

Key points

1. The labour force is made up of the self-employed, part-time workers, full-time workers and the unemployed.
2. Some workers who have jobs are under-employed.
3. The causes of unemployment can be classified as structural, frictional, seasonal, cyclical or real wage unemployment.
4. Changes in the rates of employment, unemployment and inactivity can have significant effects on the economy, as can migration and the skills level of the population.
5. Unemployment impacts on workers, firms, government and society.

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Employment/
UnemploymentMBA 4.2.1.2, 4.2.3.2,
AS 3.2.1.2, 3.2.3.2WJEC/EDUQAS
A UnemploymentCCEA AS2 Measures of
economic performance

Starter activity

Find out the local unemployment rate in your area. How does it compare to the national average? Think of two reasons why people might be unemployed. What effect does that unemployment have on the local community?

Definitions

In the UK, over 30 million people are in **employment**, defined as being in paid work. The majority of workers are **employees**, which means they are **employed** by another individual or a firm. A minority are **self-employed**, working for themselves and not as part of a company structure. Most are in **full-time** work, meaning that they work the hours and the days which are the norm for a particular job. A minority are **part-time workers** who work for a proportion of the hours of **full-time workers**. Some of those part-time workers are **underemployed**. They would prefer to work longer hours and some would prefer to have full-time rather than part-time jobs or be employees rather than self-employed.

Underemployment also covers those who are in jobs which do not reflect their skill level. For example, a university graduate who, unable to find a graduate job, works as a bartender would be considered underemployed.

Those in employment form part of the **labour force** which also includes the unemployed, those seeking work. The labour force, also known as the **active population**, includes most but not all of the **population of working age**. The population of working age is all people within a certain age range, typically between the statutory age for leaving school and the state retirement age. This could, for example, be 16-65. Some people of working age don't work and are not seeking work. They are **inactive**. This includes students, parents who stay at home to look after children, retired people within the age bracket and those who are unable to work because of sickness and disability.

The unemployed are those not in work but actively seeking work. **Unemployment** in the UK, as explained in more detail in the 'Thinking like an economist' section, is measured either through a monthly survey of the population or by counting the

number of people claiming benefits and able to work.

The number of people unemployed is measured at a point in time, like the 30th of each month. If unemployed is calculated monthly, it won't capture those who become unemployed on 1 December but get a new job by 29 December.

Question 1

Figure 1

Full-time jobs, part-time jobs and self-employment



Source: adapted from www.ons.gov.uk.

- Compare the trend in full-time employment with that for self-employment and part-time employment over the period shown in the data. Use statistics to illustrate your answer.
- Calculate the number of people in employment in the Q3 2014.
- Explain which of the three categories of employment shown in the data might be part of hidden unemployment.

Maths Tip

Be very careful to identify which line goes with which vertical scale. Don't make the mistake of thinking that there are more part-time employees than full-time employees in the UK.

In fact, the flows of people becoming unemployed and getting new jobs are very large. For example, an estimated 2.3 million people in the UK in 2013 moved from being unemployed to being employed. Most of these will have been the **short-term unemployed**. The **long-term unemployed**, defined in the UK as being those out of work for more than 12 months, find it much more difficult to get jobs.

Some of those who are inactive in the population are, in fact, part of the **hidden unemployed**. When workers lose their jobs, they may become discouraged and not actively seek a new job. They may consider the costs of seeking work are not worth the likely chance of finding something suitable. However, if a suitable job came up and they were to get the job at little cost to themselves, then they would take it. Another group of the hidden unemployed are those who stay on in education rather than leaving and seeking work.

Again, if the employment situation were better, some in education would leave to take a job. A third group of the hidden unemployed are those who are underemployed as described above.

There are four important ratios, expressed as percentages, which are frequently quoted by economists and governments.

- The **employment rate** is the number of those in work (employees and the self-employed) divided by the population of working age.
- The **unemployment rate** is the number of those not in work but seeking work divided by the labour force.
- The **activity rate** or **participation rate** is the number of those in work or unemployed divided by the population of working age.
- The **inactivity rate** is the number of those not in work and unemployed divided by the population of working age.

Causes of unemployment

Unemployment occurs for a variety of reasons. A number of different types of, or reasons for, unemployment can be distinguished.

Frictional unemployment Most workers who lose their jobs move quickly into new ones. This short-term unemployment is called **frictional unemployment**. There will always be frictional unemployment in a free market economy and it is not regarded by most economists as a serious problem. The amount of time spent unemployed varies. The higher the level of unemployment benefits or redundancy pay, the longer workers will be able to afford to search for a good job without being forced into total poverty. Equally, the better the job information available to unemployed workers through newspapers, Jobcentre Plus etc. the shorter the time workers should need to spend searching for jobs.

Seasonal unemployment Some workers, such as construction workers or workers in the tourist industry, tend to work on a seasonal basis. **Seasonal unemployment** tends to rise in winter when some of these workers will be laid off, whilst unemployment falls in summer when they are taken on again. There is little that can be done to prevent this pattern occurring in a market economy where the demand for labour varies through the year.

Structural unemployment Far more serious is the problem of **structural unemployment**. This occurs when the demand for labour is less than its supply in an individual labour market in the economy. One example of structural unemployment is **regional unemployment**. Throughout the post-war period, the South of England has tended to be at full employment while regions such as Northern Ireland have consistently suffered unemployment. This has occurred because of a lack of mobility of factors of production between the regions. Another example is **sectoral unemployment**. The steel and shipbuilding industries in the UK declined sharply in the late 1970s and early 1980s leaving a considerable number of skilled workers unemployed. Unfortunately, their skills were no longer needed in the economy and without retraining and possible relocation, they were unable to adapt to the changing demand. **Technological unemployment** is another example of structural unemployment. Groups of workers across industries may be put out of work by new technology. Again, without retraining and geographical mobility, these workers may remain unemployed.

Cyclical or demand-deficient unemployment Economies tend to experience business cycles. These are movements from boom to recession over time. **Cyclical or demand-deficient unemployment** is unemployment which occurs when the economy is not in boom. It is when there is insufficient aggregate demand in the economy for all workers to get a job. In a recession, it is not just workers who are unemployed. Capital too is underutilised. So factories and offices can remain empty. Machinery and equipment can lie unused.

Real wage unemployment **Real wage unemployment** or **classical unemployment** exists when real wage rates are stuck at a level above that needed to reduce unemployment any further. Real wage rates are inflexible downwards. One cause of real wage unemployment is minimum wages. Unemployed

Question 2

The economy is currently in recession and the following workers are unemployed. Explain under which type of unemployment their circumstances might be classified.

- Katie Morris is a 30-year-old in Devon with a husband and two children. She works in the local hotel trade in the summer months on a casual basis but would like to work all the year round.
- John Penny, aged 22 and living in London, was made redundant a couple of weeks ago from a furniture store which closed down. He is currently seeking work in the retail sector.
- Manus O'Brien lives in Belfast in Northern Ireland. Aged 56, he last had a job 12 years ago working in a local factory.
- Nayara Jimenez, aged 31, lost her job six months ago working as a surveyor for an estate agent in Guildford in the south east of England. She is currently looking for another surveyor's job but the local housing market is very depressed.
- Khairul Fahmi, aged 40, has been out of work for 18 months. A former manager of a factory in the West Midlands, he is seeking a similar job within travelling distance of where he currently lives.

workers might be prepared to work for less than the minimum wage. Employers might be prepared to take on more workers but only if they could pay workers less than the minimum wage. However, the fact that employers are legally not allowed to pay workers less than the minimum wage means that those unemployed workers cannot get a job. Another cause of real wage unemployment is unemployed workers refusing to take low paid jobs because they can receive more in welfare benefits than working.

Cyclical unemployment is caused by a lack of demand in the economy. Frictional, seasonal, structural and real wage unemployment are caused by supply side factors. For example, if labour markets were more efficient, workers would move from job to job more quickly. So the time taken to get a new job would be shorter. In the case of frictional unemployment, an increase in the amount of information of jobs available to jobseekers would reduce the time they spent searching for a job. In the case of structural unemployment, making it easier to get cheap rented accommodation in areas of low unemployment would help workers in areas of higher unemployment to move. Better retraining of workers would also help reduce structural unemployment.

Using diagrams to illustrate unemployment

Unemployment can be illustrated using a variety of diagrams. Figure 2 shows a production possibility diagram. The economy is operating at its productive potential when it is somewhere on the production possibility frontier such as at point A. There are unemployed resources when the economy is operating within the frontier such as at point B.

Aggregate demand and supply analysis can be used to distinguish between demand side and supply side causes of unemployment. In Figure 3, the economy is in short run equilibrium at an output level of Y_1 . However, what if the LRAS

Figure 2

The production possibility frontier

At any point on the production possibility frontier, there is no unemployment due to a lack of demand. At point B, there is cyclical unemployment.

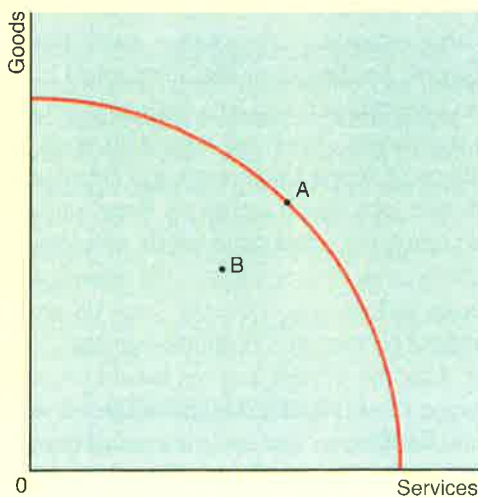
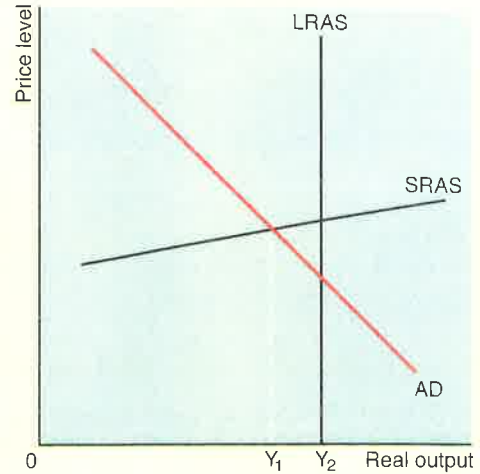


Figure 3

Cyclical unemployment

The economy is in equilibrium in the short run at an output level of OY_1 . This is below the level of OY_2 , shown by the long-run aggregate supply curve, where there would be no demand-deficient unemployment.



curve is to the right of this point? Then there must be cyclical or demand-deficient unemployment. The economy is in recession. Output at OY_1 does not represent the productive potential of the economy which is higher at OY_2 . However, if there is an increase in aggregate demand, shown in Figure 4 by the shift in the aggregate demand curve from AD_1 to AD_2 , full employment can be restored.

The same point can be illustrated using the concept of the output gap. The trend growth of the economy is shown by the upward sloping straight line in Figure 5. At point A, there is a negative output gap and the economy is in recession. So there is cyclical unemployment. An increase in demand will move the economy to B and eliminate demand-deficient unemployment.

Figure 4

Eliminating cyclical unemployment

Cyclical unemployment in the economy at the short-run equilibrium of OY_1 can be eliminated by raising aggregate demand, shown by the shift in the aggregate demand curve from AD_1 to AD_2 .

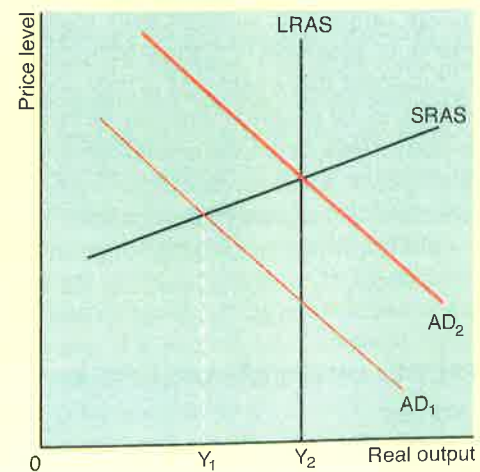
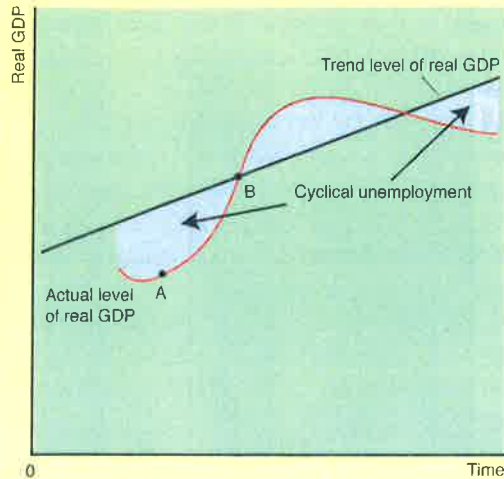


Figure 5

Unemployment and the output gap

Cyclical unemployment occurs if the actual level of income is below its long-run trend level, for example at A.



Supply-side causes of unemployment include frictional, seasonal and structural unemployment. In Figure 4, there is likely to be some frictional, seasonal and structural unemployment at an output level of OY_2 . This is because the long-run aggregate supply curve is drawn on the assumption that there are limited resources and markets may work imperfectly. For example, some workers may be structurally unemployed because they do not have the right skills for the jobs on offer in the market. This lack of skills is taken into account when drawing the long run aggregate supply curve. If through training they acquire new skills and then get jobs, this leads to a rightward shift of the long run aggregate supply curve. A fall in frictional, seasonal and structural unemployment is shown by a rightward shift of the long run aggregate supply curve.

In Figure 5, the long-run trend line of growth is drawn assuming the gradual shift to the right in the long-run aggregate supply curve shown in Figure 4. If the long-run trend rate of growth is 2.5 per cent, then in Figure 4, the LRAS curve is shifting to the right by 2.5 per cent per year on average. So the trend rate of growth assumes there will be supply side improvements to the economy over time. This may or may not include supply-side improvements which reduce frictional, seasonal or structural unemployment. However, past evidence would suggest that existing structural unemployment tends to fall over time. Of course, there may be new supply-side shocks which lead to new structural unemployment. If the long run trend rate of growth could be raised, say from 2.5 per cent to three per cent, there is a greater likelihood that structural unemployment will fall. A rise in the long-run trend rate of growth would be shown by a shift upwards in the trend growth line in Figure 5.

Employment, unemployment and activity rates

Governments attempt to achieve full employment in their economies. Unemployment represents a significant cost and so

reducing unemployment rates is seen as economically desirable.

Some governments are also committed to increasing employment rates and reducing inactivity rates. Three main groups tend to be targeted.

- Women tend to have lower activity rates than men in rich industrialised economies. This is mainly due to women still being far more likely than men to give up their jobs to look after their children. Bringing more women into the labour force increases recorded GDP and so increases growth rates, a goal of governments. It increases tax revenues. It can also reduce welfare benefits where women are living in low income households. However, staying at home and looking after children in itself is a benefit to society even if it is not recorded in GDP. Not everyone agrees that encouraging mothers to go to work, particularly those with young children, brings overall benefits to society.
- Older workers, particularly over the age of 60, have lower activity rates. Many have retired even before they reach the state retirement age. Governments in Europe have been raising the retirement age in order to reduce the amount of government spending on pensions. At the same time, they have been encouraging workers to stay in work or get a new job rather than retire. They want to prevent individuals from claiming benefits because they have little or no income. So raising activity rates is part of the same policy of raising retirement ages in order to reduce the welfare benefit bill.
- Many governments in the past, including the UK government, have reduced politically sensitive unemployment rates by reclassifying some of the long-term unemployed as being unable to work due to disability. The result has been a significant increase in the amount spent on welfare benefits and lost output for the economy. Currently, some governments are attempting to reverse the process in order to cut the benefit bill. However, it is very difficult to get this group of people back into work. Many are genuinely unable to hold down a job because of physical or mental disabilities. Others have become so deskilled that they require a large amount of basic and costly training to help them to become employable.

Migration

Significant levels of migration can have an important impact on employment and unemployment. Since the late 1990s, the UK has seen a large increase in immigration, partly from countries in Eastern Europe. Studies show that immigrants to the UK are more likely to be employed and less likely to claim benefits than the existing population. This is not surprising since the majority of immigrants come to the UK to work and are of working age. They tend to take jobs which are below these workers' skill levels and so represent good value for UK employers.

Due to the circular flow of income, the spending of these workers creates further jobs in the UK. Total UK employment increases without an increase in unemployment.

However, it can be argued that net inward migration depresses wage rates, in particular low wages. The ability of UK firms to recruit foreign workers means that the supply of labour is increased, reducing the equilibrium price of labour, the wage rate. It can also be argued that UK workers with few

skills are most affected by inward migration. This is because they are competing in the job market with migrants who are well motivated, have work skills and are prepared to work for low wages. UK workers who have low motivation to work, few skills and prefer to receive welfare benefits rather than work for the minimum wage can find themselves at a disadvantage when there is a plentiful supply of immigrant workers.

Question 3

Immigrants from the EU made a net contribution to government finances of £2 732 per year in the decade to 2011. In total, EU inward migration added £22bn to tax revenues over the whole ten year period. These figures come from a report published by the Migration Advisory Committee. It found that the employment rate of UK-born workers has been 'practically unchanged' despite the influx of 500 000 migrants from central and eastern Europe after EU expansion in 2004. In contrast, non-European migrants only contributed a net £162 per person per year to public finances in the decade to 2011. One in six of Britain's 13 million low-skilled jobs are now held by migrants. Some migrants are exploited by their employers and are paid less than the minimum wage. In a separate study, the Organisation for Economic Co-operation and Development (OECD) found that immigration leads to higher pay for native workers. Immigrants are in general more educated than native workers. Immigration is 'likely to create more opportunities for the receiving economy', wrote the researchers.

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- Explain two advantages to the UK of inward migration of workers.
- Analyse what impact the fact that migrants are generally 'more educated than native workers' might have on (i) native UK workers and (ii) UK firms.

Skills

Economies become progressively more complex over time. Fifty years ago, it was still possible to find a large number of jobs in the UK where workers had no need to read or write, for example.

Today, the average skill level required by workers is much higher and will increase in the future. For the UK economy to maintain its employment levels in a competitive global market, it has to increase the skills of its workforce over time.

Problems occur when skills required by jobs are not matched by those of job seekers. UK engineering companies, for example, frequently complain they are unable to recruit skilled workers even though there are unemployed workers in the local area. This is an example of structural unemployment. If firms won't train workers, the government has to step in to correct this market failure. Training, however, is costly. The result is that many unemployed workers become long-term unemployed because their skills are not good enough to take jobs on offer.

The costs of unemployment

Long term unemployment is generally considered to be a great social evil. This is perhaps not surprising in view of the following costs of unemployment.

Costs to the unemployed and their dependants The people who are likely to lose the most from unemployment are the unemployed themselves. One obvious cost is the loss of income that could have been earned had the person been in a job. Offset against this is the value of any benefits that the worker might receive and any value placed on the extra leisure time which an unemployed person has at his or her disposal. For most unemployed people, it is likely that they will be net financial losers.

The costs to the unemployed, however, do not finish there. Evidence suggests that unemployed people and their families suffer in a number of other ways. One simple but very important problem for them is the stigma of being unemployed. Unemployment is often equated with failure both by the unemployed themselves and by society in general. Many feel degraded by the whole process of signing on, receiving benefits and not being able to support themselves or their families. Studies suggest that the unemployed suffer from a wide range of social problems including above average incidence of stress, marital breakdown, suicide, physical illness and mental instability, and that they have higher death rates compared with those in employment.

For the short-term unemployed, the costs are relatively low. Many will lose some earnings, although a few who receive large redundancy payments may benefit financially from having lost their job. The social and psychological costs are likely to be limited too.

However, the long-term unemployed are likely to be major losers on all counts. The long-term unemployed suffer one more cost. Evidence suggests that the longer the period out of work, the less likely it is that the unemployed person will find a job. There are two reasons for this. First, being out of work reduces the human capital of workers. They lose work skills and are not being trained in the latest developments in their occupation. Second, employers use length of time out of work as a crude way of sifting through applicants for a job. For an employer, unemployment is likely to mean that the applicant is, to some extent, deskilled. There is a fear that the unemployed worker will not be capable of doing the job after a spell of unemployment. It could show that the worker has personality problems and might be a disruptive employee. It could also be an indication that other employers have turned down the applicant for previous jobs and hence it would be rational to save time and not consider the applicant for this job. The long-term unemployed are then in a catch-22 situation. They can't get a job unless they have recent employment experience. However, they can't get recent employment experience until they get a job.

Costs to local communities Costs of unemployment to local communities are more difficult to establish. Some have suggested that unemployment, particularly amongst the young, leads to increased crime, violence on the streets and vandalism. Areas of high unemployment tend to become run down. Shops go out of business. Households have no spare money to look after their properties and their gardens. Increased vandalism further destroys the environment.

Costs to the government The cost of unemployment to the taxpayer is a heavy one. On the one hand, government has to

pay out increased benefits. On the other hand, government loses revenue because these workers would have paid taxes if they had been employed. For instance, they would have paid income tax and National Insurance contributions on their earnings. They would also have paid more in VAT and excise duties because they would have been able to spend more. So taxpayers not only pay more taxes to cover for increased government spending but they also have to pay more because they have to make up the taxes that the unemployed would have paid if they had been in work. Governments also provide help to the unemployed to get a job. They might provide information about available jobs, such as through Job Centres in the UK. They may provide training schemes or subsidise employers who take on unemployed workers.

Costs to the economy as a whole Taxpayers paying money to the unemployed is not a loss for the economy as a whole. It is a transfer payment which redistributes existing resources within the economy. The actual loss to the whole economy is two-fold. First, there is the loss of output which those workers now unemployed could have produced had they been in work. The economy could have produced more goods and services which would then have been available for consumption. Second, there are the social costs such as increased violence and depression which are borne by the unemployed and the communities in which they live.

Key Terms

Active population - those in work or actively seeking work; also known as the labour force.

Activity rate or participation rate - the number of those in work or unemployed divided by the population of working age expressed as a percentage.

Cyclical or demand-deficient unemployment - when there is insufficient demand in the economy for all workers who wish to work at current wage rates to obtain a job.

Employed - the number of people in paid work.

Employees - workers employed by another individual or firm.

Employment - those in paid work.

Employment rate - the number of those in work divided by the population of working age expressed as a percentage.

Frictional unemployment - when workers are unemployed for short lengths of time between jobs.

Full-time workers - workers who work hours and the days which are the norm for a particular job.

Hidden unemployed - partly those in the population who would take a job if offered, but are not in work and are not currently seeking work; and partly those who are underemployed.

Inactive - the number of those not in work and not unemployed.

Inactivity rate - the number of those not in work and not unemployed divided by the population of working age expressed as a percentage.

Labour force - those in work or actively seeking work; also known as the active population.

Long-term unemployed - in the UK, those unemployed for more than one year.

Costs to consumers The unemployed as consumers lose out because they are able to spend less. Consumers in areas of high unemployment also lose out because local shopping centres tend to be run down and don't offer the range of shops available to those in areas of low unemployment.

Costs to firms Firms suffer because unemployment represents a loss of demand in the economy. If there were full employment, the economy would be more buoyant and there would be more spending. Long-term unemployment also reduces the pool of skilled workers that a firm could hire.

Question 4

A report by Sheffield Hallam University has found that the south Wales valleys are still suffering the effects of large scale mine closures 30 years ago. In the Welsh valleys, 17 per cent of all adults of working age were on benefits compared to a national figure of 11 per cent. The rate of disability allowance claimants was 10.7 per cent, double the national average. One in five of the working age population had no qualifications and about 44 per cent of those in work were employed in unskilled manual jobs, compared to 36 per cent nationally. Average wages and average output per head of the population were lower than the national average.

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Explain the likely costs of high unemployment in the south Wales valleys to (a) workers and those seeking work; (b) local communities; (c) government.

Part-time workers - workers who only work a fraction of the hours and the days which are the norm for a particular job.

Population of working age - the total number of people aged between the statutory school leaving age and the state retirement age.

Real wage or classical unemployment - when workers are unemployed because real wages are too high and inflexible downwards, leading to insufficient demand for workers from employers.

Seasonal unemployment - when workers are unemployed at certain times of the year, such as building workers or agricultural workers in winter.

Self-employed - workers who work on their own account and are not employees.

Short-term unemployed - in the UK, those unemployed for less than a year.

Structural unemployment - when the pattern of demand and production changes leaving workers unemployed in labour markets where demand has shrunk. Examples of structural unemployment are regional unemployment, sectoral unemployment or technological unemployment.

Underemployed - those who would work more hours if available or are in jobs which are below their skill level.

Unemployed - those not in work but seeking work.

Unemployment - occurs when individuals are without a job but are actively seeking work.

Unemployment rate - the number of those not in work, but seeking work, divided by the labour force expressed as a percentage.

Thinking like an economist

Measuring unemployment

In economic theory, unemployment is defined as those without a job but who are seeking work at current wage rates. Measuring the number of unemployed in an economy, however, is more difficult than economic theory might suggest. In the UK, there are two ways in which unemployed is calculated: the claimant count and the Labour Force Survey (LFS) measures.

The claimant count

The claimant count measures unemployment by counting the number of people claiming benefits for being unemployed. It was the main measure of UK unemployment until 1997. However, it was open to political manipulation. In the 1980s and 1990s, the UK government introduced over 30 different changes to the way in which it was calculated to reduce the politically sensitive headline unemployment figure. The claimant count is also not an internationally recognised way of measuring unemployment. Hence it cannot be used to compare UK unemployment levels with those in other countries.

LFS (or ILO) unemployment

LFS (or ILO) unemployment is calculated using Labour Force Survey statistics. Each month 44 000 households with over 100 000 individuals are surveyed. The questionnaire used covers economic activity as well as household size and structure, accommodation details, and basic demographic characteristics such as age, sex, marital status and ethnic origin. To be classified as unemployed, an individual has to be without a paid job, be available to start a job within a fortnight and has either looked for work at some time in the previous four weeks or been waiting to start a job already obtained.

This measure of unemployment is based on an international standard set by the International Labour Organization (ILO). The UK is required by EU law to measure unemployment according to this definition. It then provides a way in which unemployment can be compared between countries.

LFS unemployment compared to the claimant count

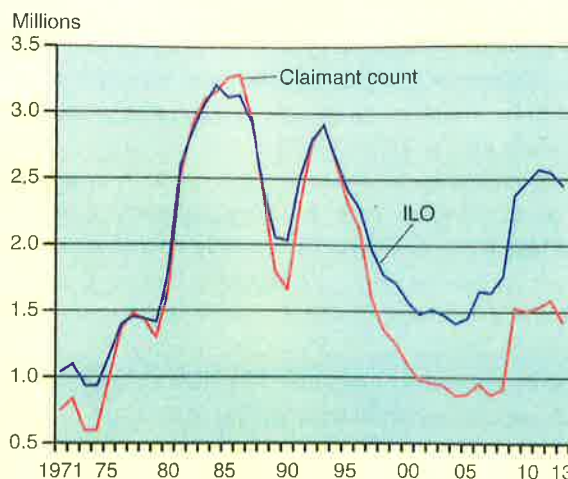
Figure 6 shows that LFS unemployment figures differ significantly from claimant count figures. LFS unemployment tends to be above claimant count unemployment and since 1994, there has been a growing divergence between the two.

LFS unemployment is likely to be above the claimant count figure because the claimant count excludes a number of key groups of unemployed workers.

- Many female unemployed workers are actively looking for work (and are therefore included in LFS unemployment) but are not entitled to benefits for being unemployed. For instance, they might not have built up sufficient National Insurance contributions to qualify for unemployment benefit, a National Insurance benefit. They may also be living in a household where the husband or partner is earning too high a wage for them to qualify for means-tested benefits.

Figure 6

LFS and claimant count measures of unemployment

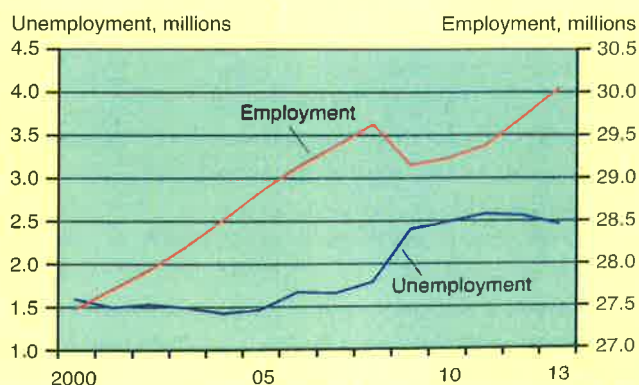


Source: adapted from www.ons.gov.uk.

- Older, particularly male, workers in their 50s and 60s may be collecting a pension from their previous employer or be supported financially by their spouse. They are therefore not entitled to benefits but may be actively seeking work.
- Workers are not entitled to register as unemployed with the DWP until they have been out of work for a number of weeks. However, anyone interviewed for the LFS count who is unemployed and is looking for work is counted as unemployed regardless of how long they have been unemployed.

Figure 7

Employment and unemployment, LFS measures, millions



Source: adapted from www.ons.gov.uk.

The claimant count, however, may include some unemployed who would not be included in the LFS count. For instance, those working in the **hidden economy** may claim benefits for being unemployed but actually be in work, usually as a self-employed worker.

Over and underestimations of unemployment

Both the LFS and claimant counts could be argued to underestimate overall unemployment.

- They do not include part-time workers who are actively seeking full-time work, for instance.
- Those on government training and work schemes who would prefer to be in proper employment are not included. This particularly affects young workers.
- There are some out of work who are not actively seeking work or receiving benefits for being unemployed but who would take a job if offered. This mainly applies to women bringing up families. Figure 7 supports this point. Between 2008 and 2013, despite the economy falling into recession and then experiencing a very weak recovery, the number of people in employment increased by 400 000. Over the same period, unemployment increased by 700 000.

- Some unemployed workers in the 1980s and 1990s were moved from the unemployment registers onto sickness and disability benefits. Between 1979 and 2004, the numbers on sickness and disability benefits rose from 750 000 to 2.6 million. Today, areas of the country with high unemployment rates also have above average rates of people on sickness and disability benefits. Governments are now attempting to get some of these people off benefits and back into work. However, currently they are not counted as unemployed.

However, both measures of unemployment could be argued to overestimate unemployment. Some of those out of work find it almost impossible to get a job. Those with physical and mental disabilities, some ex-criminals or some with no qualifications find the job market very difficult. Some economists would argue that these workers are unemployable and therefore should not be counted as unemployed. A minority of those working in the hidden economy may claim benefits and may declare on surveys that they are out of work and seeking work.

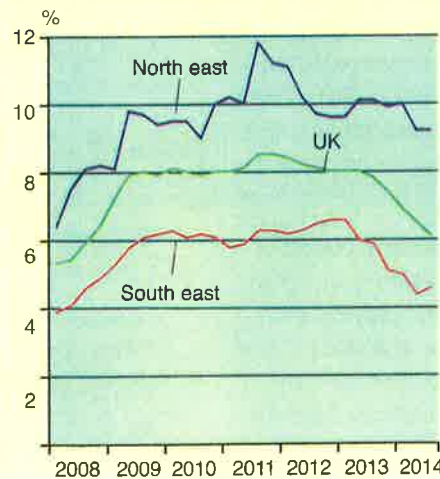
Data Response Question

Unemployment rates

Normally, in a recession, unemployment rises and the number of people in work falls even more as some of those unemployed disappear from the labour force. The recession that started in 2008 was different. Between 2008 and 2012, measured unemployment did rise by over a million people but there was little change in the number of people in work. Unemployment would have been much worse, but for many of those losing their full-time jobs getting new jobs on a part-time basis or becoming self-employed. By the end of 2013, 900 000 more people were in work than at the start of the recession in 2008. But 200 000 fewer people were in full-time work, there were 500 000 more part-time workers and 600 000 extra self-employed workers. On average, part time workers and the self employed earn much less per hour worked than full time employees.

Figure 8

Regional unemployment rates



Source: adapted from www.ons.gov.uk.

This was one factor which contributed to average real household income being six per cent lower in 2012-13 compared to 2006-07.

Source: adapted from www.ons.gov.uk.



1. Using Figure 8, analyse why, between 2008 and 2013, it is likely that (a) the North East suffered structural unemployment and (b) the UK economy suffered cyclical unemployment.
2. Evaluate whether the economic costs of the rise in hidden unemployment were greater than the rise in measured unemployment between 2008 and 2014.

Evaluation

Analyse the difference between hidden unemployment and measured unemployment in an introductory paragraph. Then analyse the costs for hidden unemployment, and do the same measured unemployment. Weigh up the relative costs of the two types of unemployment. Indicate what extra information you would need to make a more informed decision.