

Committee: Economic and Financial Committee (GA2)

Issue: Achieving the macroeconomic goals of low unemployment and external stability

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Position: Chair

INTRODUCTION

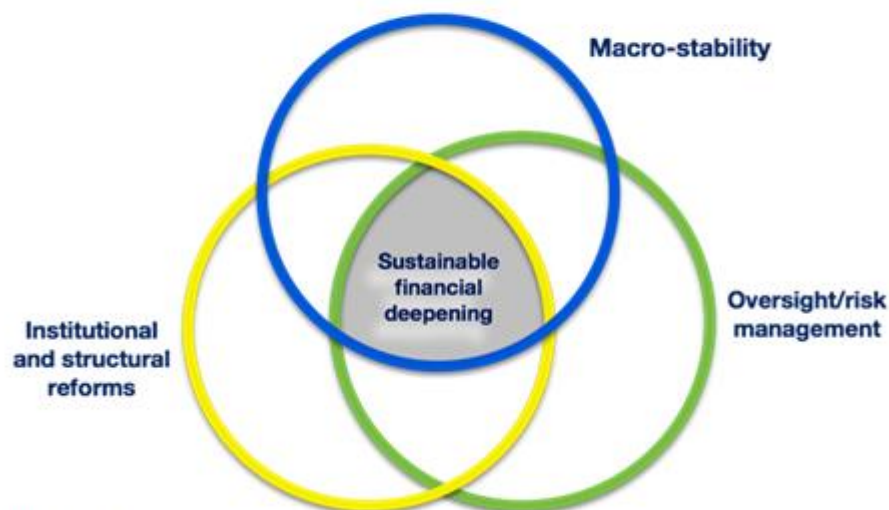
Every national economy, globally, is underpinned by certain macroeconomic objectives, goals that are to be achieved. As agreed by modern policy makers the main macroeconomic objectives are sustainable economic growth and development, full employment, stable prices, balance of payments within all countries and of course a fair distribution of income. In 2008 a banking crisis led to a global economic crisis that impacted on domestic unemployment levels as well as balance of trade deficits and led to questions about monetary and fiscal policy.

According to the Organization for Economic Co-operation and Development (OECD) in November 2008 average unemployment in the OECD area reached 6.3%; a rise of nearly 1% from the previous year. In 2015 the OECD annual employment outlook stated that about 42 million people in the 34 OECD countries are unemployed (10 million more than in 2008). There are increasing disparities, however, between countries depending on the government's success in handling macroeconomic policies. Two key problems are youth unemployment and the long-term unemployed. According to the OECD governments spending on helping the unemployed back into the workplace has fallen as countries focus on dealing with their budget deficits. Following the 2008 crash foreign debt in many countries rose more quickly than the Gross Domestic Product (GDP) meaning that there was external instability. The relative decline in some markets resulted in an increasing gap in balance of trade deficits which impacted on sustainable growth (growth of real gross domestic product) and negatively affecting levels of employment. Countries that achieve sustained economic growth have put in place a set of supportive policy interventions regarding overseas trade, finance and investment policies as well as policies that promote employment. According to the United Nations document "Macroeconomic stability, inclusive growth and employment" (May 2012) it is only when these policies "mutually

reinforce each other” that sustained economy at national and international level can be achieved.

Chart 3

Finding the right balance: policies fostering sustainable financial deepening



Source: IMF staff.

Figure 1: Achieving Sustainable financial deepening.

“Topic 5. Financial Deepening for Macroeconomic Stability and Sustained Growth”.

<http://www.imf.org/external/np/res/dfidimf/topic5.htm>

DEFINITION OF KEY TERMS

Macroeconomics

Macroeconomics refers to the study of the behavior of the economic system as a total and not as individual aspects, like markets and firms. Macroeconomics concentrates on certain factors of the economy, for example the levels of employment and unemployment, Gross National Product (GNP), inflation etc. Following the analysis of the previous factors, that more than often influence one each other, and many more we can predict the national income (primary aim of macroeconomics). Macroeconomics is also linked to the determination of economic growth, investment and monetary policies.

Gross Domestic Product (GDP)

Gross domestic product is the value of the total of production of each country’s goods and services. It is used as a measure of economic health and growth and has a significant role in setting the interest rates.

External Stability

External stability is when a country's external economic behavior does not negatively influence and affect the internal, domestic economy. It is directly linked to efforts of limiting foreign debt.

Inflation

Inflation is a general rise in prices across a wide range of goods and services. It can be described as a loss in the purchasing power of money, meaning in theory you can no longer buy what you used to with the same amount of cash.¹

Unemployment rate

Unemployment rate is defined by the total of the labour force that is unemployed. The unemployed are the total of people who at a certain point were either without a job, seeking a job or available for work.

Balance of trade

Balance of trade is the difference in value over a period of time between a country's imports and exports of goods and services, usually expressed in the unit of currency of a particular country or economic union.²

Aggregate demand

Aggregate demand is the amount of money that firms and households have intended to spend on goods and services according to the amount of money they earn.

Current account deficit (CAD)

The amount by which money relating to trade, investment etc. going out of a country is more than the amount coming in.³

¹ Definition of inflation. <<http://www.financialdictionary.net/define/Inflation/>>

² The Editors of Encyclopædia Britannica. "Definition of balance of trade". <<http://www.britannica.com/topic/balance-of-trade>>

³ Definition of current account deficit. <<http://lexicon.ft.com/Term?term=current-account-deficit>>

BACKGROUND INFORMATION

Unemployment

As defined above unemployment is the total of people out of work, seeking work or open to work. For someone to be considered unemployed the following criteria must apply:

1. Individuals must have been out of a job for a minimum of 4 weeks.
2. Individuals must be available to start work in at least 2 weeks.
3. Individuals must be available to work for one hour per week at least.

Types of unemployment

Unemployment is categorized in different types according to their cause. The types of unemployment are the following:

1. Cyclical unemployment, where individuals do not have a job due to the decline of aggregate demand. Individuals lose their jobs as a result of the ups and downs, recessions and dooms of the economy.
2. Structural unemployment refers to unemployment because of the technical changes, such as the advance of technology and automatization or because of changes in goods people are demanding. It also further refers to the difference of jobs available and the skills and knowledge individuals have to offer to the market. Globalization is a major contributing factor to structural unemployment.
3. Frictional unemployment occurs when individuals lose their jobs and are in the procedure of searching for their next one. It is very difficult to reduce this type of unemployment since workers will very often be in-between jobs. Demographic changes often play a significant role in this type of unemployment since it takes young workers time to settle into a long-term job position. Unlike the previous types of unemployment, frictional unemployment is voluntary on the part of each individual.

European Youth Unemployment Skyrockets



Source: Thomson Reuters Datastream, Eurostat
Reuters graphic/Scott Barber 4/2/2012

Youth unemployment

Youth unemployment refers to unemployment of people aged 16-24. In recent years youth unemployment rates have drastically risen

leading young people be three times more prone to unemployment than the rest of the working population.

It is especially hard for young people in the job market since during such difficult financial times employers prefer to fire the youngest employees first. Greece and Spain are two countries with the largest percentage of youth unemployment where over one sixth of youths are unemployed. There is an immediate and strong link between employment and education. For example, in Germany, where unemployment rates are relatively low, there is a large spectrum of apprenticeships and good quality education that ensure young people not being jobless.

Causes of unemployment

There are numerous causes of this pressing issue. Due to the frequent ups and downs of the market and the instability of the global economy people are not easily changing jobs or retiring as early as they could several years ago. Thus, there is a limited amount of job openings that a large and ever so growing amount of people want. So, apart from lack of jobs there is also a lack of experience and appropriate qualifications. Employers tend to opt for people with experience in order to limit the amount of training they have to offer and maximize their productivity since experienced professionals do not require as much attention as recent graduates for example.

External stability

External stability often comes hand in hand with efforts of limiting foreign debt (money that each country owes to foreign lenders), since an unstable external economy can negatively affect the country's domestic economy. In order for a country to achieve external stability the main aims include:

1. A stable currency that is a key indicator of external stability, meaning the absence of fluctuations in a country's national currency. If the national currency is not stable, meaning there is external instability, suppliers will not be able to adapt the production to the fluctuating economy fast enough and consumers are unlikely to alter their spending behaviours. Thus, destabilising the economy and leading investors to move their investments to more stable economies.
2. A sustainable CAD; one of the main yearly aims of a national economy is having more exports than imports in order to invest for example more in energy, roads and

relative infrastructure. A country can significantly lower imports of this type of first aid material.

3. A sustainable foreign debt; foreign debt is often quoted as a percentage of GDP. High levels of foreign debt also point to foreign instability.

MAJOR COUNTRIES AND ORGANIZATIONS INVOLVED

Greece

Greece’s extremely high unemployment rate, almost over 24%, has been a trending topic of the global financial news during the past years. Not only there are thousands of people jobless, but youth unemployment rate is over 50%. The Greek economy is going through a tough economic crisis where unfortunately resolving this issue is extremely difficult. Another problem that Greece faces is difficulties in balance of trade. Imports are much higher than exports leading Greece to develop an ever growing trade deficit.

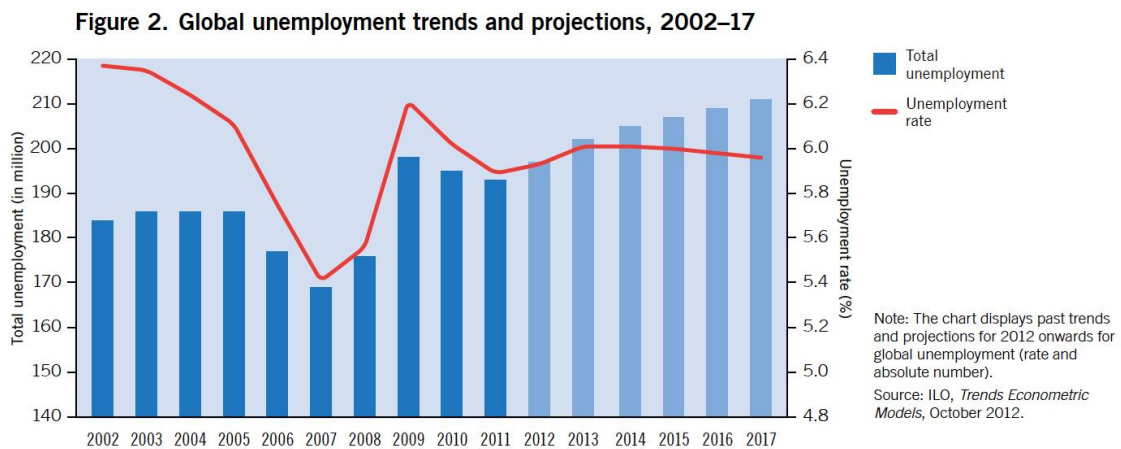


Figure 3: Global unemployment trends and projections.

“Since 2007 Almost 30 Million People Have Lost Their Jobs: More Austerity or a Global New Deal?” .
< <http://www.progressorcollapse.com/about-30-million-people-have-lost-their-jobs-because-of-the-2008-financial-crisis/>>

Spain

Spain has gone through similar problems to Greece. With a high unemployment and youth unemployment rate the country faces financial difficulties. There are over 4 million people currently unemployed in Spain, although the unemployment rate had staggering fall unlike what analysts had predicted. Due to strong reforms that have been imposed the country has been able to recover its weak economy and revive its national employment rate.

Africa

Africa's population consists mainly (over 60%) of people aged between 15 and 25 years old. This could be considered as a great advantage for the continent comparing these numbers with the ever growing older western world. It is a fact that high numbers of youth lead to higher numbers of workforces; a great asset for a modern economy. However, the high illiteracy rates in Africa in combination with the lack of skills, experience and opportunities for the people result in the phenomenon of low employment for the African people. One should bear in mind that the lack of workplaces as well as the lack of necessary knowledge could be considered as two of the main reasons for the high number of people living under the poverty line within the African borders.

Cambodia and Qatar

According to a World Bank report⁴ in cooperation with the International Labour Organization Cambodia and Qatar are the two countries with lowest unemployment rates; the rates in these two states are around 0.3 and 0.5 respectively. On the one hand the Cambodian economy is based on foreign investments and industrial activity. 80% of the country's exports are based on the developed garment industry. In addition, low wages and favorable taxes have led to an increase in foreign investments; a fact that has created further workplaces reducing the Cambodian unemployment rates. On the other hand, the economy of Qatar is based on the rich oil and natural gas reserves and their export. The job positions that are connected with the energy industry of Qatar lead to the almost non-existing unemployment within the Qatari borders.

International Labour Organization (ILO)

The International Labour Organization is a specialized agency under the reign of the United Nations (UN). The main aim of the ILO is to promote labour rights across the globe, encourage employment and humane working conditions as well as promote dialogue on issues related to work. The ILO collects data on all topics related to labour and jobs and publishes reports on the progress countries make.

International Monetary Fund (IMF)

The International Monetary Fund was established in July 1944 during a UN conference. The primary aim of the IMF is to promote global financial stability of the monetary system, facilitate trade making it easier for Less Economically Developed Countries (LEDCs) to export their goods and limit their imports and promoting worldwide

⁴ Unemployment, total, World Bank <<http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS>>

employment. The IMF has generously helped countries in need either providing them with loans or proposing structural reforms that can boost economic growth.

TIMELINE OF EVENTS

Date	Description of Event
7 February 1992	The Maastricht Treaty was amended in order to establish the European Union. Through creating a common market and a joint financial union the said community will aim to promote sustainable growth, high economic performance and high employment.
March 1995	During the World Summit for Social Development in Copenhagen, Denmark all governments attending decided, through any means possible, to eradicate poverty, achieve full employment and promote social integration.
2008	In 2008 one of the biggest banks of the United States of America, Lehman Brothers went bankrupt. This led to the worldwide banking collapse of 2008, resulting in a global economic crisis which impacted rising unemployment rates.

UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS

Previous UN resolutions

- **ECOSOC Resolution, 24 July 2008, 2008/18**, promoting full employment and decent work for all. This ECOSOC resolution focuses on the means of promoting full employment as well as proper and decent conditions of work for all global citizens.
- **ECOSOC Resolution 2006/15, 26 July 2006**, promoting youth employment. This resolution hopes to tackle the issue of youth unemployment, one of the greatest issues of our time, and provides measures to promote such employment.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

In order to combat the issue of unemployment certain countries e.g. the United Kingdom raised the school leaving age in the hope of providing more skills to school leavers. In France an employment scheme called “Jobs for the future” (for young people 16-25 with no qualifications and from areas with high unemployment) was subsidized as well as state financial aid to small companies if they give a permanent contract to someone under 26. In Spain and other European countries policies such as deferment of Value Added Tax (VAT) payments and government aid to small businesses were used to encourage them to employ more workers. Some countries have focused on education policies, which address the skills’ gap in youth and over-50s unemployment sectors. For example, the United Kingdom introduced NVQs (National Vocational Qualifications) as well as posted 16 vocational apprenticeships. Government job creation policies were expensive to implement and did not always address a large enough group of people. Vocational qualifications training is still seen by employers and young people as an inferior alternative to degree level education and qualifications and therefore do not have a high pick up and retention rate.

POSSIBLE SOLUTIONS

Unemployment

Unemployment has a strong link with education. As mentioned above, one of the many causes of unemployment is the mismatch of the skills and knowledge people have with the skills that available jobs require. So in order to solve this aspect, countries could offer advanced training programs so as to create a stronger group of people seeking a job in today’s competitive market. Moreover, considering that worldwide there are many people living below or at poverty level who have no savings that can help them survive during unemployment. These workers tend to receive only the minimum wage or even less in certain cases. So what the governments could do is to reimburse a certain part of the minimum wage to these workers. Thus, encouraging them to keep their jobs as well as encouraging small businesses to avoid firing people due to budget cuts by paying them the minimum wage.

External stability

In order to achieve external stability there must be a healthy external economy, meaning active exports, in order to ensure a healthy domestic one. So in this aspect governments could lower the cost of shipping and relevant actions, especially for small

businesses that limit their exports due to fear of financial loss. This way each national government could maximize their exports. At the same time countries could also make sure that if they are capable of taking advantage of their resources they could produce goods and services necessary for their consumers instead of importing them. This way each government lowers the imports and increases their exports.

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Unemployment Problem