

Types of Unemployment

In the model of supply and demand, a market in equilibrium should have neither shortage nor surplus. As a result, one may conclude that a real-world market with unsold items has a problem with the way prices adjust. However, when information is less than perfect, sellers are often left with unsold items and do not consider that any problem exists. In goods markets these unsold items take the form of inventory and are the way sellers protect themselves from random changes in day-to-day and week-to-week sales. With perfect information of exactly when each sale would take place, sellers would be able to substantially cut inventories.

Because information is imperfect in the labor market, economists are not surprised or dismayed that there are always unemployed workers. Many of these workers are frictionally unemployed. **Frictional** unemployment results from the day-to-day changes in a dynamic, changing economic system in which old industries die and new ones are born, in which people get tired of old jobs and old bosses, in which bosses find work of subordinates unsatisfactory, and in which new people enter and others reenter the labor force. But before we discuss this type of unemployment, let us turn to the minor reason that full employment is less than zero unemployment, the problem of **structural** unemployment.

Structural unemployment exists when a person is not qualified for any job because the amount he can contribute to any job (his marginal revenue product) is less than the minimum wage payable for that job. The minimum wage can be set legally, by union negotiations, or by the force of public opinion. Structural unemployment can exist even if the minimum wage is zero. There are some people, such as psychotics, whose presence on the job might so upset others that the amount of work done would drop. There are others, such as the severely mentally retarded, who might require more value spent in supervision than they can produce.

Many of the structurally unemployed will not show up in the unemployment statistics because after a time these people should become convinced that they cannot find a job and stop trying. The existence of this type of unemployment is considered a problem, and government programs have attempted to deal with it. For example, the Job Crop program of the 1960s and the CETA program of the 1970s were attempts to give the unskilled some skills and thus make them employable.¹ On the other hand, legislation that establishes a legal minimum wage contributes to the pool of structurally unemployed labor.

Frictional unemployment is that unemployment caused by information or **search** costs. Usually when a person quits, is fired, or enters the labor market, there are jobs available for which that person is qualified. The person will be frictionally unemployed because it takes time (and effort) to find the jobs that are available.

The division between frictionally and structurally unemployed labor can shift with time. Since the demand for labor (its marginal revenue product) depends on the general demand for goods and services, an increase in the demand for goods and services will increase the value of labor services, and some who were previously structurally unemployed become "employable." Also, it is possible that some people may have such high search costs that even if there are jobs for which they are qualified, finding them may be so expensive that these people may be more properly considered structurally rather than frictionally unemployed. Hence, the division not only shifts, but is a bit fuzzy as well.

Explaining frictional unemployment has led economists to [theories of search](#).