

2.1.3 Employment and Unemployment

Measures of Unemployment

- The level of unemployment is the number of people willing and able to work (seeking work) yet not able to find it. The level of unemployment as a percentage of the labour force (those employed or unemployed) is called the rate of unemployment
- Claimant Count
 - The number of people claiming unemployment-related benefits (such as JSA and UC)
 - Can be skewed by fraudulent claims or people not claiming benefits
 - It is hard to compare internationally
 - It is easy to collect data
- Labour Force Survey (Official UK Method)

- Sample of 40,000 households are asked whether they are economically inactive, employed or unemployed
- To be classed as unemployed one must have sought work in the last 4 weeks and be ready to work in the next 2 weeks
- It is a more accurate measure and allows international comparison (as it uses standard ILO methods)
- It can be prone to sampling bias, is expensive/time consuming, updated yearly and requires extra administration

Distinction between Unemployment and Underemployment

- Unemployment occurs when a worker is willing and able to work but currently unable to find work

- Underemployment occurs when a worker is willing to supply more hours of work than their employers are prepared to offer. Underemployment also occurs when a worker is overqualified for their current job

Significance of an Increase in Employment rate

- GDP increase (more workers produce more output)
- Revenue and Profit increase
- Incomes increase
 - Leads to an increase in living standards
 - Can lead to an increase in aggregate demand
- Improvements in human capital
- Government tax revenue increase
 - VAT and Corporation tax may also increase

- Tax revenue can be used for budget deficit or merit goods

Significance of Decrease in Unemployment rate

- Government spending on JSA,UC decreases
- Those out of work long term can become increasingly unemployable so avoiding this is a positive
- Job market becomes less flexible (less workers to choose from)

Significance of Changes in Inactivity rate

- Children, retired people, full-time students, those too ill to work and those looking after family full time are economically inactive

- An increase in rate of inactive people leads to a reduction in the productive capacity of an economy
- An increase will also lead to a likely increase in government spending on state benefits
- An increase will also lead to an increase in the dependency ratio (the number of inactive people who are supported directly or indirectly by employed people)

Causes of Unemployment

- Cyclical (Demand-deficient) Unemployment
 - Occurs in a recession
 - Low AD in an economy, meaning producers don't produce as much meaning that workers are unneeded and made redundant
- Seasonal Unemployment

- When individuals are not in work for certain sections of the year (e.g. fruit pickers in winter)
- Frictional Unemployment
 - When individuals are between jobs
 - Short term unemployment
- Structural Unemployment
 - When declining industries cause workers skills to become obsolete
- Classical (Real wage inflexibility)
Unemployment
 - Problems with supply side of labour
 - Minimum wage is argued as a cause of unemployment as it is set above the equilibrium wage
 - Classical thinkers argue that this is the cause of persistent unemployment in certain countries (Neoclassical Milton Friedman)

The Significance of Migration for (Un)Employment

- Migration is the movement of people in to and out of a country (net balance of immigration and emigration)
- People migrate for the following reasons:
 - Higher Income
 - To send money home as remittances
 - Higher quality of life
 - Employment
 - To study
 - To join family/friends
 - To escape conflict/political problems
 - To avoid high taxes
- Immigration (People coming into the UK) can lead to an increase in employment, productive capacity demand and tax revenues

- Immigration can also lead to unemployment if Immigrants cannot find work or displace others from work. Immigrants may send remittances which has a negative effect on the balance of payments. Immigrants who are unemployed may also claim state benefits, leading to an increase in government spending

The Significance of skills for (Un)Employment

- A highly skilled labour force is likely to be highly productive, helping economic growth
- Highly skilled labourers earn higher incomes, leading to an increase in living standards and consumption
- Highly skilled labourers are less likely to be unemployed

- A highly skilled labour force has a smaller degree of inequality and poverty

The Effects of Unemployment on Consumers

- Decrease in living standards
- Decrease in consumer confidence
- Danger of mental illness due to long term unemployment
- Decrease in wealth

The Effects of Unemployment on Firms

- Easy to recruit new workers
- Firms have more power over wages and can keep costs low
- If there is less consumer spending due to unemployment, profits, sales and revenues can be harmed

The Effects of Unemployment on Workers

- Skill loss due to lack of up-to-date training
- Income loss (wages are better than benefits)
- Decrease in living standards/quality of life
- Workers become increasingly unemployable over the course of long-term unemployment

The Effects of Unemployment on Government/Society

- Increase in welfare related spending
- Decrease in income tax revenue and indirect tax revenue (less consumption so less VAT)
- There is an opportunity cost of the goods/services that the unemployed

workers could have produced/provided

- Poverty and inequality will increase, leading to potential political instability and increases in crime rate (leading to further government spending)