

## 2.1.3 Employment and unemployment

- a) *Measures of unemployment:*
  - *the claimant count*
  - *the International Labour Organisation (ILO) and the UK Labour Force Survey*
- b) *The distinction between unemployment and under-employment*
- c) *The significance of changes in the rates of:*
  - *employment*
  - *unemployment*
  - *inactivity*
- d) *The causes of unemployment:*
  - *structural unemployment*
  - *frictional unemployment*
  - *seasonal unemployment*
  - *demand deficiency and cyclical unemployment*
  - *real wage inflexibility*
- e) *The significance of migration and skills for employment and unemployment*
- f) *The effects of unemployment on consumers, firms, workers, the government and society*

- **Employment:** Number of people in work divided by the total number who are economically active
- Economically active people are people who are at work or who are willing to work which is also called the workforce and includes unemployed people
- Full employment: virtually all who are able and willing to work are employed
- Full employment doesn't mean everybody has a job as in most economies there will always be people between jobs
- Economically inactive people are people who are not available to work, such as students or people caring for other people as unpaid activity and those who are unable to work
- Unemployment: The rate is the number of people looking for work but unable to find it or the level is the percentage of people out of work divided by the total number of people economically active
- Long-term unemployed: people unemployed for at least a year
- Types (or causes) of unemployment:
  1. Cyclical or demand-deficient- lack of spending (recession) which means firms are likely to reduce employment to cut costs
  2. Structural- a mismatch of skills and job opportunities as the pattern of labour demand changes- linked to labour immobility
  3. Frictional- people are between jobs
  4. Seasonal- people can only work for some months of the year
  5. Real wage inflexibility- there are problems with the supply side of labour e.g. a high minimum wage
- Benefits of unemployment:
  1. There is a limit to how much it can fall before affecting other macroeconomic aims
  2. Reduced risk of inflation- lower wage claims and price discounts
  3. Pool of unemployed labour available for growing businesses
  4. Rise in self-employment start-ups as alternative to unemployment

- Costs of unemployment:
  1. Costs to the person without income
  2. Non-income costs to the unemployed person. Skills become obsolete, and people lose confidence
  3. Costs to firms- people spend less
  4. Costs to governments on jobseeker's allowance (JSA) and less income tax
  5. Resources are wasted (inefficient)
  6. Link with social problems (e.g. drug use)
  7. Health effects e.g. stress or a decline in fitness
- Jobseeker's allowance: A payment made to people who are willing and able to work but are not currently in employment. When an economy grows, JSA is likely to fall as there are more jobs
- Claimant court: It records people who are successfully claiming jobseeker's allowance
- Advantages of using the claimant court to measure unemployment:
  1. The data is easy to obtain and there's no cost
  2. It's updated monthly so is always current
- Disadvantages of using the claimant court to measure unemployment:
  1. It can be manipulated by the government to seem smaller by changing the rules
  2. It excludes people looking for a job but not eligible to claim JSA
  3. Criteria for JSA changes making comparisons hard
- Advantages of using the Labour Force Survey to measure unemployment:
  1. It is more accurate than the claimant court
  2. It's an internationally agreed measure so easier to make comparisons
- Disadvantages of using the Labour Force Survey to measure unemployment?
  1. It's less up to date than the claimant court
  2. It's expensive to collect and put together the data
  3. The sample may be unrepresentative of the population as a whole-making it inaccurate
- Strengths of employment data:
  1. Timely figures in each month
  2. Large sample size
  3. Local and regional data helps policy
- Limitations of employment data:
  1. Much hidden unemployment
  2. Sample errors inevitable
  3. High levels of under-employment not included
  4. High rate of labour migration affects accuracy
- ILO measure (International Labour Organisation): It is conducted by the UK Labour Force Survey which uses a questionnaire to ask 60,000 people aged 16-65 whether they have been out of work over the last four weeks and are ready to start within two weeks
- Under-employed people: They have jobs but aren't offered enough hours. They are not taken into account in unemployment figures. The estimate by ONS is 10%. Includes people overqualified, on zero hour contracts and people wishing to work for longer

- Human capital: The education and skills that a workforce possesses. Investment in people has a value.
- Benefits of increased employment:
  1. Increased incomes- with rises in standards of living for households
  2. Improved skills- human capital
  3. Multiplier effect- increased incomes lead to increased spending and increased profit for firms
  4. Higher government taxation
- Benefits of decreased unemployment and inactivity:
  1. Falling government spending on JSA
  2. Exponential benefits as people out of work become increasingly unemployable
  3. Job market is more flexible as there are more workers to choose from
  4. Decreased dependency ratio- people being supported by employed
- Migration occurs when people:
  - are searching for work or better-paid work
  - study abroad
  - escape from social or political problems in their own country
  - accompany family members
  - disagree with tax structures
  - wish to 'get away from' or 'get to' people or places
- Economic effect of migration:
  1. Immigrants fill vacancies which leads to increased employment and more government tax revenues
  2. Immigrants could struggle to find work or displace other people from work so unemployment might increase
- Causes of youth unemployment:
  - Skills gap
  - Reluctant employers- want experience
  - Falling retirement rates
  - Weak macro-fundamentals
- Solutions to youth unemployment:
  - Better education and training
  - Policies to reduce recessions
  - Lower minimum wage for younger workers