

## **Measuring Employment and Unemployment**

The **level of unemployment** means the number of people who are unemployed, whereas the **rate of unemployment** refers to the percentage of the labour force who are out of work. It is calculated as the % of people unemployed divided by the total labour force, multiplied by 100. "**Unemployed**" means people who are jobless, available to work and actively seeking employment.

**Full employment** is a state of the labour market in which everyone who is willing and able to work at the current wage rate is in employment, excluding those who are frictionally unemployed.

If someone is **underemployed**, this means that they are in a part-time job when they would like to work more hours, or else they are in a job which requires a lower skill level than they have, for example a graduate working in a shop.

The **labour force** includes those who are employed, as well as those unemployed and seeking work. These are also known as the active population. This includes most of the population of working age, but it doesn't include those of working age who don't work and are not seeking work for example students and the disabled. These are known as **economically inactive**.

The **activity rate or participation rate** is calculated as those in work or unemployed/the population of working age

## **The Claimant Count**

One of the ways that unemployment is measured is through the claimant count. This measures the number of people who receive unemployment benefits, for example the Jobseeker's Allowance. Claimants must declare that they are "out of work, capable of, available for and actively seeking work in the week in which their claim is made".

The following points can be made about using the Claimant Count:

- This is a monthly count of those claiming unemployment-related benefits. As it is counted monthly, it is up to date
- It is a relatively cheap method, as the data is automatically produced when the government keeps administrative records of people claiming benefits. It

is quick to compile, and this means that the data is available earlier than the LFS data, meaning the government has more time to plan what to do if the employment rate has risen

- The results may be inaccurate. This is because some fraudsters may be working but claiming benefits, and therefore they aren't actively seeking work. There are also people who are seeking work but who are not entitled to benefits (e.g. people with a working partner or with high levels of savings), or who choose not to claim benefits. These people are thought to outnumber the fraudsters, meaning that the data may understate the number of unemployed people
- This method can't be used for international comparisons, because different countries use different benefit systems. For example, a country with a stricter benefit system would look like they had a lower number of people unemployed
- Even comparisons within the same country over time can be difficult. For example, governments can change the rules for entitlement to benefits, and this will make the numbers change. For example, if more people are allowed to claim Incapacity Benefit, this make the unemployment figures look lower.

### **The Labour Force Survey**

Another way of measuring unemployment is based on the Labour Force Survey. This uses the International Labour Organisation definition of unemployment, which includes all people of working age who are "out of work, want a job, have actively sought work in the last 4 weeks and are available to start work in the next 2 weeks"

This method is based on a survey carried by the Office of National Statistics (ONS), and 60,000 people are asked whether they have a job or are looking for one. The LFS also collects information on type of employment, earnings and educational qualifications. The following points can be made:

- The ONS publishes the results in the middle of the month. This is an average for the latest 3 month period. Because the LFS only takes place 4 times a year, this means that the results are not as up to date as the claimant count results
- This method could be more accurate because it captures more of the people who are unemployed, as it includes people who are not eligible to claim benefits e.g. because they have a working partner. These people are still unemployed if they are seeking work, but would not be included in the claimant count

- The LFS measure is used in many countries, including the Statistical Office of the European Union. This means that it is suitable for international comparisons, so the UK government can see how the UK compares with other countries
- It is more expensive to collect than the claimant count, as researchers have to be paid
- There may be sampling errors which may make this method inaccurate. For example, there is no guarantee that the 60,000 people chosen for the survey will be fully representative of the whole of the UK.

## **Consequences of Unemployment**

The consequences of unemployment will depend on its rate and duration. A higher rate is more serious than a lower rate, and a longer duration is more serious than a shorter duration.

### **Consequences for the unemployed**

- They will suffer from lack of income, as the amount received in benefits will usually be lower than they would have had if they had worked. This leads to lower living standards
- Some unemployed people may suffer from more physical illness
- The loss of status and income as well as the stress may lead to mental illness and relationship break-down. Physical illness may also result.
- The longer someone is unemployed, the more they will miss out on training and changes in technology. The longer someone is unemployed, the harder it will be for them to get a new job.

### **Consequences for firms**

- If unemployment is high, demand will be low for normal goods. Demand for inferior goods may rise
- High unemployment may affect worker morale and mean that workers are less productive
- It may be easier to recruit staff
- If there is high unemployment, then there may be highly skilled workers available for hire

- Workers may be fearful of losing their jobs, so they may reduce their wage claims. This will reduce the costs of production (diagram showing SRAS shifting to the right). This makes UK goods more competitive against foreign goods, which could raise our AD.

### **Consequences for the economy**

- There is an opportunity cost of unemployment, as output and living standards are lower than they could be. This can lead to poverty. Poverty, especially child poverty, can hold back the productive potential of the economy, reducing the potential for long run economic growth. This is because people with poor nutrition will be less likely to do well at school and therefore less likely to be a productive worker
- Increased government expenditure on unemployment benefits, health and possibly the police force. This is because unemployed people are more likely to be living in poverty. This means that they are less likely to be healthy, for example if they can't afford nutritious food. This means that they will suffer from more illnesses which the NHS will have to treat. More spending on the police may be needed, as unemployed people living in poverty may be more likely to be involved in crime.
- Reduced tax revenues. Income tax receipts will be reduced because fewer people are working and incomes are lower. Corporation tax receipts will be lower because businesses are making lower profits due to a reduction in AD. VAT receipts will be lower because, where there is high unemployment, consumers will spend less. Therefore, the government will receive lower tax revenues. This can cause a problem, as there could be a budget deficit because the government is spending more and receiving less
- The distribution of income may become more uneven
- If the rise in unemployment is not evenly spread, regional differences may be increased.
- Business confidence will be low, as businesses feel that aggregate demand will be low due to consumers being worried about their job security. This means that businesses will invest less, and this means that not only will AD be kept low, but also that the future productive potential of the economy is held back

Unemployment may reduce inflation by reducing wage claims and limiting increases in aggregate demand. This could help to make UK goods more price competitive compared to foreign goods. This could raise AD in the UK, which would raise Real GDP and could actually help to solve the problem of unemployment.

### **What Causes Unemployment?**

Unemployment can be caused by problems on the demand side and the supply side.

**Cyclical Unemployment** (demand deficient unemployment) arises from a lack of aggregate demand. This means that demand for most products will be low and unemployment will be high because a lower level of output is produced.

Unemployment can also arise due to the supply of labour. Although there may be job vacancies, employers may find that the people who apply are not suitable, e.g. because they do not have the appropriate skills. It may also be the case that there are job vacancies in one part of the country, but the unemployed may live in another part. These problems of occupational immobility and geographical immobility are characteristics of **structural unemployment**. This is caused by the decline of certain industries and occupations due to changes in demand and supply. An example is the mining industry.

Structural unemployment concentrated in a particular area is called regional unemployment. Another form of structural unemployment is technological unemployment. This is when workers lose their jobs because of advances in technology.

Another form of unemployment is called **frictional unemployment**. This is short term unemployment when workers are between jobs. It is less serious than structural or cyclical unemployment because it is for a shorter duration. Some level of frictional unemployment is always likely to exist in an economy. An example of frictional

unemployment is when people are seasonally unemployed, for example people who pick fruit at certain times of the year.

**Real wage unemployment** is when real wage rates are above the level needed to reduce unemployment, for example if there is a minimum wage, more people will want to work but businesses will not be able to hire them, so unemployment is caused.

### **Evaluating the effects of unemployment**

The duration of unemployment is very important when assessing its severity due to **hysteresis**. This means that one of the costs of unemployment is unemployment itself. In other words, it is harder for someone to find a job after someone has been out of work for a long time. This is because employers are less likely to hire them, but the long-term unemployed are also less likely to seek work as they lose the work habit and may become discouraged. Therefore, an 6% unemployment rate with people being out for work for an average of 2 years is more serious than a 10% rate with people being unemployed for only 3 months.

Cyclical unemployment tends to have the highest costs (in terms of benefits paid, as well as other costs of unemployment), so it is the most serious. Frictional unemployment has the lowest costs, and structural unemployment is more serious than frictional, as it will have huge impacts on certain areas. As well as areas being more affected, unemployment sometimes affects certain groups of people more than others, for example young men. This uneven distribution of unemployment can be socially divisive.

#### **Also consider...**

Unemployment in the UK's trading partners will also impact on the UK. These countries will then demand fewer goods from the UK. This may lead to unemployment in the UK. The UK may also find that there may be migrants from countries with high unemployment, and this of course has positive and negative effects.

### Unemployment Questions

What is the definition of unemployment?

What is the difference between the **level** of unemployment and the **rate** of unemployment?

Explain two reasons why the Claimant Count may be a better way to measure unemployment than the Labour Force Survey

Explain two reasons why the Labour Force Survey may be a better way to measure unemployment than the Claimant Count

Define the following terms:

- Cyclical unemployment
- Structural unemployment
- Frictional unemployment

Discuss whether unemployment is always harmful to the economy (8)



Discuss whether unemployment is always harmful to individuals (8)

Comment on whether a rise in income tax rates will always lead to a rise in unemployment (8)

