

النظريات الكلاسيكية والكينزية والنقدية للبطالة :  
هل هي ملائمة للدول النامية؟

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ملخص

تهدف هذه الورقة إلى دراسة مدى كفاية بعض النظريات الاقتصادية للعمالمة ،  
بالتحديد النظرية الكلاسيكية ، النظرية الكينزية ، والنظرية النقدية . للحد من مشكلة  
البطالة في الدول النامية ، للوصول إلى هذا الهدف ناقشت الورقة كل من تلك النظريات  
وحلولها المطروحة للحد من مشكلة البطالة ثم ناقشت أوضاع الدول النامية الاقتصادية  
المرتبطة بهذه المشكلة .

من خلال هذا الطرح ، توصلت الورقة إلى أن التركيبة الاقتصادية للدول النامية  
تختلف عن تلك التركيبة في الدول المتقدمة ، على سبيل المثال موارد الدخل الاقتصادية ،  
التقنية ، حجم السكان ، ومحددات الأجور تختلف خصائصها في الدول النامية عنها في  
الدول المتقدمة . لذا فالحلول المطروحة لعلاج مشكلة البطالة من قبل هذه النظريات غير  
كافية بالنسبة للدول النامية .

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measures along with demand management policies are required for solving unemployment problem in SICs.

The unemployment problem in LDCs cannot be simply identified as one of insufficient employment opportunities. Economic structures and thus development policies are different in LDCs from those in developed countries; therefore, solving unemployment problem in LDCs (SICs and others) requires remedies that are conducive to real economic constraints, i.e., supply constraints, where production under full-capacity and supplies are not highly sensitive to demand changes. Policy measures that are relevant for economic development in LDCs, and are widely recognized by most development economists, might be summarized as follows: accelerating capital formation (the essence of Harrod-Domar model) along with promoting small-scale labor intensive industries, eliminating factor-price distortions along with adapting appropriate technology, creating appropriate rural-urban economic balance, and reducing population growth.

Other type of policy measures are recommended by the IMF, and used as conditions for granting loans to those LDCs facing persistent and large balance of payment deficits. These measures, that were borrowed from the monetary approach, were to devalue currencies, reduce import and other indirect taxes, and decrease government spending at home. The objectives of such measures are to enhance competitiveness, to create jobs, to increase production growth, and thus to reduce balance of payments deficits. Though this approach by the IMF led to few instances of success, it has been attacked by the structuralists. The attack was based on the fact that LDCs are still facing structural bottlenecks (of the kind explained throughout the paper), and thus many LDCs have experienced stagflation as a result of carrying out IMF austerity policies. The role of policy in the structuralists view is, therefore, to encourage supply-side measures that will lead to relaxation of these bottlenecks.

The third reason is that labor law prohibits firing workers in many LDCs solely because of cost or profit calculations. If, for example, a reduction in price level occurs in a country as such, business firms cannot fire workers arbitrarily only because they expect a decline in their profitability. Therefore, no trade-off exists between price level and unemployment rate.

Also, obstacles facing LDCs central banks diminish the possibility of implementing effective monetarists remedies. These obstacles are: (1) large parts of LDCs economies are outside of the purview of the central bank, and (2) open market operation are not very important due to government debt, held by central and commercial banks at artificially low interest rates, and are not traded in the bond market (Jha, 1994).

Lastly, we should note that the natural rate of unemployment in LDCs differ from that in DCs because women and teenagers in developing countries do not engage in production activities as much as they do in developed countries. These idle labor resources are largely uncounted for among the labor force in the LDCs. This may indicate that the size of natural rate of unemployment in LDCs is different and likely to be overestimated.

## **VI. Summary and Conclusion**

The objective of this study was to investigate whether the Classical, Keynesian, and Monetarist theories of unemployment are adequate for solving the unemployment problem in the less developed countries. After discussing these theories and examining the realities of the less developed countries, this study found that policies suggested by these theories are not adequate for solving the unemployment problem in LDCs. Also, this study found that despite the fact that an implementation of Keynesian policies showed success in reducing unemployment in few semi-industrialized countries, large subsistence primary sectors in these countries put limitations on the relevance of Keynesian remedies for solving their unemployment problem. Thus, Keynesian theory of unemployment is inadequate, and supply-side

prices increase faster than production costs, firms will speed up production and hire more workers. Thus unanticipated inflation would cause a reduction in unemployment rate.

According to Friedman this trade-off between inflation and unemployment is a transitory one (i.e., it is a short-run phenomenon). This trade-off passes only because people anticipate the previous rate of inflation to continue. But in the long-run, economic agents adjust to the higher inflation rate. Suppliers will demand higher prices, workers will demand new wage contracts, and hence firms will find out that they are no better off at the higher rate of inflation. So firms will adjust their production rate and employment level back to the original level. That means the economy returns to the original constant (natural) rate of unemployment, i.e., shifting Philip's curve upward, causing higher inflation rate at a constant rate of unemployment.

### **Inadequacy of the Monetary Theory of Unemployment to LDCs**

The monetarist theory of unemployment has been constructed based on data extrapolated from industrial nations; specifically, from the U.S.A. The LDCs are far from being industrialized; that is, production techniques, transportation and communication systems, and information network are somewhat primitive. Therefore, in opposition to Friedman, we contend that there is no trade-off between price level and unemployment rate in LDCs and thus monetarists remedies are not effective for solving the unemployment problem in LDCs. The reasons supporting this argument are as follows: the first reason is that LDCs have not yet reached optimum capacity of production. Thus discretionary economic policies may not lead to acceleration of inflation rate, though it may cause a reduction in unemployment rate.

The second reason is that, unlike industrial countries, there is no competitive market mechanism in LDCs; in essence, interactions of economic agents are not formulated in ways that are conducive to effective monetary policies, i.e., wages are inflexible downwards and prices are not perceived correctly by workers because of imperfect information.

industrial sectors that function with the objective of making profit and hired labor and make investment based on market prospect and profitability criterion and given that savers in SICs save to hold financial and other assets, these countries have moved steps forwards to being industrialized and thus their economies began to respond to unemployment remedies prescribed by Keynesian theory of unemployment (see Table 2 in Section II).

But, large subsistence primary sectors in the SICs raise limitations on the relevance of Keynesian remedies for solving unemployment in these countries. The existence of supply constraints in SICs limits employment expansion and production growth aimed to be attained by policies affecting aggregate demand; and therefore, supply-side policy measures along with demand management policies are required to tackle the unemployment problem in SICs.

## **V. Monetary Theory of Unemployment**

The monetary theory assumes that firms and workers base their economic decisions on real wages, i.e., money wage adjusted for cost of inflation. The natural rate of unemployment exists when firms and workers correctly perceive prices and thus real wages. Workers are not willing to work longer hours in response to an increase in their money wage if they see that there has been no increase in their real wage. Firms are not willing to produce more output if their selling prices increase by the same rate as the cost of production.

However, Milton Friedman proposed that there will be a stable trade-off between inflation and unemployment rate only when inflationary expectations are constant, i.e., when people anticipate the current rate of inflation to continue. Friedman explained his theory by starting with an economy of unemployment, say 4%. If there is an unexpected increase in aggregate demand caused by an increase in, say, monetary growth, then the rate of inflation unexpectedly accelerates. Workers are caught unaware and find out that their wage contracts (which they had under anticipated inflation) do not protect them from the high cost of living. (Firms with fixed price delivery contracts for their products find themselves in an enviable position.) As selling



the case, development will quickly be arrested as hard currencies become limited.<sup>4</sup>

The final reason is that domestic saving in LDCs is much less responsive to current economic changes than that in DCs. Since there is a wide gap in the short-run between saving and investment, the economies of LDCs are characterized by economic instability. Lett and Kazua (1980, p. 178) stated that "saving is crucial for obtaining aggregate demand pressures and facilitating macroeconomic equilibrium without stabilizing constraints on growth... Consequently, saving determines how far investment and income can rise before leading to intolerable rates of inflation and external imbalance and hence to contractionary pressure." Accordingly, saving insensitivity to changes in economic variables causes an obstacle for reducing unemployment, and thereby rising output, by increasing investment in LDCs.

Thus, complex causes of unemployment and unique economic features in LDCs prompt Keynesian-type policies for solving unemployment and hence expanding output inadequate and deficient. The LDCs, therefore, require policy approaches that go far beyond simple Keynesian prescriptions to post aggregate demand.

However, Keynesian remedy for solving unemployment might not totally be discarded for a certain group of LDCs, semi-industrialized countries, SICs. Dutt (1997) showed that changes in the structure of many LDCs (such as SICs) in the 1970s and 1980s and failure of earlier development theories to deal with the problem of LDCs, which seem to have demand side problem, prompted few development economists to begin accepting the relevance of Keynesian demand issue for LDCs. Given that SICs economies have developed

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<sup>4</sup> The supposed answer here is to quickly create import-substituting industries in such a way that they and their workers provide saving for one another's investments and market for one another's output as well as a market for additional production in agriculture (Jacobs, 1985). But this argument is not applicable for LDCs, i.e., if their economy had the capital, skills, and entrepreneurial drives to do this, then they would not have been underdeveloped in the first place.

inflation due to wage good constraints, rather than demand constrained production growth for LDCs. A study conducted by Hoffmaister and Roldos (1996) confirms that supply shocks are the main source of GDP fluctuations for LDCs countries understudy, Korea and Brazil, in both the short and the long-run; however, aggregate demand shocks are shown to be important in the short-run in Brazil, but not in Korea. Hence any expansionary fiscal or monetary policies would cause price level to increase in many LDCs.

In addition, it is obvious that some less developed countries have had both high inflation and high unemployment (stagflation), and suffer from not only involuntary unemployment, but also from underemployment and underutilization of visibly active labor (see section II). These circumstances and features in developing countries support the argument that Keynes's remedy to solve unemployment is inadequate and deficient for LDCs.

The second reason related to the inadequacy of Keynesian theory is that increased price level associated with an aggregate demand increase leads to a reduction in the purchasing power of cash balances of population in the LDCs. Given the fact that these countries have high percentage of poor population, the erosion of cash balances will lead to deterioration of the economic well-being of the already poor population and hence reduce their productivity (Myrdal, 1957). If people were fooled by a policy such as increasing government spending, their purchasing power would decline, i.e., they might not be able to buy their survival needs of foods, clothes, etc.

The third reason is that the developing countries are in the process of structural change and transformation. One feature of structural change is migration from rural to urban areas. (This type of migration usually occurs because of the attractiveness of urban wages.) If Keynesian remedy for solving unemployment is applied for a developing country, bottlenecks might occur, i.e., rural-urban migration might be large and thus it will exacerbate the unemployment problem in the urban areas.

The fourth reason is that if increased demand, at the margin, is not largely for output of existing under-capacity industries, imports will increase and a balance of payment deficit will be magnified. If this is

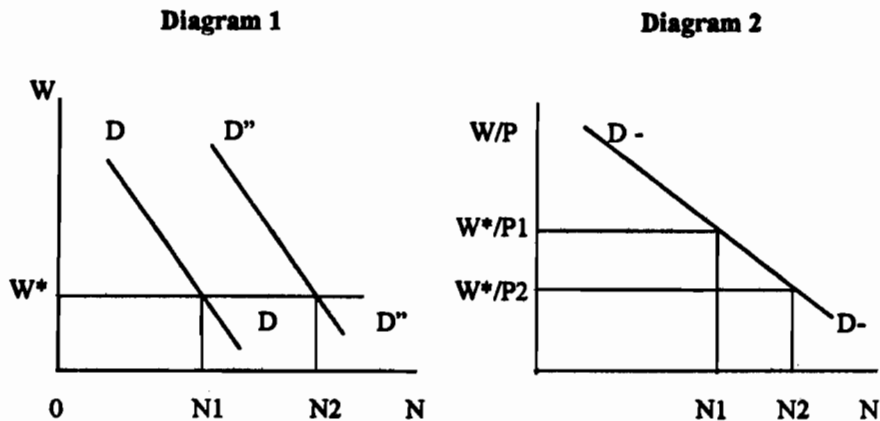
Keynes's remedy to eliminate such an involuntary unemployment is for a government to use expansionary fiscal or monetary policies. The application of one of these policies would increase firms' demand for labor without affecting price level (given that there are idle resources); and thus eliminating, or at least reduce the size of, the involuntary unemployment.

#### **Inadequacy of the Keynesian Theory of Unemployment to LDCs**

The Keynesian model is inadequate in solving the problem of unemployment in the LDCs because of some technical reasons: the first reason is that economic structures of developing countries are not as flexible as economic structures of developed countries, i.e., production cannot increase immediately to meet the demand conditions. Raw (1952) argued that there is little or no real multiplier effect from an investment in a poor country because of the inelasticity of supply of the principle consumer commodity food. (Also, this is because industries largely depend upon imported materials.) Thus, if unemployment exists, then any expansionary fiscal or monetary policy will lead to an increase in aggregate demand as Keynes suggested. Since supply of production cannot increase immediately, the rise in aggregate demand will lead to price level increase, i.e., inflation, and will create bottlenecks in such an economy. This argument can be supported by looking at some developing countries when inflation was at very high levels such as in Brazil. This inflation impulse was generated by demand-rearrangement policies used by governments of many LDCs to speed up their economic development. It is, therefore, useless to apply the Keynesian remedy to the underemployment and unemployment situations that are existed in poor countries, as any multiplier effects will be largely felt in higher prices, as opposed to a secondary increase in employment and production.

Dutt (1997) argued that supply constraints due to shortages of wage goods, capital goods, working capital, skills labor, and foreign exchange and government controls, rather than demand constraints, limited production and growth in LDCs. Also, he indicated that Kalecki (1976) stressed supply, such as capacity constraints and

**Fig.2: Labor Market and Involuntary Unemployment**



Here  $w^*$  = Existing equilibrium money wage,  $DD$  = Firms' demand for labor at alternative money wages,  $D''D''$  = Firms' demand for labor in terms of real wage ( $W/P$ ),  $N$  = Level of employment.

In diagram 2, an increase in price level from  $P_1$  to  $P_2$  induces a fall in real wage from  $W^*/P_1$  to  $W^*/P_2$  and thus firms' demand for labor increases from  $N_1$  to  $N_2$ . This change in firms' labor demand ( $N_1$  to  $N_2$ ) can also be reflected in diagram 1 as firms' demand for labor shifts from  $DD$  to  $D''D''$  where the existing equilibrium money wage is rigid downwards at  $W^*$ . If  $N_1$  is the equilibrium level of employment at  $W^*$ , an involuntary unemployment of the size of  $N_1-N_2$  will arise as a result of the price level increase from  $P_1$  to  $P_2$ . That is, money illusion on the part of workers and downwards stickiness of money wage has caused this size of involuntary unemployment ( $N_1-N_2$ ) to occur.<sup>3</sup>

<sup>3</sup> One should note that a similar result is reached when price level declines, given that the equilibrium level of employment is now  $N_2$  and money wage is  $W^*$ . In diagram 1 as price level declines, firms' demand for labor curve shifts from  $D''D''$  to  $DD$ . Given that labor supply is horizontal up to the equilibrium level of employment, there will exist an involuntary unemployment of the size  $N_1-N_2$ .

have been there for a long time. Also, increasing the advances of production techniques may not cause output to rise sufficiently to the point to absorb the unemployed workers since technologies and skilled workers who are brought from abroad are costly and usually inappropriate to LDCs' resource endowment and relative factors and products prices (Haymi and Ruttan, 1985).

Therefore, the classical argument regarding the possibility of increasing output through the supply side cannot work for the LDCs, simply because of the existence of underemployment, disguised, and involuntary unemployment and the inappropriateness of imported technologies. However, there are some insight from the classical theory of unemployment in terms of policy implication. That is, it may work only if policies priorities are directed towards improving labor quality and obtaining technologies that are in correspondence with each of the LDCs resource endowments and relative factors and products prices.

#### **IV. Keynesian Theory of Unemployment**

Keynes thinks that wages are set in nominal terms and workers do not react immediately to price level change, i.e., workers have money illusion. For example, if workers are working for \$50 a day (8 hours) when price level is 1, then if price level is doubled, the purchasing power of the \$50 is reduced to  $50/2 = \$25$ . Keynes thinks that workers won't withdraw immediately from the labor market when the price level increases (e.g., by 100%). The other contribution by Keynes is his emphasis on the fact that workers are reluctant to allow their nominal wage to decline, i.e., wages are sticky or inflexible downward because of reasons related to institutional arrangements. As a consequence (of both workers negative reaction to price level increase and wage downwards rigidity), Keynes believes that involuntary unemployment will occur.

The following diagrams show how price level increase and /or wage downwards stickiness cause the existence of involuntary unemployment (i.e., workers won't withdraw from the labor force).

employment and rising unemployment in much of Latin America and Africa.

The second reason is that employers who operate public or private firms may not want to decrease wages even if they can do so, because these employers had invested in their workers through job training. So wage cuts may result in their losing highly skilled workers. In addition, employers think, and correctly so, that lower wage may result in a decrease in productivity. Cutting wage means disincentives for workers and a decline in productivity.<sup>1</sup>

The third reason is that wage cuts can have political consequences. It may lead to turmoil in the less developed countries.

The fourth reason is that the majority of LDCs population is poor and any wage decline may cause productivity to go down by a larger proportion than price decline. In addition, any decline in wage will decrease the real value of cash balance and consequently spending and GDP; which all governments of third world countries avoid because it delays the process of economic development in their countries.

From a wider point of view, classical analysis is primarily real analysis; the growth of an economy is a result of increased stocks of factors of production and/or advances in techniques of production. Less developed countries have suffered from underemployment, disguised, and involuntary unemployment for a long time.<sup>2</sup> The reason for that is partly due to non economic factors such as lack of management skills, inefficient marketing, poor education in terms of quantity and quality, etc. Therefore, increasing the real factor (e.g., labor) in terms of quantity in order to increase output has no meaning since underemployment, disguised, and involuntary unemployment

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<sup>1</sup> This reason can be described as a union escalator wage in which wages are allowed to increase but not to decrease.

<sup>2</sup> There are people who want to work on the ongoing wages but they cannot, i.e., there has been an involuntary unemployment for long time in the LDCs. Also, there are underemployment and underutilized workers in many LDCs. When they are added to the openly unemployed, only about a third of the LDCs labor force is utilized. (see section II)

a given wage (say  $W/p'$ ), that is higher than the equilibrium wage ( $w/p$ ), a decline in the wage rate must occur to absorb unemployed workers. This prediction is reasoned by the classical argument that idle workers will bid down wage rate until cost of employment is such that employers will hire more workers to the point where the equilibrium state is reached. Therefore, the classical model suggests that involuntary unemployment is not the norm for an economic system because competition in the labor market rules out unemployment. This theory, however, does not exclude the possibility of voluntary unemployment.

To summarize, in its simplest form, the classical theory of unemployment suggests that wage flexibility is the sole mechanism necessary to solve the unemployment problem, i.e., decreasing the wage rate will eliminate unemployment under a competitive economic system. Moreover, should any unemployment exist, it is a voluntary unemployment.

### **Inadequacy of the Classical Model of Unemployment to LDCs**

The classical model offers little insight into the realities of the unemployment problem in the third world. Wage rate are normally (rules) not flexible downward as classical economists claims. There are some reasons for downward wage inflexibility (stickiness). The first reason is that wages are determined by a government (law), and workers are working under contracted wages. Thus firms cannot cut wages downward to increase employment because it is a violation of law and contracts. Also, LDCs governments do not violate their law by cutting their employees wages, (governments are major employers in many LDCs). Even if LDCs governments do so by applying policies to reduce wages (for their employees or for the economy as a whole), an economic deterioration might occur (the automatic adjustment mechanism of the market would not work to increase employment level). A debt-induced government wage repression policies, led in many instances to severe declines in real wages, resulted in the economic decline of the 1980s in Latin America and Africa (Todaro, 1997). Thus, declining real wages was associated with falling

Consequently, the demand for labor,  $D_l$ , assuming all other resources are fixed, is given by:

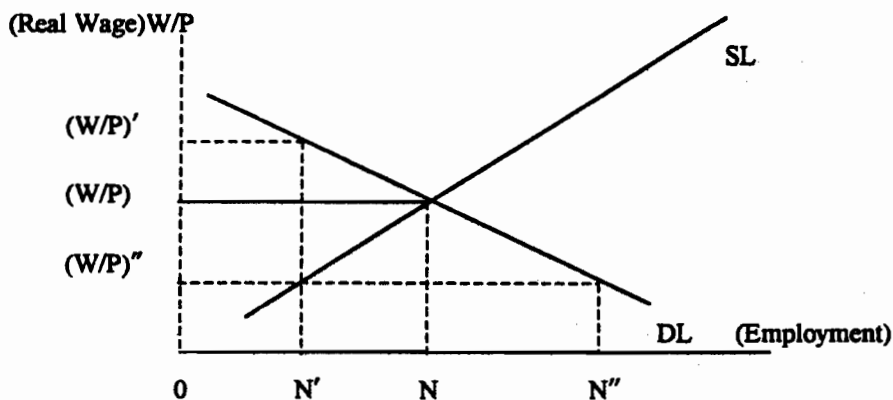
$$D_l = f(W/p), \quad f' < 0$$

reflecting diminishing marginal return of labor as the units of labor employed increase. With respect to the supply side of the labor market, the classical model assumes that supply of labor ( $S_l$ ) is a function of real wage ( $W/P$ ). Algebraically,

$$S_l = g(W/P), \quad g' > 0$$

The equilibrium condition in the labor market is where  $D_l = S_l$  as graphically shown below:

**Fig.1: The Classical Labor Market**



The equilibrium condition is stable because at a higher real wage  $(W/p)'$ , employment declines to  $ON'$  because firms will demand fewer units of labor at the ongoing real wage. In other words, unemployments will be  $N'N$ . Unemployment will cause  $(w/p)'$  to decrease to the original equilibrium condition. By the same token, if real wage declines to  $(w/p)''$  the demand for labor will increase to  $ON''$ . Excess demand of employment will then derive the real wage upward to the original level  $(W/p)$ . Hence, the full employment is stable and attains a long-run equilibrium state.

The classical model suggests that general declines in demand for goods and services would be mirrored in declines in the demand for labor and other factors of production. If unemployment is prevailed at



Meier (1984) and Todaro (1997) argued that the employment problems in the LDCs have unique features and thus they are subject to unconventional economic analysis. The reasons for that are:

- 1- Unemployment and underemployment affect larger proportions of LDCs labor force than unemployment did for DCs. LDCs labor markets are characterized by 'unexpected' positive relationship between education levels and unemployment rates, and by higher sex discriminations in terms of wages received and jobs offered and by significantly higher number of self-employment and youth labor (employed largely in traditional or 'informal' sector of the economy) than the cases in the DCs.
- 2- Employment problems in LDCs have much more complex causes than those in DCs. "They therefore require policy approaches that go beyond simple Keynesian-type policies to expand aggregate demand." (Todaro, 1997. p. 236)
- 3- Employment problems in LDCs are associated with abject poverty and low levels of living that have rarely been experienced in DCs.

### **III. The Classical Model of Unemployment**

The classical model of an economy can be segmented into different symbols such as labor, goods, and money markets. To study unemployment, only the labor market shall be analysed.

The classical labor market is based on the marginal productivity theory of resource pricing. This theory assumes that firms are maximizing profit and thus hiring workers in a perfectly competitive labor market with each worker being paid the value of its marginal product, i. e., mathematically,

$$W = MP_L \cdot P_L,$$

thus,

$$W/P_L = MP_L$$

where:  $W$ ,  $P_L$ , and  $MP_L$  represent the wage rate, the price level, and the marginal product of labor respectively.

**Table 2**  
**Open Unemployment Rates in Selected Countries in 1990s**

<b>Country</b>	<b>Unemployment Rates</b>
<b>Africa</b>	
Kenya	24
Nigeria	28
<b>Asia</b>	
Malaysia	3
Philippines	9
South Korea	3
<b>Latin America</b>	
Argentina	10
Brazil	5
Ecuador	8
Venezuela	9

Source: Michael P. Todaro. Economic Development, Massachusetts: Addison - Wesley Reading, 6th. ed., 1997, p.238.

*The figures shown above indicate that unemployment rates, for the regions and countries alike, vary, and this variation was in accordance with the regions' and countries' social and economic characteristics and endowments.*

Relatively low unemployment rates in the 1960s were linked to failure of domestic job creation to keep pace with rapid industrial output growth, while the explanation of high unemployment rates in the 1980s and 1990s goes beyond that. They were traced to external demand factors such as a worsening balance of payments, rising debt problems, and IMF induced austerity programs. These constraints caused a rapid decline of industrial growth, a decline in real wage, and a reduction in urban and rural employment. (Todaro, 1997).

**Table 1**  
**Unemployment Rates for the Developing Regions of the World**

<b>Type of Unemployment</b>	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>
<b>All Developing Countries</b>				
Unemployment (%)	6.7	7.4	7.8	8.2
Unempl & Underempl. (%)	25	27	n.a.	n.a.
<b>All African Countries</b>				
Unemployment (%)	7.7	9.7	9.8	9.9
Unempl & Underempl. (%)	31	39	n.a.	n.a.
<b>All Asian Countries</b>				
Unemployment (%)	6.8	7.1	7.7	8.3
Unempl & Underempl. (%)	24	26	n.a.	n.a.
<b>All Latin America</b>				
Unemployment (%)	4.7	5.1	5.8	5.8
Unempl & Underempl. (%)	18	20	n.a.	n.a.

Source: Michael P. Todaro. Economic Development, Massachusetts: Addison-Wesley Reading, 6th. ed., 1997, p.238.

unemployed, underemployed, and underutilized persons. Voluntary unemployment includes people who do not work and not actively seeking jobs or waiting for one and have some means of support other than employment. Involuntary unemployment accounts for natural rate of unemployment (i.e., frictional and structural types of unemployment) and deficient-demand unemployment (i.e., those who simply cannot find jobs but actively looking for them). Natural rate of unemployment occur because of short and long-run mismatch between job requirements and employees accumulate skills and because of constantly changing geographical distribution of jobs, while deficient-demand unemployment is caused by the recession phase of the business cycle, that is by a deficiency of aggregate spending (McConnell, and Brue, 1995).

Unemployment problem in LDCs cannot be simply interpreted as a Keynesian type of open involuntary unemployment. Underemployment and disguised unemployment (a major part of underutilized labor) constitute major dimension of LDCs unemployment problem. Thus, unemployment measures for LDCs should account for those who are underemployed, those who are underutilized (disgustedly underemployed, hidden unemployment, and the permanently retired), and those who are discouraged from finding jobs or lack skills qualifications. A gross measure of unemployment for LDCs might be called the "unemployment equivalent" (Meier, 1984, and Todaro, 1997), that contains open involuntary unemployment, underemployment, and the underutilized employment.

Todaro (1997) states that "current rates of open unemployment in the Third World average 10% to 15% of the labor force... [But] when underemployment are added to the openly unemployed and when 'discouraged workers'...are added in, almost 35% of the combined urban and rural labor forces in Third World nations is utilized." (p. 50-51) Tables 1 and 2 below show unemployment rates for the developing regions of the world over the period of 1960-1990 and the open unemployment rates for selected countries in the 1990s, respectively.

because they do not correspond with a less developed country's resource endowment). Population of many less developed countries is large and vastly growing in ways (e.g., urban vs. rural population growth) that are not conducive to targeted economic growth rates. Wages in many less developed countries are determined not by economic forces, but rather by law. Such characteristics prompt low productivity and high unemployment rates in LDCs.

Economists in developed countries have been concerned with the unemployment problem in their countries since the Great Depression. Economists have constructed different theories to explain and thereby draw policies for tackling this problem. Classical, Keynesian, and Monetarist theories of unemployment were very important efforts in this respect. These theories succeeded, to a certain extent, in providing policies for solving the problem of unemployment in developed countries. Our objective in this study is not to examine the success of these theories for developed countries, but rather to investigate whether or not these theories are adequate for solving the unemployment problem in less developed countries.

To achieve this objective, the study is divided into six sections: the second section deals with the unemployment problem in LDCs: its definition, magnitude, and features. The third section deals with the classical theory of unemployment and its inadequacy to LDCs. The fourth and fifth sections are for the Keynesian and monetarist theories of unemployment and their inadequacies to LDCs, respectively. The sixth section is a summary and conclusion to sum up the discussion.

## **II. Unemployment Problem in the LDCs**

Generally defined, unemployed persons are considered officially unemployed if they were 16 years of age or older, and were not institutionalized and did not work, but were available for work and actively seeking job or waiting to be called back from their previous employer (McConnell and Brue, 1995). According to this definition, officially published unemployment rates account only for involuntary unemployed persons, and sometimes for underemployment, while unemployed people are those who are voluntarily and involuntarily

## **Classical, Keynesian And Monetarist Theories Of Unemployment: Are They Adequate To LDCs?**

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### **Abstract**

The purpose of this study is to investigate whether or not the Classical, Keynesian, and Monetarist theories of unemployment are adequate for solving the unemployment problem in less developed countries (LDCs). To achieve this objective, the theories were discussed and the realities of the less developed countries were examined. The study found that the less developed countries are characterized by economic structures different from those in developed countries, i.e., income resources, technologies, size of population, and wage setting are differently characterized in LDCs. Such Characteristics demand remedies for solving the unemployment problem in the LDCs other than those designed by the theories. Thus these theories are inadequate for solving the unemployment problem in the LDCs.

### **I. Introduction**

Unemployment is a very serious problem in both developed countries (DCs) and less developed countries (LDCs). The economic structure in less developed countries is different from that in developed countries, e.g., income resources, technology, size of population, and wage setting are differently characterized in less developed countries. Income in less developed countries, for example, is mainly generated from natural resources or/and agricultural products revenues, that cannot generate high growing income. Technologies used in less developed countries are either primitive or inappropriate (mainly