

Macro-economic objectives: Unemployment

What is unemployment?

An economic definition of unemployment is when resources are not utilised to their full potential. This includes resources such as land – not just labour.

Unemployment is more commonly used to describe all those willing and able to work but unable to find a job. This means all members of the UK's labour force ages 16-65 years old.

How is unemployment measured?

There are two key ways in which unemployment is measured.

Claimant count

The first is the claimant count. This measures those who are willing and able to work and eligible to claim unemployment benefit. It is used as a cheap and easy way for the government to obtain figures of both the entire economy and of different regions. The government has power to change regulations

The claimant count can under estimate unemployment because:

- Exclusion of those with savings and those with a working partner.
- Potential applicants being put off by lots of paper work and only a small chance of gaining any benefit.

...and can also over estimate unemployment because:

- Some claim benefit who are not actively seeking work, or who participate in the black market.

Labour force survey

The second way that unemployment can be measured is the labour force survey. It defines unemployment as those actively seeking employment. To calculate the figures a proportion of the work force are asked if they consider themselves to be unemployed.

Compiling this survey is more costly so it is performed less frequently, only once per quarter (3 month period) and does not demonstrate a regional break-down of figures. The labour force survey is independent of the government and is the standard for international comparisons.

The labour force survey generally over estimates unemployment because of the definition it uses.

Does an increase in employment mean that there must be a decrease in unemployment?

Not necessarily, a variety of factors can allow employment to increase without unemployment decreasing:

- Increased participation (particularly of women over recent years).
- School/college leavers taking up employment.
- Employment of migrant workers.
- Part-time worker adopting a "portfolio career" or simply working more than one job.
- Both measures of unemployment are inaccurate.

Types of unemployment

Involuntary

- Demand-deficient or cyclical unemployment: when in the business cycle there is a recession. There is a slow down – a recession – in the entire economy there will be lower incomes in the economy, so consumption will be lower, and so fewer workers will be required to produce these goods. There is usually a time-lag between the business cycle and employment as there is a large cost to businesses associated with firing workers and hiring new workers.

Voluntary

- Frictional or search unemployment: when a worker leaves one job (either voluntarily or involuntarily) and moves to a new job there is a period of unemployment. This is not a problem as long as this period is short lived and the worker has adequate information about getting a new job. In the UK this 'natural rate' of unemployment is ~2-3%.
- Structural unemployment: when an industry has moved on through technological development or tastes have changed so a good or service is no longer required. Good examples in the UK include mining and shipbuilding industries. Seasonal unemployment is a subcategory of this, for example Santa Claus' are not required to work in the summer. Structural employment depends on:
 - Mobility of labour to move from one occupation in a declining industry to an occupation in a growing industry and to move from one geographical location to another area where there may be employment.
 - The pace of change. If this is very quick structural unemployment is likely to be higher.
 - Regional concentration of a declining industry, for example coal mining may mean a particular region suffers more severely.

What problems face the unemployed?

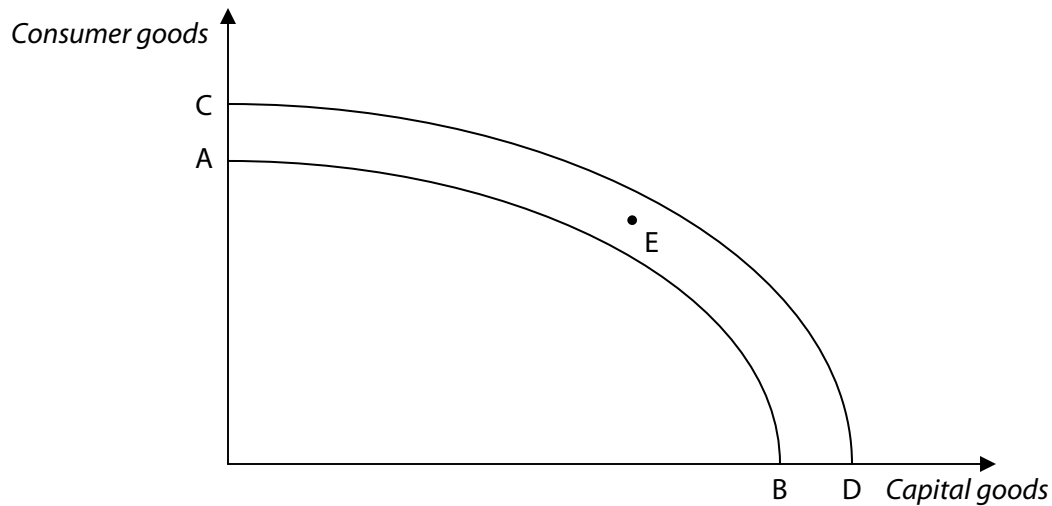
There is a close correlation between perceived job security and psychological well being. Many of those in low paid and insecure jobs suffered similar psychological problems to those out of work.

Some of the psychological effects caused by unemployment include depression and depreciated social skills. Many people out of work find themselves divorcing their partners and do not have access to information about new jobs so have difficulty finding new employment.

Women were more seriously affected by the prospect of there being no work available.

Why might these problems give rise to costs not just for the unemployed but also for society as a whole?

Unemployment is a broad term used to describe those willing and able to work but unable to find a job. Economically unemployment causes a problem as the individual is not active in the production of a good or service within the economy. This means the economy performs below the productive capacity of the economy. This can be best illustrated on a PPF, a 'Production Possibility Frontier,' a diagram that demonstrates all combinations of total output that an economy can produce, using all of its resources in the most efficient manner.



The possible productive capacity of the economy is illustrated by the line. Points enclosed within the area represent an inefficient use or waste of resources. Year on year the productive capacity of the economy grows from AB to CD. Typically for the UK this growth rate has been ~2.5%. However, unemployment causes the economy to be at point E, which is below the productive capacity of the economy, due to the wasted resource, labour. The gap between point E and the line is called the output gap.

As the potential output of the economy continues to grow at ~2.5% unemployment (*ceteris paribus*) means that even if the economy managed to grow at 2.5% it would still fall short of the possible increase in output. It is high impossible to recover this lost output, caused by unemployment.

The cost of unemployment to tax payers is high as the government loses revenue in tax that the individual would have paid, had they been in employment and also in transfer payments made to the individual in the form of benefits. The losses through taxes are high from the VAT on the increased goods and services that an individual would have purchased with their increased income to the NI contributions and income tax. Therefore the tax payers have to pay for both the funding for the transfer payments and the additional taxes the unemployed person would have paid had they been in employment.

There are many further costs to the individual and to the community, as detailed above. Unemployment decreases the income of an individual which leads to decreased spending. In areas of high unemployment this can cause many businesses to close. Households have little spare money to spend on their gardens and property and an increase in burglaries and vandalism often follows.

Furthermore unemployment makes many feel like 'failures.' This can lead to a variety of effects including marriage break-up, suicide and mental stability. Death rates are generally higher amongst those unemployed than those who have not been out of work.

As people are out of work for longer workers become deskilled, and their skills may be out of date. This can cause problems finding work and can cause a downward spiral. The government aims to help people in this situation by their 'new deal' where training is offered free of charge.