectations and the theory of supply side economics.

#### **a) Theory of Efficient Wages**

The theory of effective wages arose within the theoretical framework of the new Keynesians in their need to use this model to explain why unemployed workers are not able to bring wages down to a level that would ensure full employment. Through this theory, emphasis is placed on the specificity of human labor in explaining the functioning of the labor market, through the integration of economic and sociological views and argumentation. Efficient wage theories emphasize that high wages make workers more productive. Reducing wages leads to a reduction in worker productivity which ultimately leads to a reduction in company profits. The role that companies play in this theory is very important because creating high wages would reduce the possibility of workers leaving, but also the cost that would arise from hiring and training new workers. Labor efficiency is conditioned by the number of wages it pays to its workers. The process is interrelated: wage cuts lead to a reduction in the quality of the workforce and thus a reduction

in productivity. Therefore, if there is a surplus in the labor market, companies will not reduce wages because they may lose more than they gain from the move (Tsoulfidis, 2010).

### **b) Theory of Rational Expectations**

This theory is based on the hypothesis of rational expectation and is significantly supported by the laws of economic behavior. This theory is of the opinion that regardless of the dynamic character of the market, its participants can accurately predict future changes and take appropriate steps in accordance with the available useful information and thus shape rational behavior adapted to economic and social activities. Within this theory, two significant assumptions of rational expectations are emphasized, namely: people use all available information based on which they make decisions, and earnings and prices are variable-flexible.

The theory has three basic points of view: *first*, economic entities (companies and workers) maximize their effects, i.e. make optimal decisions, and this means that they use all available information and that these are the best choices in the given circumstances; *second*, expectations are rational, which means that they are based on all available information, and *third*, market equilibrium is established, ie there are no reasons why companies or workers would not adjust wages or prices in order to balance supply and demand. (Tsoulfidis, 2010).

### **c) Theory of Supply Side Economics**

Proponents of this theoretical orientation see the solution to the problem of unemployment in the emphasis on shaping and stimulating factors that will provide longer-term economic growth, and thus, automatically, affect the decline in unemployment. They emphasize the growth of savings and investments, and reduced taxation of income from capital as the basic factors that are in a direct correlation between ensuring the growth of production and employment. According to this theoretical orientation, an increase in post-tax benefits should be expected to increase activities such as labor, savings, and new investments, because high taxes shape the environment in which the population is put in a position of lack of supply of its labor and capital.

## **2. Types of Unemployment**

Unemployment is a condition in which a part of the working age population of a society cannot be employed in accordance with their abilities and qualifications, with adequate earnings.

This implies a situation in which there are skilled workers who are willing to work but cannot find employment. Thus, unemployed persons are older than 16 years, able and willing to work and actively looking for work. Unemployed include all members of society who are partially employed, but their labor force is not fully utilized, in terms of full time.

The International Labor Organization defines unemployment as a condition that includes all persons over the age of 15 who are:

- (1) were out of work during the reference period,
- (2) during that period were at all times available for work as well
- (3) looked for a job (took certain steps in order to find a job).

Thus, the criteria on which the standard internationally accepted definition of unemployment is based refer only to an individual's activity during the reference period (no later within a week; available to start work in the next two weeks, actively looking for work in the last four weeks). All three criteria must be met at the same time, with the exception if it applies to persons who have an agreement to start work after the reference period and are no longer looking for work but meet the other two criteria. These people will still be classified as unemployed, as they are already available for work and not working.

The need for research on unemployment, in addition to theoretical considerations of phenomenology and etiology, requires systematization of the typology of this phenomenon, especially from the aspect of economics, because unemployment is a phenomenon that generates costs and losses for workers and their families (Veselinović, 2017).

Since "theoretically pure" types of unemployment rarely occur in practice, the subject of analysis in this doctoral dissertation will be the types of unemployment related to economics and economic thought, which are: structural, factional, cyclical, classical, hidden, long-term unemployment.

### **2.1. Structural Unemployment**

Structural unemployment is a long-term type of unemployment that occurs in situations where workers lose their jobs because of a mismatch between labor demand and the characteristics of the labor force offered in the labor market. Structural unemployment is characteristic of periods when workers' qualifications do not match their skills and abilities. Global processes, industrialization, computerization, digitalization, new technology can contribute to the suppression

of some professions or occupations. Changes in technology are likely to be at the root of many cases where workers are no longer needed in an older, declining industry, while in new industries there are vacancies that require different skills or are located in different places. In such situations, unemployment occurs which cannot be overcome without retraining. The view of economists on this issue is that globalization has changed the professional structures of older industrial societies, while the recession has accelerated existing trends in terms of transformations of employment opportunities and labor markets in industrial societies (Ashton, 2017).

In the case of structural unemployment, there is no significant difference between the volume of supply and the volume of labor demand. The difference relates to the structure of supply and the structure of labor needed for the labor market. The basic problem of this type of unemployment is the deficit of the labor force within the unemployed persons, which refers to meeting the criteria of education, knowledge, and skills, etc.

Structural unemployment is characterized by two features. The first characteristic refers to the characteristics of the occurrence of this type of unemployment, which is related to technological changes. Another feature refers to the longevity of this type of unemployment because it affects people who are unable to learn to cope with the current changes. These are usually older people who did not expect this type of change or there are barriers that cannot overcome them, and they relate to technological processes, digitalization, and modernization of means of work. The challenges that arise relate to the need and readiness for additional training or retraining in the time that accompanies the economic cycle.

This means that this type of unemployment is always present and constant. It can also be massive for some economies, given the level of (under) development of a country. But what is important is that developed economies fight this type of unemployment more effectively through developmental educational programs of formal and non-formal education. On the other hand, the problem of structural unemployment in development countries is associated with significant difficulties in displacing the working age population from depressed regions with a lack of work in place of business activity and the inability to learn quickly. Rising structural unemployment may cause a drop in economic growth. Therefore, states should continuously monitor changes in economic and production flows to react to changes in a timely manner and contribute to the harmonization of labor supply and demand with their activities.

## **2.2. Frictional Unemployment**

Frictional or normal unemployment occurs due to changes in jobs or interruptions due to relocation of companies, short-term shortages of raw materials, mobility of people caused by different stages of the life cycle, etc. Frictional unemployment stems from the dynamism of the labor market. The reason may be a decision for a voluntary change of job due to salary or better working conditions. The characteristic of this type of unemployment is that, unlike structural unemployment, it resolves faster and is of a short-term character. Short-term arises from the very nature of this type of unemployment, which is the matching of labor supply and demand. The cause of frictional unemployment is the time mismatch between labor supply and demand. Therefore, the main reason for this type of unemployment is the imperfection of information (data on the availability of vacancies).

Frictional unemployment causes not only economic damage, but also some tangible economic benefit (Veselonović, 2017), which is why it is the most desirable type of unemployment because it contributes to a more rational division of labor and higher productivity (the job you love is always more productive and creative than which the person is forced to).

## **2.3. Cyclical Unemployment**

Cyclical unemployment in the literature is also called conjunctural, or so-called "economic unemployment" (since it is a product of changes and flows in the economy), arises because of the general lack of demand in the commodity market and in the labor market. Cyclical unemployment occurs when there is not enough aggregate demand in the economy to provide jobs for all who want to work. Demand for most goods and services is falling, less production is needed, and therefore fewer workers are needed, wages are sticky and not falling to reach an equilibrium level, and unemployment is the result. According to Samuelson and Nordhaus (2007): "It occurs when the overall demand for labor is low. When consumption and production decline, unemployment rises virtually everywhere."

This type of unemployment occurs during a period of economic crisis in countries. Most often it catches a drastic drop in production in times of recession when the market does not

generate demand for labor, because that time is marked by a reduced level of demand for goods and services.

Cyclical unemployment is unemployment caused by a recession (recession) in the economy when real GDP is less than potential. This means that there is an underemployment of resources in the economy and that the actual level of unemployment is higher than natural. A cyclical unemployment rate can be the next positive value - during a recession, when the actual unemployment rate is higher than natural and there is insufficient resource employment, and a negative value - during a boom, when the actual unemployment rate is below its natural level and resource overuse takes place. In any case, the presence of cyclical unemployment is a serious macroeconomic problem, a manifestation of macroeconomic instability, proof of insufficient employment of resources.

Cyclical unemployment disrupts the balance of labor supply and demand. Namely, the demand for labor is great, it can even happen that it reaches its own maximum, while the supply reaches zero value. Establishing a balance requires a long period of time at the level of the entire economy. These are phases of an economic depression that can last for a very long time. The shift phase or the recovery phase is also reflected in the balance of labor supply and demand. This turning point results in structural unemployment. The time period of recovery creates a mismatch of supply and demand for random power, for the reason that time spent in stagnation for global economic flows means a step forward towards new technology. The duration of the cycle in which this type of unemployment occurs is related to the duration of the period of recession in the economy given society. The stagnation of economic flows not only affects employment but also affects the status of employees themselves: a decline in job supply, a tendency to reduce wages or maintain a certain level with increasing the executive burden of work, reducing social and incentive payments, rising prices of products and services (Mrnjavac, 1997).

#### **2.4. Classical Unemployment**

Classical unemployment is one of the main types of unemployment. It occurs when the real wages for workers in an economy are too high, meaning that firms are unwilling to employ every person looking for a job. Classical unemployment occurs when real wages are kept above the market-clearing wage rate, leading to a surplus of labor supplied. Classical unemployment is sometimes known as “real wage” unemployment because it refers to real wages being too high.



Classical unemployment exists in situations of high wages and above the average cost of living. This type of unemployment occurs when there are people who are willing and able to work but don't have a job. This is a circumstance that motivates the unemployed to look for a job, which leads to the number of vacancies declining at the expense of the needy.

Classic unemployment is also known as "real unemployment" or "induced unemployment". When wages are so high that employers cannot hire all the available workers. In other words, wages are higher than the supply law and demand would normally dictate. Main causes of classical unemployment are as follows:

1. Powerful trade unions which negotiate for wages above the market equilibrium
2. Minimum wages that create a legal minimum for wage
3. Deflation and 'sticky wages. Deflation is a period of falling prices. If there are falling prices, to maintain full employment, it may be necessary to cut wages. However, workers and firms often avoid nominal wage cuts – for the psychological cost. Therefore, during a period of deflation, classical unemployment is more likely to occur
4. Long-term contracts determined wages that had become too high due to the recession
5. The government sets and the minimum wage is too high. (*Rothbard, Murray, 1963, Pg. 45*).

In the context of the role of the state, some economists are of the opinion that unemployment can be caused by state regulations, such as guaranteed minimum wages that raise the costs of some low-skilled workers above market equilibrium, resulting in increased unemployment because people who want to work is the new and higher forced wage now greater than the value of their labor. This type of unemployment can be reduced by a policy aimed at reducing the real wage rate, e.g. tax policies, or by improving productivity, e.g. through education and training. (Anderton, 2006).

## **2.5. Hidden Unemployment**

Concealed unemployment represents the transition between employment and open unemployment. In the economic sense, it is a type of employment that is closely related to the achievement of economic results of employees. (A. Wertheimer-Baletic, 1978). Concealed unemployment is very specific in the unemployment complex and has its own special characteristics. Terminologically disguised unemployment is also encountered as insufficient employment or incomplete employment (underemployment), i.e., disguised unemployment, or

hidden unemployment, is an economic term used to refer to a portion of the labor force involved in redundant work with very minimal to no productivity. Hidden unemployment does not impact the aggregate output of an economy.

Disguised unemployment can be defined as underemployment that exists in cases where employees do not work full time and could and want to work much more and more efficiently or when the salary or income of persons who have a certain job would be much higher if, given their professional qualifications and abilities, these persons would work in better production conditions or in another job. According to this definition, disguised unemployment applies to all employees, which means in all industries. The second segment refers to the efficiency of employees in terms of more rational use of work and professional ability of employees.

Disguised unemployment is very common in third world countries, which are still developing and with large populations. This is known as a labor surplus. Disguised unemployment is challenging to identify; however, it can be characterized by the following:

1. It is normally connected to small family businesses with more employees than required or self-employed individuals. It is also known as the informal agricultural labor market.
2. Marginal productivity is noticeably low.
3. It is differentiated from seasonal unemployment (which can occur due to climatic factors).

Since disguised unemployment can be seen as unproductive employment, included in it are:

1. Individuals who are employed on a part-time basis but with the capabilities and skills to perform on a full-time employment level and be productive.
2. Individuals who accept jobs with requirements that fall below their skills and abilities. An example can be an individual with a college or university degree taking up a job as a teller due to an inability to find a job more fitting for their qualifications.
3. Individuals with illness or disability but who can perform certain tasks also fall under disguised unemployment. It is because they may be able to work certain jobs but are typically not included in the national unemployment statistics of a country.
4. Individuals whose jobs became redundant and were persuaded into early retirement.
5. Individuals performing job tasks that are unproductive in terms of overall output.

6. Individuals who are not in search of employment. They are generally not considered to be unemployed. Several countries only include job seekers in their unemployment statistics. Main causes of hidden unemployment might be the following factors:
  1. Company content for various factors of redundancy of full-time employees. And as a result, making costs for their content in the cost of manufactured products.
  2. Inability to provide full-time employees with a relevant salary, but maintenance as an employee with “part-time” employment. In this case, only workers who want to, but who are not able to work at full rate, employees who consciously come in the afternoon are not considered.
  3. Businesses face weak demand for their products. To maintain operations, they may offer more temporary job vacancies than full-time job vacancies. The aim is to rationalize operating costs.
  4. Registration of part of employees on vacation without payment.
  5. Regularly easy to operate equipment for the company for several technical reasons
  6. Inadequate availability of job information. This situation can lengthen underemployment. The lack of job vacancy information makes it difficult for unemployed workers to find the desired job. Therefore, perhaps more workers will accept part-time or non-qualified work.

## **2.6. Long-Term Unemployment**

Long-term unemployment is defined by the European Union as unemployment that lasts longer than one year. The U.S. Bureau of Labor Statistics defines long-term unemployment as unemployment that lasts 27 weeks or longer. Long-term unemployment is an integral part of structural unemployment, which results in long-term unemployment that exists in all social groups, activities, occupations, and all levels of education (Bivens and Shierholz, 2014).

According to Abraham et al (2016), it is well known that the long-term unemployed fare worse in the labor market than the short-term unemployed, but less clear why this is so. One potential explanation is that the long-term unemployed are “bad apples” who had poorer prospects from the outset of their spells (heterogeneity). Another is that their bad outcomes are a consequence of the extended unemployment they have experienced (state/social protection programs dependence).

Cyclical and structural unemployment are the main causes of long-term unemployment. These two types of unemployment tend to be long-lasting due to the very nature of the causes of these phenomena. Namely, cyclical unemployment is related to recessionary processes which, according to phenomenology, have long-lasting cyclical time-related phases. While structural unemployment as an imbalance between supply and demand for random power can last a long time given the unpreparedness and inactivity of sluggish economic societies. In the context of the very phenomenology of long-term unemployment, these two types of unemployment coincide. The recession is causing a massive rise in unemployment that is turning into cyclical unemployment. In practice, it has been shown that the state of recession can be long-lasting, which means that those who are looking for a job cannot find it for a long time. Such a situation leads to the obsolescence of knowledge and skills of the unemployed, which also generates structural unemployment. The slowdown in the economy slows down development processes and thus economic growth stagnates.

Today's long-term unemployment crisis is widespread across all sorts of workers. It is clearly not related only to inflexible workers who are unwisely concentrating their job-search in specific occupations or industries where jobs aren't available while ignoring opportunities elsewhere. Long-term unemployment is consistently present in every group, in every occupation, in every industry, at all levels of education. While workers with higher levels of education face substantially lower long-term unemployment rates—which is always true, in good times and bad—even these highly credentialed workers have long-term unemployment rates that are more than three times as high as before the recession started. The long-term unemployed also tend to earn less once they find new jobs. They tend to be in poorer health and have children with worse academic performance than similar workers who avoided unemployment. Communities with a higher share of long-term unemployed workers also tend to have higher rates of crime and violence.

The sharp rise in long term unemployment in the Great Recession and the slow accompanying recovery have heightened concerns about the distressingly bad labor market outcomes experienced by the long-term unemployed. Efforts to form a clear understanding of the reasons for this group's poor success in the labor market have long been plagued, however, by the challenge of distinguishing the effects of state dependence from those of unobserved heterogeneity, in particular the possibility that the long-term unemployed are individuals whose

employment probabilities and earnings outcomes would have been worse than those of the short-term unemployed even absent their experience of extended unemployment (Abraham et al., 2016).

### **3. Main Reasons for Unemployment**

The phenomenology of unemployment has a wide multidimensionality due to the effects it causes. Analyzing the causes of unemployment takes an identical position as the typology of unemployment itself. (Sarfati, 1999). The general view is that unemployment stems from labor market inequality, in terms of a disturbed balance of labor supply and demand, because of changing economic flows caused by divergent factors that can lead to recessionary movements in society. Consequently, in practice, it has been shown that countries react differently to economic trends in terms of stagnation or recession in society in terms of unemployment levels. So, for example, the crisis caused by the pandemic, according to the IMF projections, affected the labor markets in southern Europe differently, the example of Greece, Spain, Serbia, Italy and Croatia. Finland and Sweden are expected to record high unemployment rates. It is also assumed that France will have an unemployment rate of 9.1% this year, Germany and the UK are likely to have limited damage due to job losses, with rates unemployment of 4.4% and 6.1%, respectively. At the level of the European Union, the IMF forecasts an unemployment rate of 8.7 percent in 2021, which is 0.9 percent more than last year, in the conditions of projected GDP growth to 5.8% (SOURCE, IMF). The IMF projects that the unemployment rate in the United States will decrease this year, from last year's 8.1% to 5.8%.

Economists point out to the fact that there is also diversity in the effects caused by unemployment itself (unemployment caused by financial crisis of 2007-2008). Thus, based on data from European Union statistics on income and living conditions, there is a difference in the type and characteristics of unemployment between EU countries and regions. The data show that young people in the recession fared significantly worse than their older counterparts across Europe after the recession that followed the 2007/2008 financial crisis (Iacovou, 2017). However, the effects of the recession have by no means been uniform, with many official reports and social commentators noting that developing economies have fared much better than anticipated, and especially much fewer economies than more developed ones. (Economist 2009; United Nations 2015). Within the region and group of countries, there were also variations: from zero rates in Austria and

Switzerland to over 30% in Greece, Hungary and Ireland (Iacovou, 2017). Needless to say, young people are particularly affected (Bell and Blanchflower, 2011).

In terms of the position and rights of workers in society, trade unions play an active role. The role they play is in the direction of guaranteeing the minimum wage through legal norms and collective agreements. In this way, better financial opportunities for employees are achieved, which in turn increases labor costs. Bruce Western and Kieran Healy (2001) indicate that the level of workers' wages depends on the strength of the union. The united unions, with the support of the social democratic governments, managed to fight for higher wages. In contrast, poorly organized and decentralized unions have not had much success in fighting for wage growth and living standard of workers.

In addition, it is interesting to point out to the fact that some economic theorists have analyzed both the relationship between unemployment and political ideology, and the influence of voters on the process (Anderson, 2001). In the context of analysis, it is expected that unemployed voters will be looking for a better position and society will certainly go to the polls unlike employed voters.

Part of the reasons/causes of unemployment can be political measures and activities, as well as social assistance programs for the unemployed. Namely, the type of social policy model of a country can affect the level and position of unemployment. The mechanisms of their influence are psychological in nature because they primarily affect the motivation or demotivation of the unemployed. It is about the behavior of the unemployed related to active job search, or abstinence. As an example, we can take the position of the European Union in terms of choosing a social model. Namely, at the European level, there was an idea that economic progress would encourage social progress and that social models would, sooner or later, converge "upwards". Thus, in the Amsterdam Treaty from 1997, emphasis was placed on employment as an issue of "common interest", thus creating the possibility of coordinating national policies in the field of unemployment. Despite some progress in the social field and the hopes raised by the European economy exist, there is a need to fear the adjustment of the labor market and social protection system to the Anglo-Saxon liberal model. This fear is particularly confirmed by the consequences of fiscal and social competition, which are noticeable in the increasingly visible gap in the area of income and public finances that the euro allows (Chapon and Euzéby, 2002).

Briefly presented, the basic causes for unemployment appear because of the following: Overall, one can point to the fact that the causes of unemployment are very complex and are most often the result of low productivity, overcrowding, low level of education, underdeveloped infrastructure, underdeveloped and market imperfections. One of the most significant causes of unemployment is the immobility of the labor force. Technological progress has long been considered one of the causes of unemployment because it marked the replacement of living labor with the past. However, machines have not become a substitute for labor, but indirectly create more jobs and more jobs, which can be seen in the example of countries at a higher level of development that have lower unemployment than underdeveloped countries. Another important difficulty in employing young people is that work experience is required as a condition.

#### **4. Main Policies for Combating High and Persistent Unemployment**

Increasing employment is one of the most important priorities of a society due to the level of positive effects it causes for both the individual and the society. In the fight against unemployment, states create various forms of employment policy. Basically, employment policy covers all fields of economic policy that directly or indirectly affect the use of labor as a factor of production. Employment policy ranges from policy measures, from educational, financial, monetary, external, to structural policy, with the aim of achieving a high employment rate (Sauer, 2008). The variety of measures with which states pursue employment policy is due to the very complexity of the phenomenon of (non) employment, which has a dual impact: on the material and immaterial aspects of the individual, while society affects the level of economic development. Thus, the role of the state is strong essential in combating the causes that generate the conditions for creating unemployment. In essence, each state creates an employment policy through its own policies and choice of instruments. The relevance of the choice of labor market methods and policies has intensified during the last global financial crisis, which revealed fundamental problems in the functioning of the European Union (Krugman, 2012), primarily through insufficient labor market integration (ECB, 2012), and especially high structural unemployment (ECB, 2016). Given broadly defined national employment policies, it cannot be the sole responsibility of the Ministry of Labor but must result from close cooperation between different government departments and thus ensure consistency with other major economic and social policies. In this way, they will complement each other. The role of the social partners is important

in policymaking because they are directly affected by it. They are in the best position to assess whether and to what extent this policy is feasible, useful and consistent and how to redefine it. The support and active cooperation of the social partners in policymaking is a necessary condition for its success. (ECB, 2016).

The analysis of active labor market policies (ALMP) inevitably requires an analysis of the theoretical aspects that accompany the application of active measures as part of labor market policy because of the significance they imply on the results of labor market interventions. Today, active labor market policies include measures implemented by the state through training programs, various services of the national employment service, the implementation of youth programs, as well as subsidized employment programs for persons with disabilities. Active labor market measures are, therefore, directed to the supply side of the labor market, although they can also touch the demand side, as in the case of subsidized employment. However, their predominant focus on the supply side is justified, given the fact that the problem of unemployment cannot be solved only by stimulating foreign aggregate demand, due to the trade-off between inflation and unemployment.

The main objectives of the labor market policies are most often aimed at: (i) reducing unemployment, (ii) reducing labor market segmentation and reducing the disadvantage of at-risk groups in the country, (iii) promoting regional, qualification and sectoral mobility, and (iv) increase in labor productivity (Obadć, 2003). Given the differences that exist between countries, active labor market policies' measures can be divided into several areas: (1) providing additional education, through additional training, retraining and specialization; (2) creation of new jobs; (3) providing job search assistance; (4) public works programs; (5) subsidized employment; (6) special programs for vulnerable groups of the unemployed, etc.

Active labor market policy measures are measures that follow the meaning of the very nature of unemployment, according to which they are shaped. These are measures aimed at overcoming the causes of unemployment through: retraining, additional training, training, additional education, etc. In addition to these measures, states envisage active measures, intended for persons who have difficult access to the labor market, for example: the elderly, persons with disabilities, the long-term unemployed, women and unskilled workers. The pressure of the active labor force on the labor market can be relaxed by reducing the upper age limit of employment, reducing the lower limit of retirement, with certain modifications for professions where there is a



deficit. Active labor market policies help the unemployed to find employment as quickly as possible, in a job that best suits their qualifications, with the aim of overcoming barriers to the return of the unemployed to the labor market. The application of retraining and additional training measures can be used to direct people to areas where there is a shortage of skills, thus making it easier to cope with structural changes. Systematic active measures can act in the fight against structural unemployment in the long run. Active labor market policies are a key component of so-called “inclusion strategies” and are usually linked to unemployment insurance schemes, based on the conditionality of unemployment benefits (Martin, 2014).

Passive labor market policies include a system of unemployment benefits, as a form of support for people who have lost their jobs. In addition, it includes various support programs in case of early retirement. In the countries of the European Union, allocations for passive measures (as a% of gross domestic product) exceed allocations for active measures. However, this difference is more pronounced in the case of countries in transition, as passive measures include allocations to support workers who have lost their jobs, because the companies in which they were employed have been privatized or are in the process of restructuring. The character of passive measures is short-term and is not able to permanently solve the problem of unemployment. Namely, these are measures of a financial nature that the state provides to mitigate the effects of unemployment. Passive measures in addition to social security have an economic role. Passive measures enable the unemployed not to accept a job that does not correspond to their abilities at any cost, because with the appropriate job they will achieve better productivity and better contribute to the economy. The application of passive policies can gain a stimulating character on the unemployed and be inactive for a long time. Although it temporarily reduces the supply on the labor market in combination with active measures, it can have good reductants. According to certain economic theorists, passive measures provide material protection, while active ones increase the employment of the unemployed (Obadić and Majić, 2013).

## **5. Conclusion**

The scientific paper in this conference is dedicated to the concept of unemployment, which in fact will present the main focus to analyze the types of unemployment, the analysis of the main causes of unemployment. Key policies, their impact on reducing high and persistent unemployment.

Unemployment is a condition in which a part of the working age population of a society can not be employed in accordance with their skills and qualifications, with the right income. This means a situation in which there are skilled workers who are willing to work but cannot find work. Thus, the unemployed are older than 16 years old, able and willing to work and actively looking for work.

In this paper are also presented all types of unemployment, where some of them can be fatal (long-term) for an age group of the population, in the case of Inflation, the great transition with the rapid development of Information technology. Cyclical and structural unemployment are the main causes of long-term unemployment. These two types of unemployment tend to be long-term due to the very nature of the causes of these phenomena. Precisely, cyclical unemployment is related to recessive processes that, according to phenomenology, have long cyclical phases related to time. While structural unemployment as an imbalance between supply and demand for occasional power can last a long time knowing the unpreparedness and passivity of slow economic societies.

Today's long-term unemployment crisis is pervasive among all types of workers. Clearly it is not just related to careless workers who are wisely focusing their job search on special occupations or industries where jobs are not available while neglecting opportunities elsewhere. Long-term unemployment is constantly present in every group, in every profession, in every industry, at all levels of education. Part of the reasons for unemployment may be political measures and activities, as well as social assistance programs for the unemployed. Exactly, the type of social policy model of a country can affect the level and position of unemployment.

The process of globalization also affects the mobility of changes in labor supply. With the increasing globalization of the market, there are cases of international companies deliberately setting up their production headquarters in geographical areas with cheaper labor. Thus, they employ a smaller percentage of workers at their headquarters than their potential capacity.

At the end of this paper is presented the main importance of labor market policies which aim to reduce unemployment, through Active and Passive measures of the labor market.

Active labor market policy measures are measures that follow the meaning of the very nature of unemployment, according to which they are shaped. These are measures aimed at overcoming the causes of unemployment through: retraining, additional training, training, additional education, Passive labor market policies include a system of unemployment benefits, as a form of support for people who have lost their job. tire. In addition, it includes various support programs in case of

early retirement. In European Union countries, allocations for passive measures (as a% of gross domestic product) exceed allocations for active measures

In general, an active measure of labor market policy in European countries is mainly used as an instrument to alleviate unemployment, economic theorists claim that active measures are used by policymakers to: cosmetically reduce unemployment, improve the social integration of members of marginalized groups in the labor market, and they convert and link passive instruments with active policy in an activation approach.

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