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Abstract: Losing a job can be the most distressing economic event in a person's life. Most people rely on their labour earnings to maintain their standard of living, and many people get from their work not only income but also a sense of personal accomplishment. This article begins our study of unemployment. The problem of unemployment is usefully divided into two categories – the long-run problem and the short-run problem. In this chapter we discuss the determinants of the long-run problem – an economy's natural rate of unemployment. As we will see, the designation natural does not imply that this rate of unemployment is desirable. Nor does it imply that it is constant over time or impervious to economic policy. It merely means that this unemployment does not go away on its own, even in the long run.

Introduction. An unemployed person is someone who does not have a job. But as economists we need to be precise and careful in our definitions of economic categories. If you are in full-time education, for example, you do not have a full-time job in the usual sense of the word, i.e. you are not in full-time paid employment. And there is a good reason: you are studying. Hence you are not available for work. What if you were not a student but were suffering from some long-term illness that meant that you were unfit for work? Again, although you would not have a job, we would not say that you were unemployed because you would not be available for work. From these two examples, it seems clear that we need to qualify our original definition of an unemployed person as 'someone who does not have a job' to 'someone who does not have a job and who is available for work'.

Methods. The article discusses the cost of unemployment. Its main structural factors and parts are described. The cost of unemployment was analyzed. Approaches how to deal with the cost of unemployment were studied.

Results and discussion. We are now in a position to give a more precise definition of what it means to be unemployed: the number unemployed in an economy is the number of people of working age who are able and available for work at current wage rates and who do not have a job. Normally, economists find it more convenient to speak of the unemployment rate. This expresses the number unemployed as a percentage of the labour force, which in turn can be defined as the total number of people who could possibly be employed in the economy at any given point in time. If you think about it, this must be equal to the total number of people who are employed plus the total number of people who are unemployed.

The Costs of Unemployment to the Individual can be various:

Loss of Earnings. One of the first and perhaps most obvious costs of unemployment to an individual is the loss of earnings that results from being unemployed. Many countries provide some form of unemployment insurance as we have seen but the sums given to the unemployed are relatively small and in most cases nowhere near the earnings that the individual would have earned in work. In some countries there might be other state benefits that an unemployed worker can claim which can mean that in the case of workers in low-skilled, low-paid industries the incentive to take work can be reduced as we have seen. In many other cases, however, unemployment means that individuals have to re-evaluate their household spending budgets. This might mean that households cut back on certain luxuries like spending on leisure activities, going to the cinema, going out to eat and so on, but might also cut down on luxuries such as clothing, furniture, electrical goods, having extensions built on a house and so on. We will see shortly how this has an effect on society as a whole. The unemployed

and their families are more likely to be at risk of slipping into poverty. Remember, the definition of poverty is a household income less than 60 percent below the median income. It is unlikely that welfare support from the state is ever going to be, on its own, sufficient to put families above this level so unless the unemployed have savings to draw upon it is more likely that they will fall into poverty. The Trades Union Congress (TUC) in the UK estimate that around 60 per cent of working age adults in families where there is unemployment are likely to be in poverty. In addition, some families will find that unemployment means that they face problems in paying for rent or mortgages and this can result in the loss of homes. The unemployed are more likely to have to go into debt in order to pay bills and this can add to the problems highlighted in our next section.

Stress, Self-Esteem and Health Problems. Being unemployed can lead to significant mental health problems. The process of becoming unemployed is stressful, it can be a life-changing event for some people. Having to adjust to claiming benefits, applying for other jobs, possibly getting additional training and the chances of having repeated experiences of either not having any replies to applications or in the event of unsuccessful interviews, the feeling of rejection, is not only stressful in itself but can lead to feelings of guilt and the reduction in self-esteem. These experiences can bring on stress-related illnesses and the incidences of health problems in the unemployed can increase the longer that the unemployment continues.

Drug and Alcohol Abuse and Crime Closely linked to the self-esteem problems, the boredom that can result from being unemployed and the feeling of worthlessness that many unemployed people say they experience, is the increased potential to turn to alcohol and illegal drugs as a means of escape. In 2010, a survey by the Prince's Trust Youth Index reported that over 10 per cent of young people experiencing unemployment had abused drugs and alcohol. When people move from being employed and having an income to be able to afford a reasonable standard of living, to experiencing tight restrictions on incomes and spending, the feeling of social exclusion and deprivation can be acute and cause some to turn to crime as a means of maintaining what they see as a reasonable standard of living. Indeed, the correlation between crime rates and drug abuse is very high; once people get involved with a drug or alcohol habit it becomes expensive and one way of funding this habit is to turn to crime.

Family Breakdown. Families who have an experience of unemployment are more prone to break-up. Divorce rates amongst the unemployed are higher as the stresses of coping with adjusting to new income levels, trying to find work and so on take their toll.

De-Skilling. The longer someone is out of work the more likely it is that they will lose touch with changes in the workplace and the labour market in general and the more likely it is that they might be viewed as being unemployable or not favourable candidates for employment. Changes in the workplace, in technology and in the skills needed for employment change rapidly. Those in work are able to take advantage of training – both off-the-job and on-the-job, to maintain their skill levels, but the unemployed may be excluded from being able to maintain or improve their skill levels and as a result find it even harder to find work. This can lead to the hysteresis effect as outlined above.

The Costs of Unemployment have effects not only to individuals, but also to Society and the Economy. The Opportunity Cost of Unemployment, for example, An individual who is willing and able to work represents a unit of productive output. If that person is unemployed the opportunity cost to society is the value of the goods and services that the individual could have produced. This 'lost output' can be considerable and represents a lower standard of living for society as a whole. If there is unemployment in society which is not simply frictional unemployment then society will not be operating on the PPF but instead somewhere inside it which represents an inefficient use of resources.

The Tax and Benefits Effect. People who are unemployed have lower incomes and may rely solely on government welfare payments to support their standard of living. If people lose their jobs then they do not pay as much in income taxes and if they also reduce spending they then do not pay

consumption taxes at the same level as if they were in employment. The higher the level of unemployment in a country the greater the impact on tax revenue for the government. Not only is government revenue adversely affected but government spending is also likely to be higher. The unemployed will claim additional benefits and in addition, governments may also incur additional costs in having to deal with the social problems caused by unemployment such as drug and alcohol abuse, family breakdown and the increase in crime. If government income is reduced through lower tax receipts and there is also a requirement to increase spending because of higher welfare spending, the pressure on government budgets can increase and it is more likely that the government experience a budget deficit – a situation where its spending is higher than its revenue from taxation. If governments experience a budget deficit then the deficit has to be funded by additional borrowing. If governments have to borrow more then this can not only cause crowding out but also puts upward pressure on interest rates, which in turn might affect investment decisions by firms. The knock-on effects can have ripples throughout the economy as our next point highlights.

The Reverse Multiplier Effect. We have seen that when people experience unemployment they cut back their spending on luxuries and may also switch their spending to substitute goods which may be seen as inferior goods. Firms who produce these different goods may see a change in spending patterns which can have an effect on cash flows and ultimately profits. Goods with a relatively high income elasticity of demand are likely to be affected more significantly. If sales fall firms earn lower incomes and may have to adjust their business to manage cash flows. This might involve cutting back on orders from suppliers, building up stocks as goods remain unsold and in some cases firms may have to either lay-off workers or even make workers redundant or close down the business if it becomes insolvent. If workers are made redundant or lose their jobs in this way this then means those workers receive lower incomes and so the process continues. Not all firms will be affected in such an extreme way but it is the case that in periods of high unemployment, firms may see falling profit levels and this in turn means they pay lower corporate taxes which puts further pressure on government budgets. Some firms might see demand for their services actually increase in periods of high unemployment. If the unemployed switch spending to inferior goods, the producers of those goods might see demand rise. In the aftermath of the financial crisis and beyond, low-cost supermarkets across the UK and Europe reported seeing an increase in sales whilst traditional supermarkets reported reduced sales. The effect of unemployment if more than simply frictional unemployment is to produce a multiplied impact on economic activity as a whole. If there are concentrated pockets of workers losing their jobs such as a major employer in an area, then the effect of this reverse multiplier effect can be considerable. Indeed, there are areas of the UK and Europe where the decline in industries concentrated in particular areas has led to considerable regional deprivation which has lasted for many years. Once an area is caught in the cycle of economic decline it is extremely hard to recover.

Conclusion. The analysis of this article yields an important lesson: although the economy will always have some unemployment, its natural rate is not immutable. Many events and policies can change the amount of unemployment the economy typically experiences. As the information revolution changes the process of job search, as government adjusts the minimum wage, as workers form or quit unions, and as firms alter their reliance on efficiency wages, the natural rate of unemployment evolves. Unemployment is not a simple problem with a simple solution. But how we choose to organize our society can profoundly influence how prevalent a problem it is. The costs of unemployment are significant not only to individuals but also to the economy and society which is why so many governments around the world are highly sensitive to the problem and look to develop policies to deal with unemployment. It is worth noting that when high unemployment persists, the potential for social disorder and political upheaval is greater. It might not be surprising, therefore,

123	ISSN 2277-3630 (online), Published by International journal of Social Sciences & Interdisciplinary Research., under Volume: 12 Issue: 06 in June-2023 https://www.gejournal.net/index.php/IJSSIR
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that governments are keen to ensure that the problems which can arise from unemployment are given due consideration in policy formulation.

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