

Macro Objectives: Unemployment

IB Economics Section 2.3: Low Unemployment



Unemployment

The unemployed are those people **able, available and willing to work** but cannot find a job despite an **active search for work**

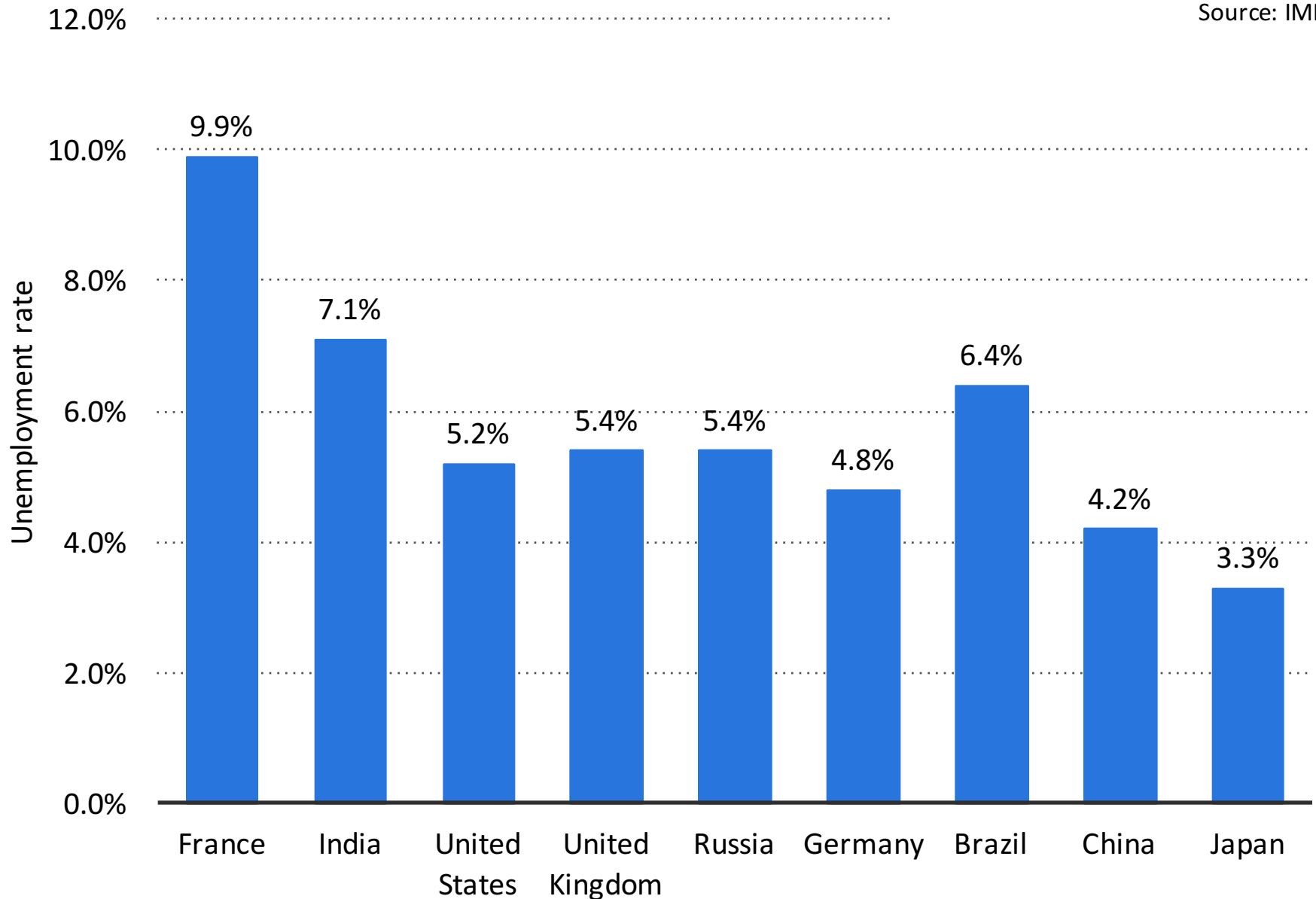
- Unemployment means that **scarce human resources** are not being used to produce the goods and services that help to meet people's changing needs and wants
- Persistently high unemployment can have damaging **scarring consequences** for an economy causing **economic** and **social costs**
- Problems caused by unemployment are often deep-rooted in local and regional communities and within particular groups of society – for example in the UK, more than one in six young people are out of work and nearly forty per cent of unemployed people have been out of work for at least a year
- Unemployment in the UK is falling but there are perhaps limits to how far the jobless rate can drop without affecting other macroeconomic aims.

Measuring Unemployment – Some Key Terms

Claimant Count (JSA)	The number of people officially claiming unemployment-related benefits – must be actively seeking work
Labour Force Survey (LFS)	All those actively seeking and available for work, whether or not they are claiming benefit
Long-Term unemployed	People unemployed for at least one year
Labour force	The number of people of working age who are able, available and willing to work
Full employment	When there enough unfilled job vacancies for all the unemployed to take work
Discouraged workers	People out of work for a long time who may give up on job search and effectively leave the labour market
Economically inactive	Those who are of working age but are neither in work nor actively seeking paid work
Employment rate	The percentage of the population of working age in full-time or part-time paid work
Unemployment rate	Percentage of the economically active population who are unemployed

Unemployment in selected countries in 2015

Source: IMF



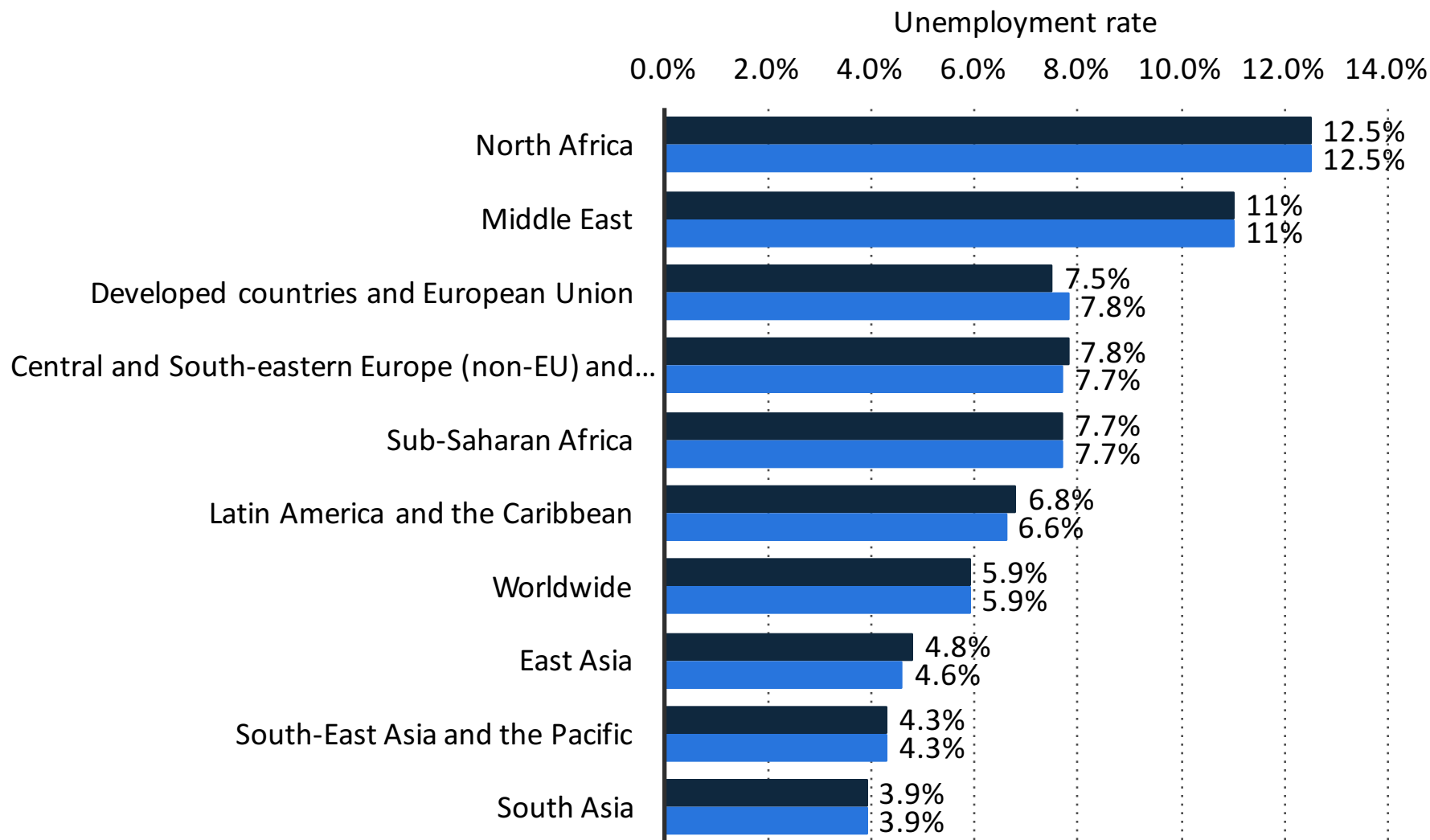
Unemployment in selected world regions

** Provisional estimate

*** Forecast

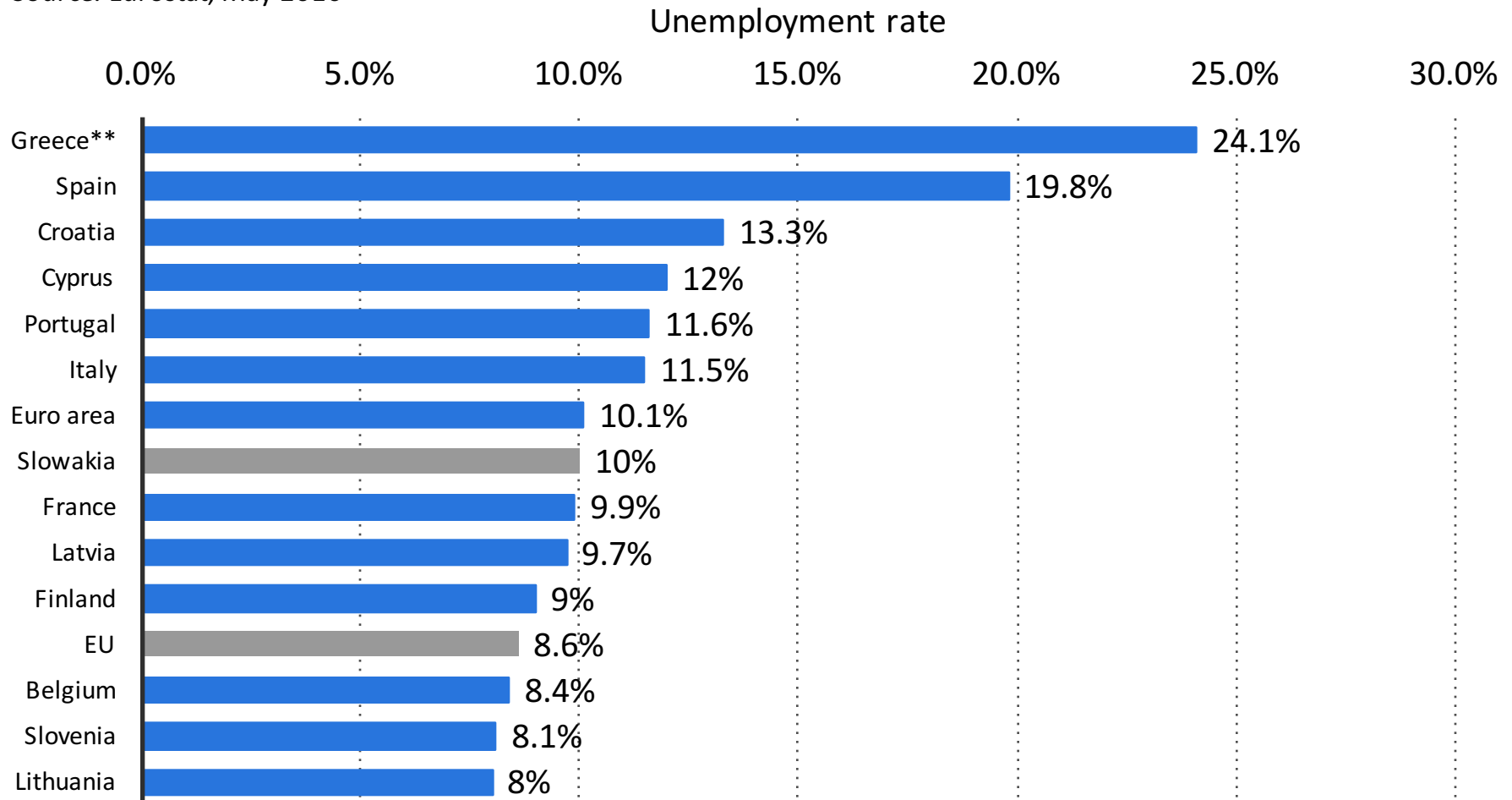
■ 2015*** ■ 2014**

Source: IMF



Highest Unemployment Rates among EU Countries

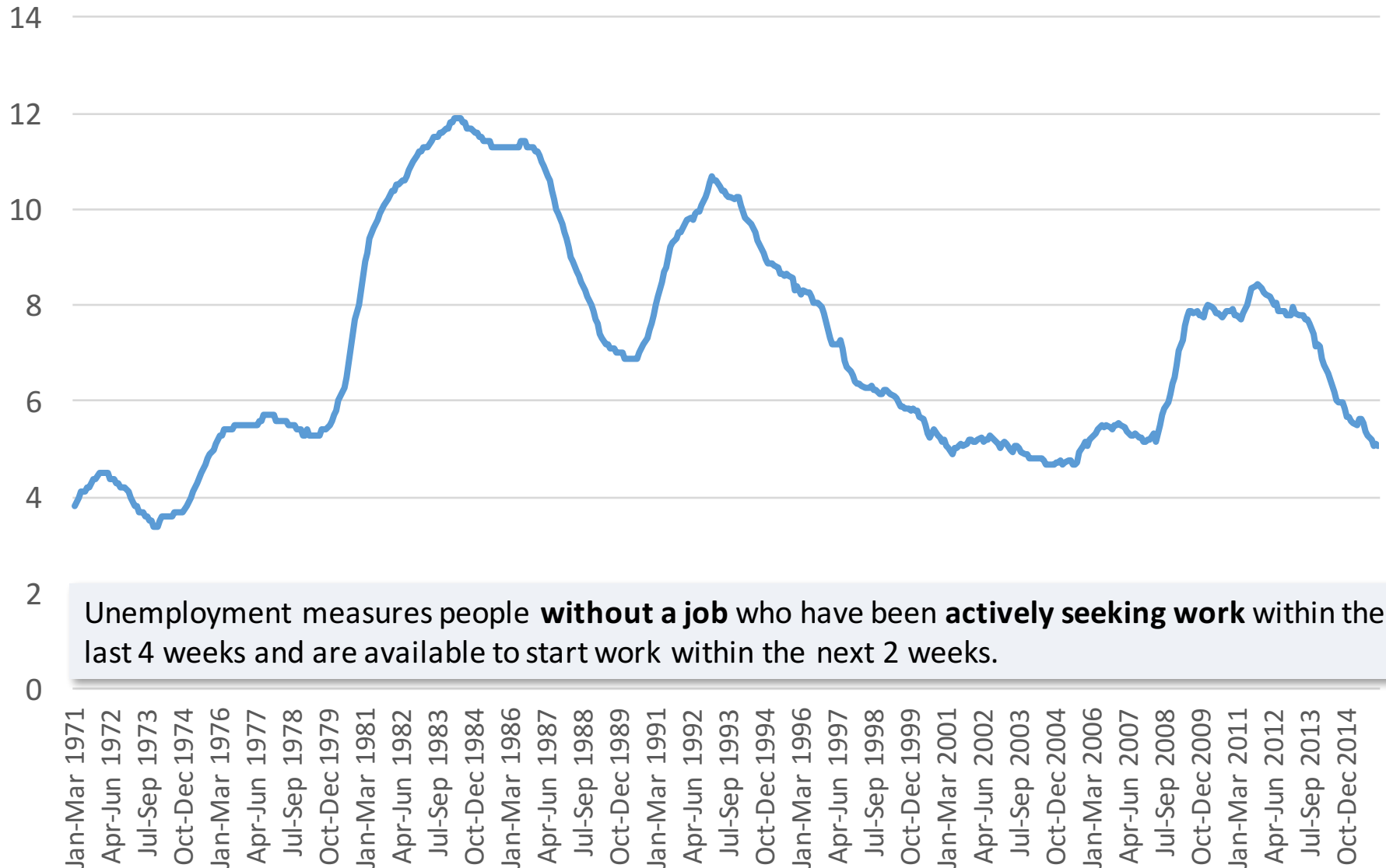
Source: Eurostat, May 2016



Greece and Spain have the highest rates of adult unemployment in the EU. Youth unemployment greatly exceeds the average adult rate.

UK Unemployment Rate (Labour Force Survey)

Unemployment rate (per cent of the labour force)



Unemployment measures people **without a job** who have been **actively seeking work** within the last 4 weeks and are available to start work within the next 2 weeks.

Summary of the UK Labour Market (November 2015)

Number of people in the UK labour market, September to November 2015, seasonally adjusted (thousands of people)

Everybody aged 16 or over is either employed, unemployed or economically inactive

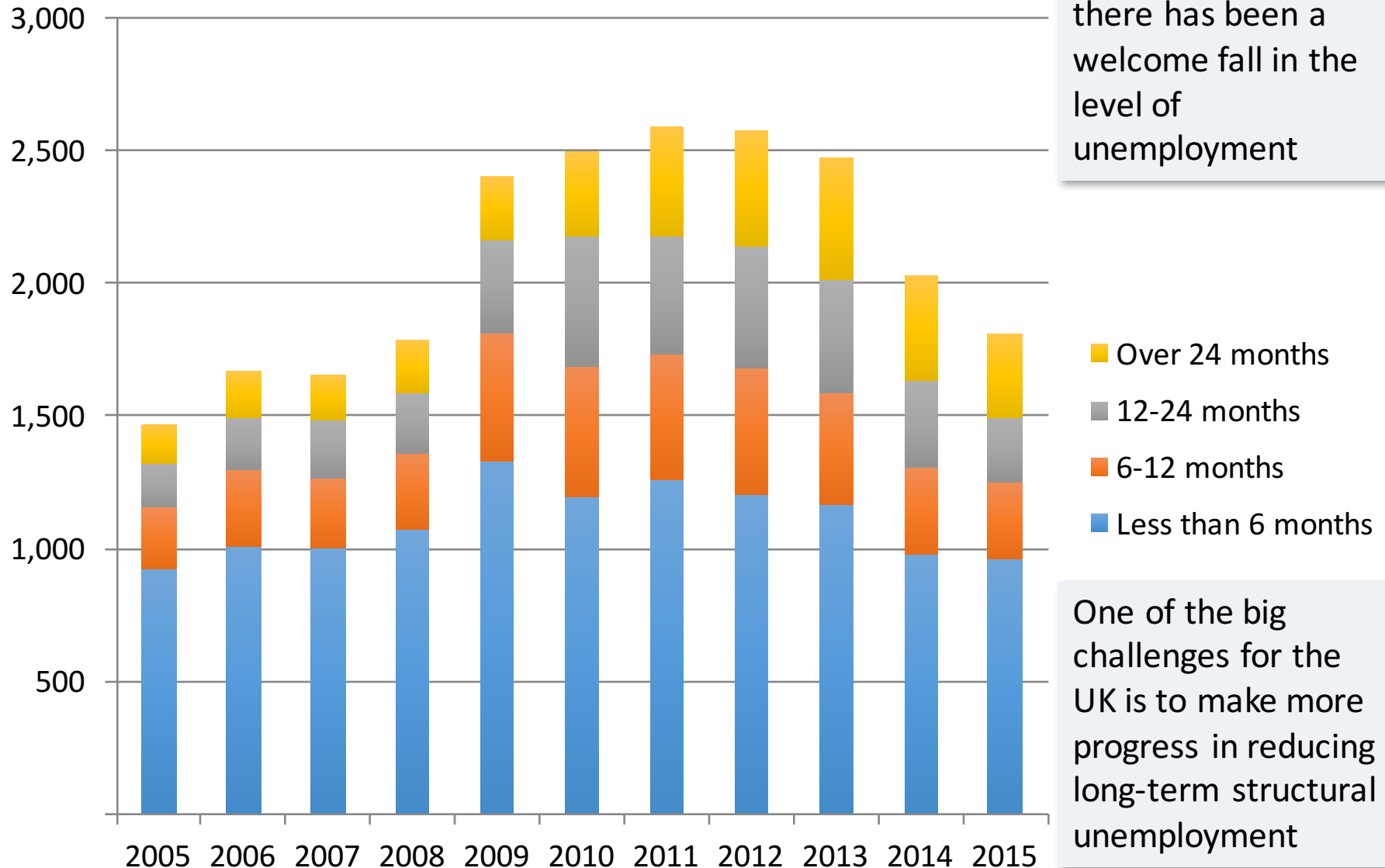
Men working full-time	14,495
Men working part-time	2,236
Women working full-time	8,465
Women working part-time	6,193
Unemployed men	919
Unemployed women	756
Economically inactive (Men aged 16 to 64)	3,335
Economically inactive (Women aged 16 to 64)	5,587
Economically inactive (Men aged 65 and over)	4,444
Economically inactive (Women aged 65 and over)	5,646

Regional Unemployment Rates in the UK (July 2015)



Duration of LFS Unemployment in the UK economy

Total unemployment, seasonally adjusted



In the last few years there has been a welcome fall in the level of unemployment

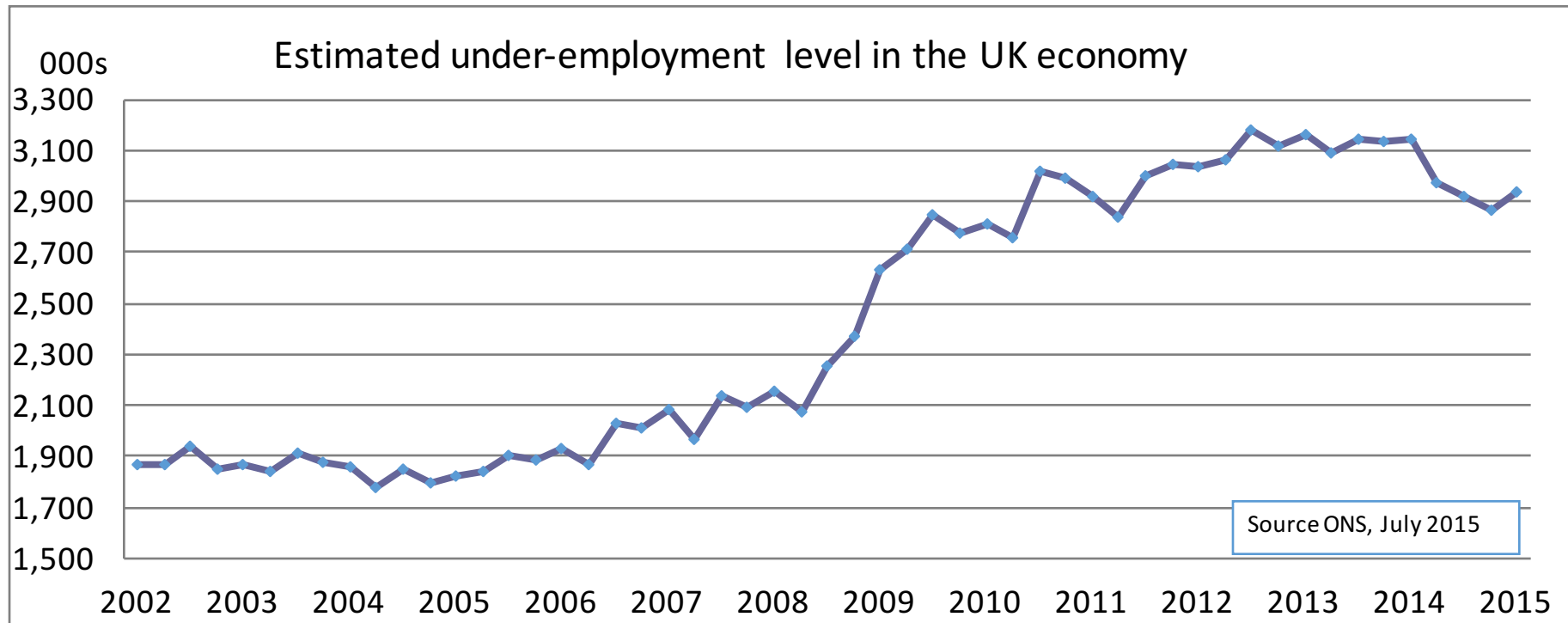
One of the big challenges for the UK is to make more progress in reducing long-term structural unemployment

Under-Employment

Under-employment occurs when people are counted as

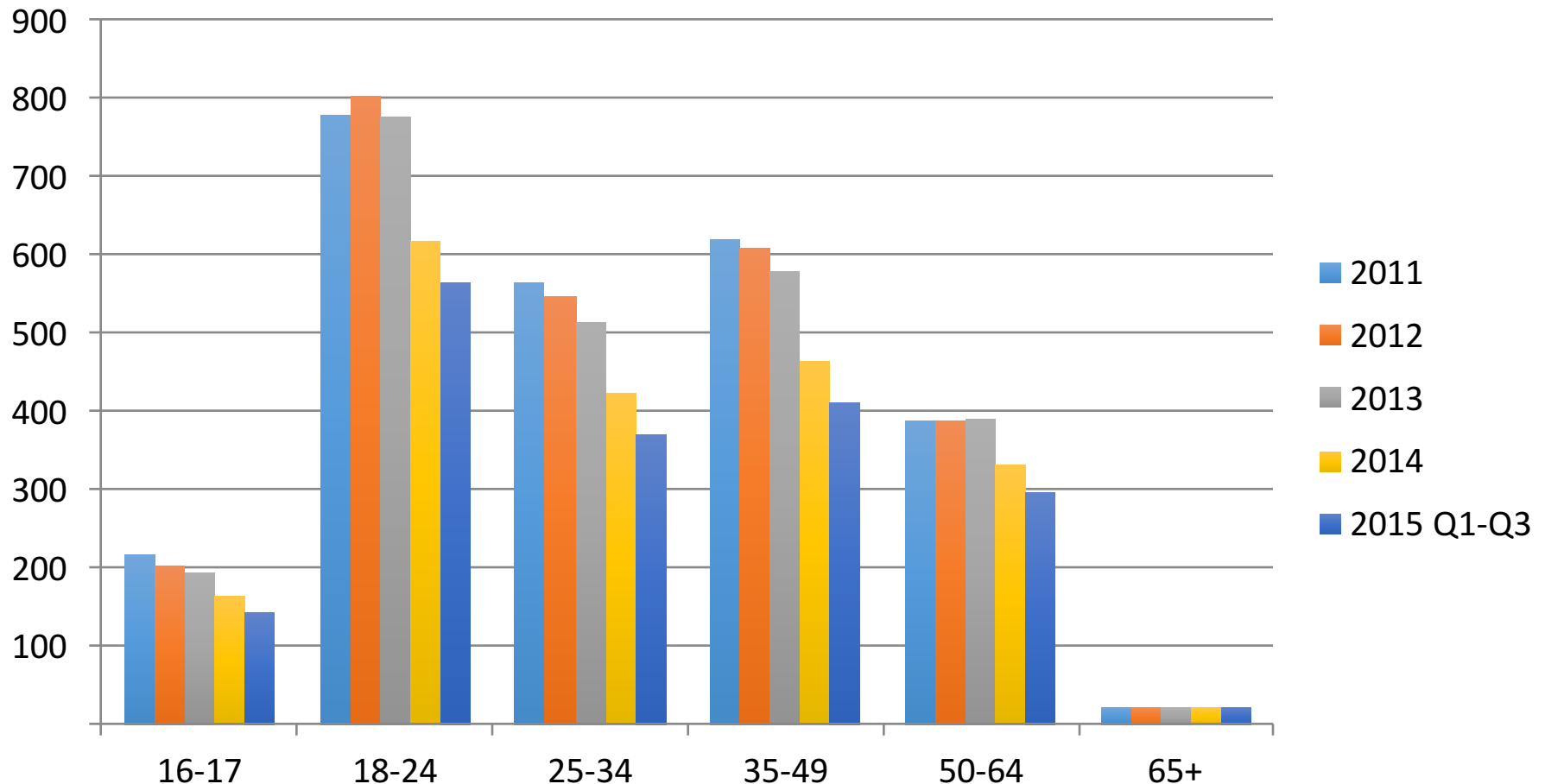
1. Looking for an additional job or actively searching for a new job with longer hours to replace their current (main) job
2. They want to work longer hours in their current job

Under-employment can be rising even though unemployment is declining



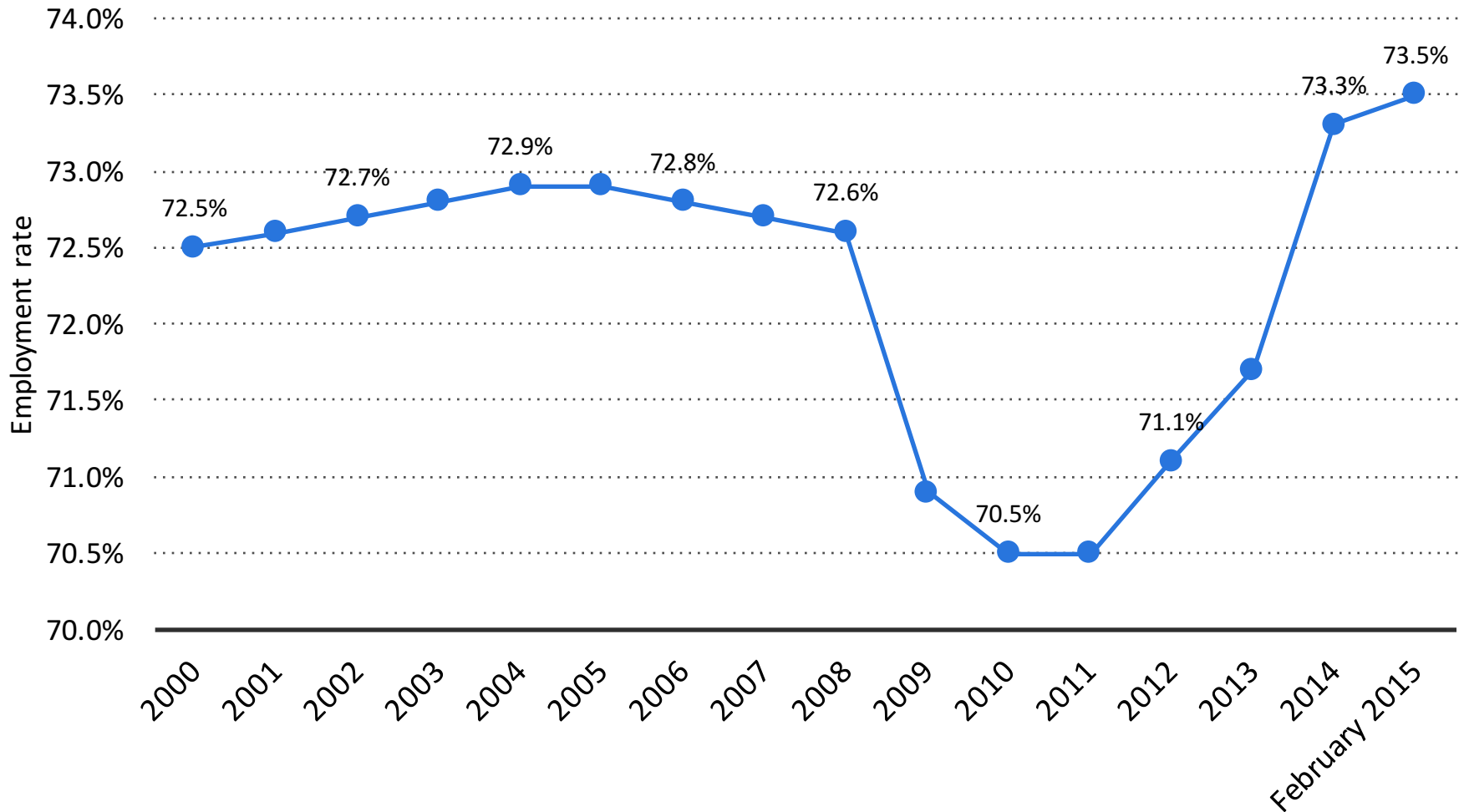
Unemployment by Age in the UK Economy

Total unemployment, seasonally adjusted



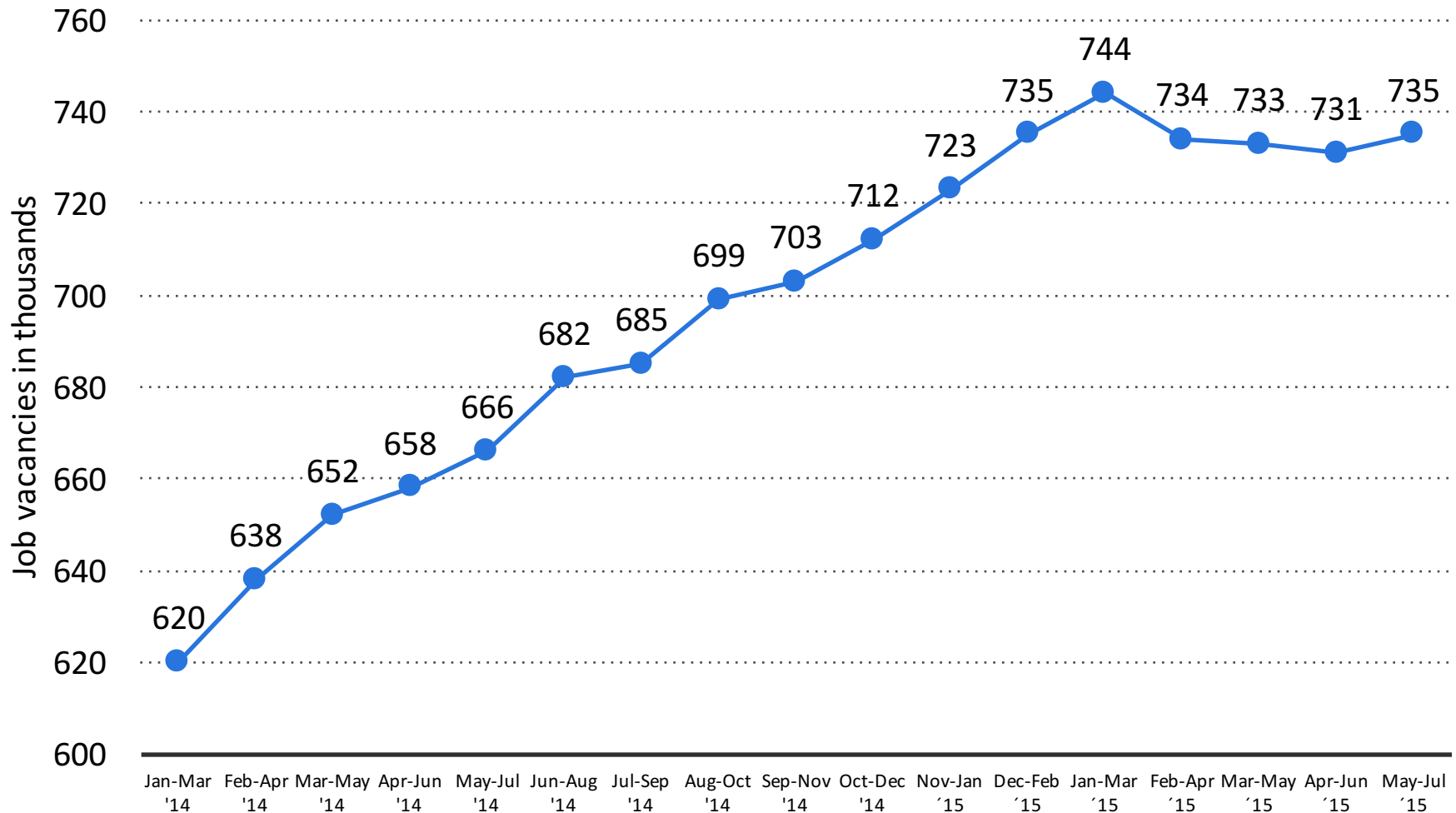
The decline in unemployment since 2011 has been across all age groups, but has been greater for the 18 to 49 age brackets during this period

Changing Employment Rate in the UK in Recent Years



The employment rate is measured as the percentage of the population of working age who are in full-time or part-time paid work.

Unfilled Job Vacancies in the UK Labour Market



The chart shows the number of **registered unfilled job vacancies** – this is often used as a guide to the strength of labour demand in the economy

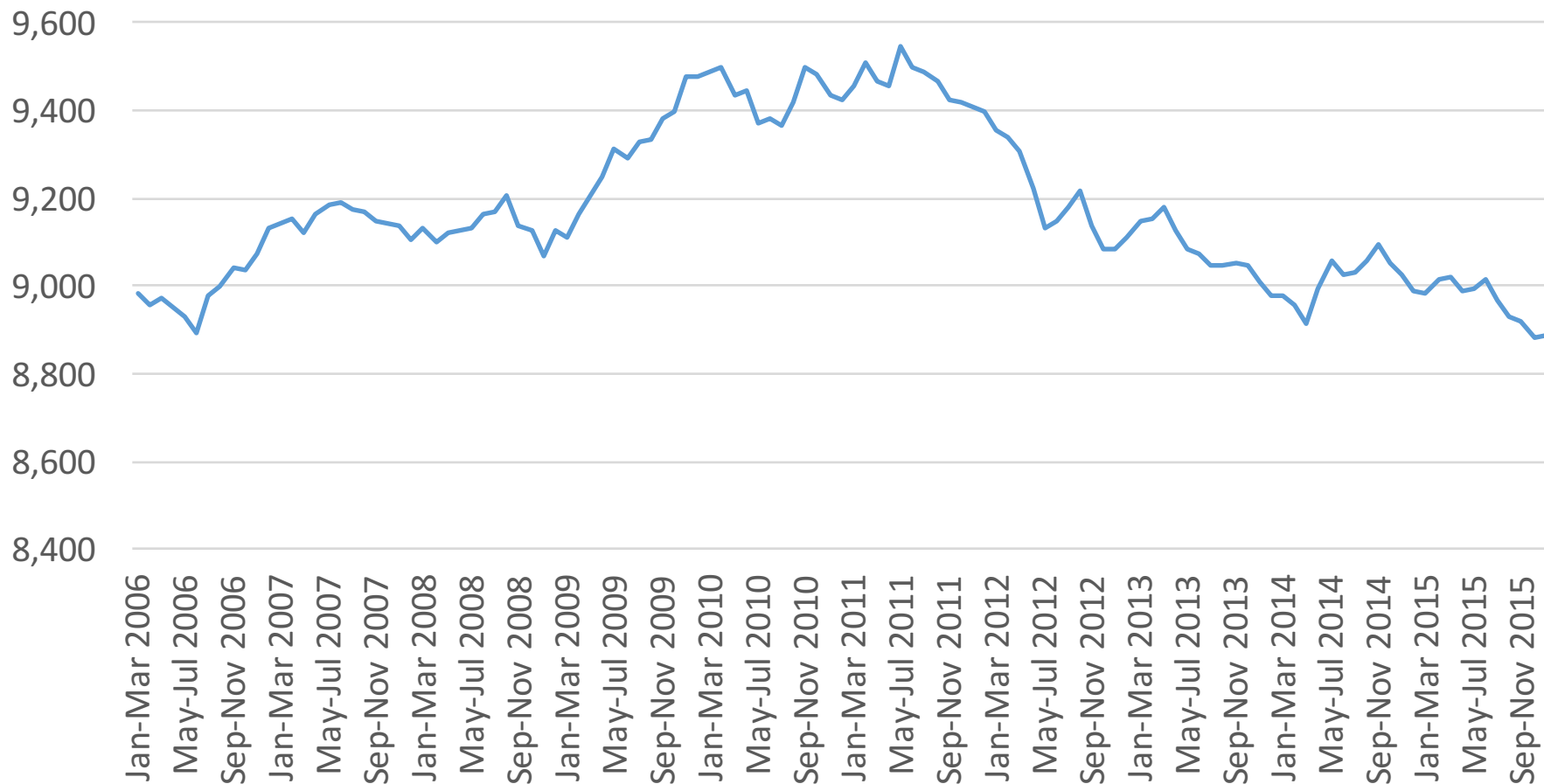
Economic Inactivity in the UK Labour Market

- **Economically active** people are those in work plus those seeking and available to work. **Economically inactive** people are those who have stopped an active search for paid work in the labour market.
- Between Mar-May 2015, the total of economically inactive aged 16-64 (thousands) in the UK was measured at just over 9 million.

	Total economically inactive aged 16-64 (thousands)	Students	Looking after family / home	Long-term sick	Discouraged workers	Retired	Other	Does not want a job
Mar-May 2010	9,433	2,288	2,352	2,233	71	1,513	794	7,049
Mar-May 2013	9,179	2,360	2,293	2,065	64	1,387	825	6,850
Mar-May 2015	9,019	2,312	2,265	2,070	42	1,269	861	6,718

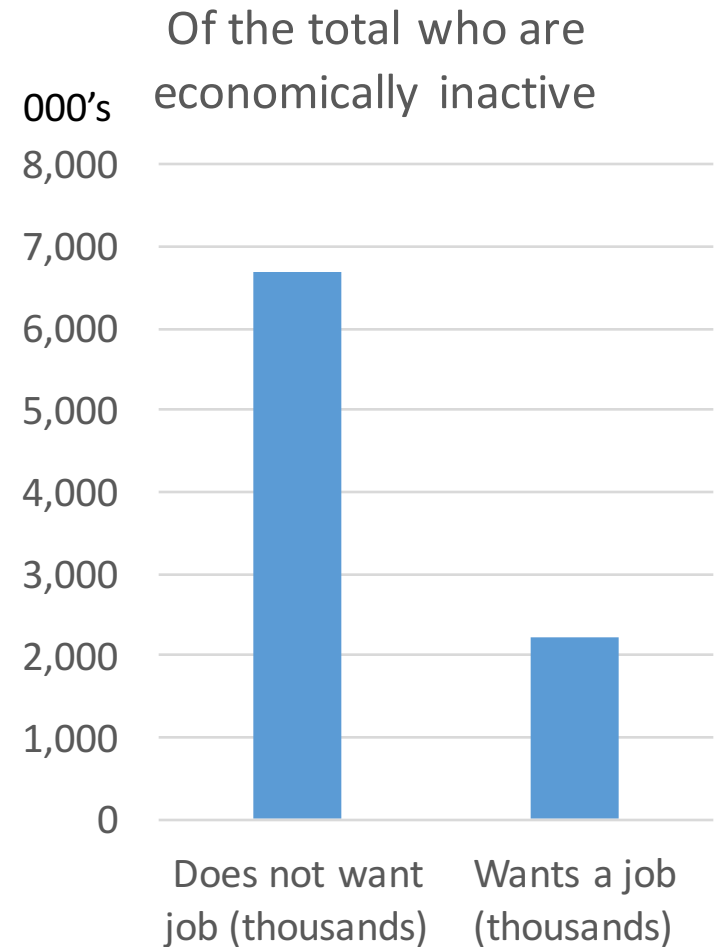
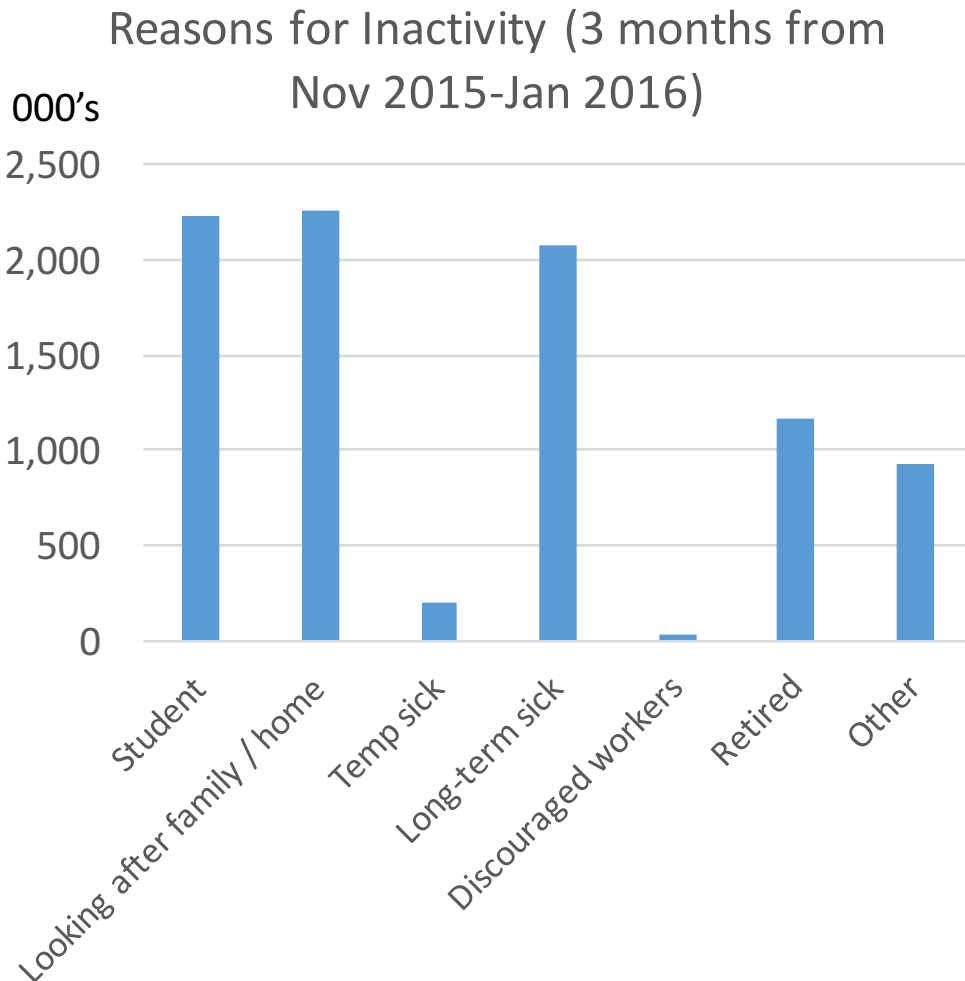
Economic Inactivity in the UK Labour Market

Total economically inactive aged 16-64 (thousands)



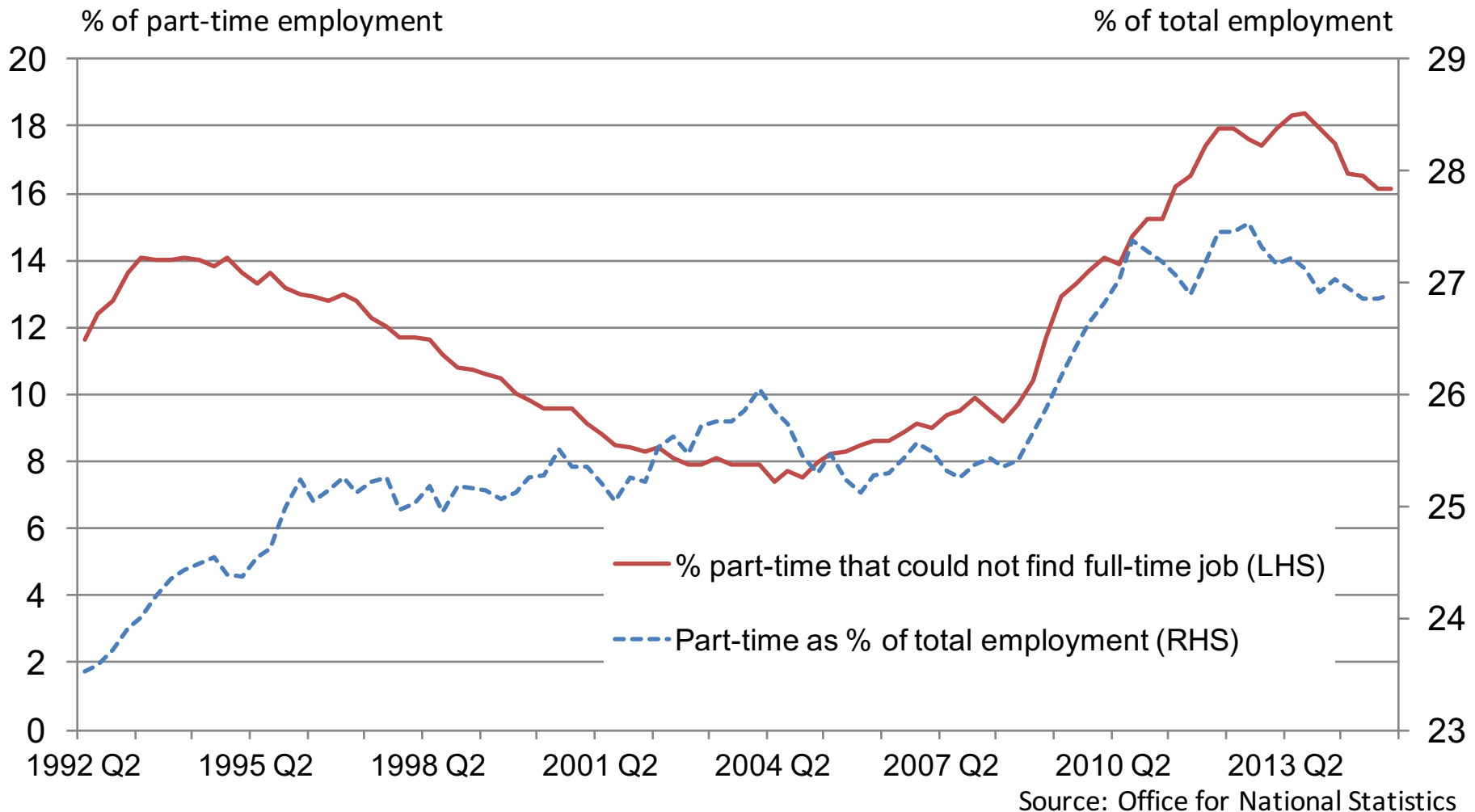
People not in employment who have not been seeking work within the last 4 weeks and/or are unable to start work within the next 2 weeks

Reasons for Economic Inactivity in the UK



People not in employment who have not been seeking work within the last 4 weeks and/or are unable to start work within the next 2 weeks

The Rise of Part-Time Employment in the UK



A key feature of the UK economy in recent years has been a rise in part-time employment. By 2015 over a quarter of people worked part-time.

The Rise of Zero Hours Contracts in the UK Economy

Total
(thousands)

Zero Hours Contracts do not guarantee a minimum number of working hours each week

% of people
in work



- People on “zero-hours contracts” are more likely to be young, part time, women, or in full-time education when compared with other people in employment.
- On average, someone on a “zero-hours contract” usually works 26 hours a week

■ In employment on a zero hours contract (thousands)

— Percentage of people in employment on a zero hours contract

Are UK Unemployment Figures Accurate / Reliable?

Strength of Unemployment Data



Timely figures in new each month



Large sample size (40,000+) for the LFS measure



Local & regional jobless data helps policy



In UK, a low level of welfare benefit fraud

Problems / Limitations of Data



Much **hidden unemployment**



Sample errors are inevitable



High level of **under-employment**



High rate of labour migration affects accuracy

Main Types of Unemployment



Seasonal

Regular **seasonal changes in employment** / labour demand e.g. tourism, retail, hospitality, agriculture and construction industries



Structural

Arises from the **mismatch of skills** and job opportunities as the pattern of labour demand changes over time – linked to occupational and geographic labour immobility



Frictional

Transitional unemployment due to **people moving between jobs** and also new entrants to the labour market



Cyclical

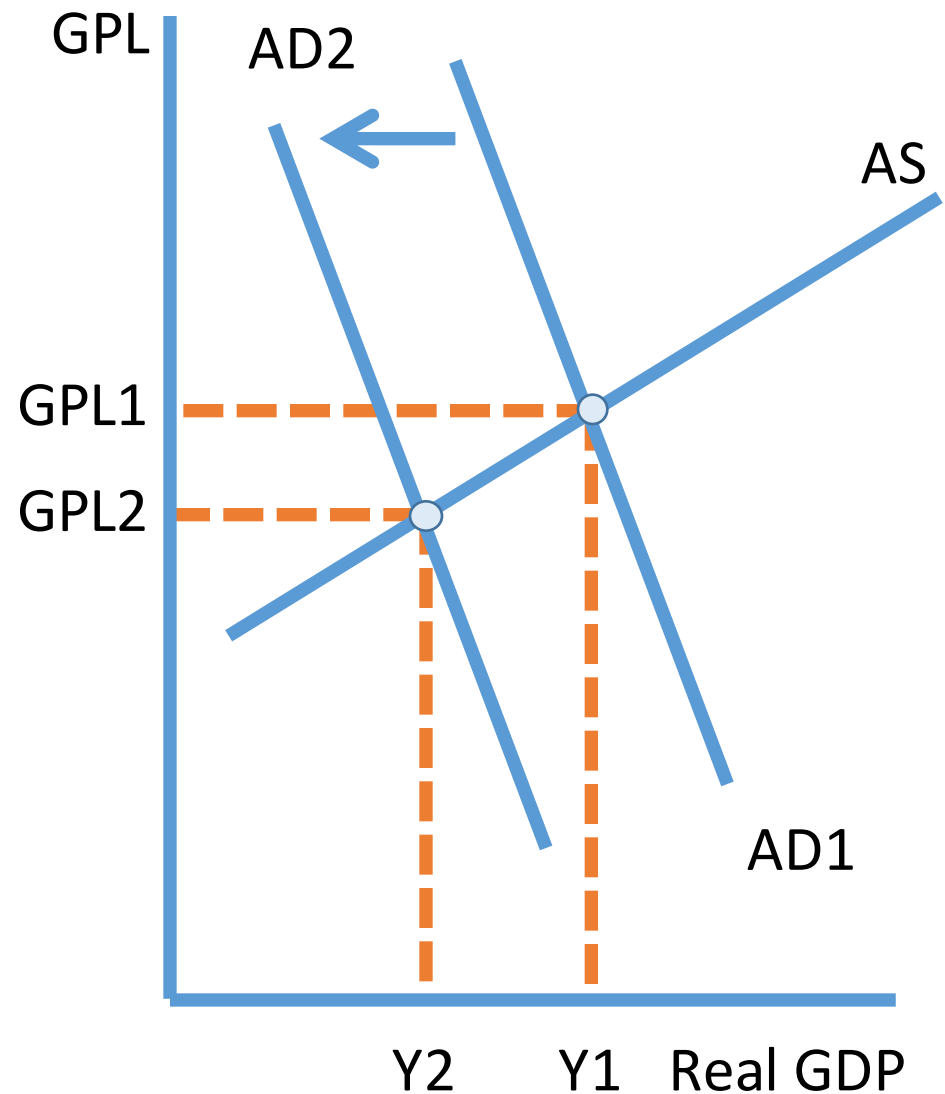
Caused by a **fall in or persistent weakness of aggregate demand** leading to a decline in real GDP and jobs

Cyclical Unemployment – Falling Aggregate Demand

Cyclical unemployment is due to a **lack of demand** for goods and services.

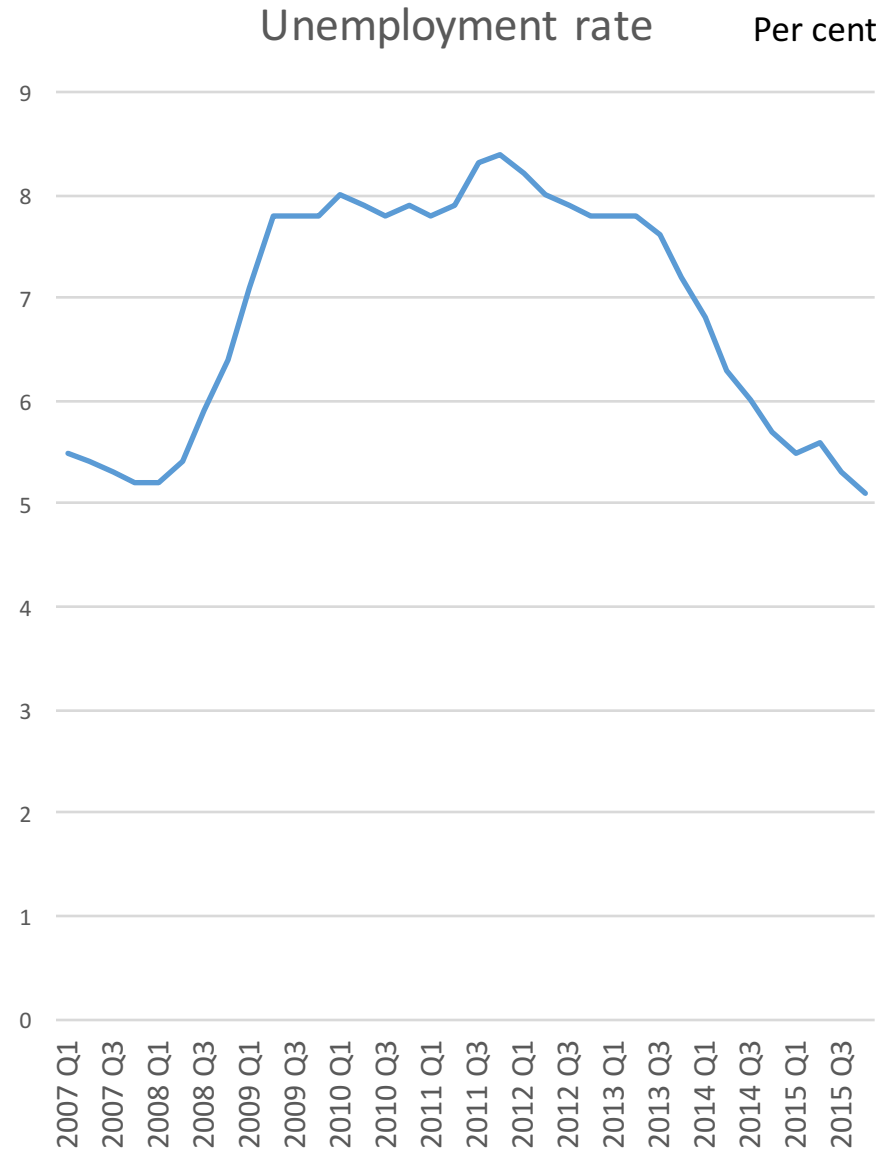
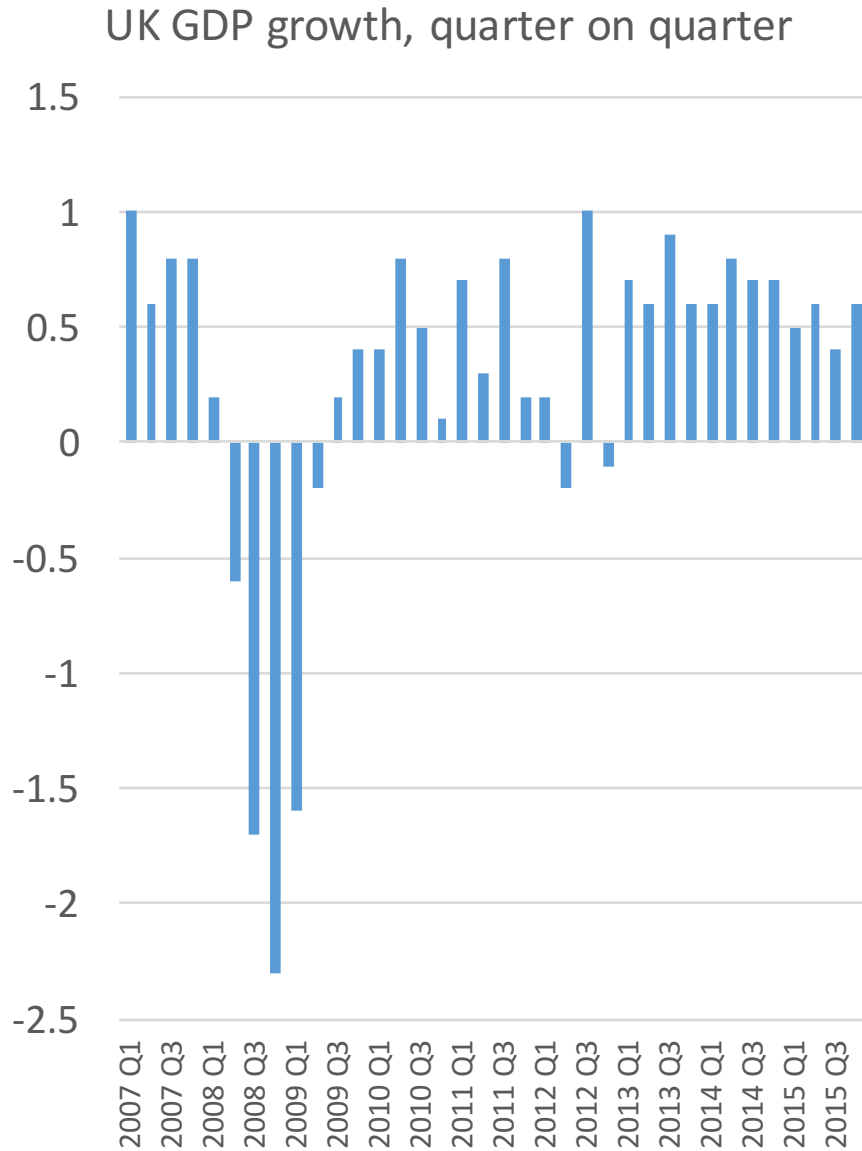
In a **recession**, firms are likely to reduce employment to cut costs – this is called **“labour shedding”** or **“down-sizing”**

Cyclical unemployment has been a major problem for many European Union economies such as Greece, Italy and Spain with low rates of economic growth.

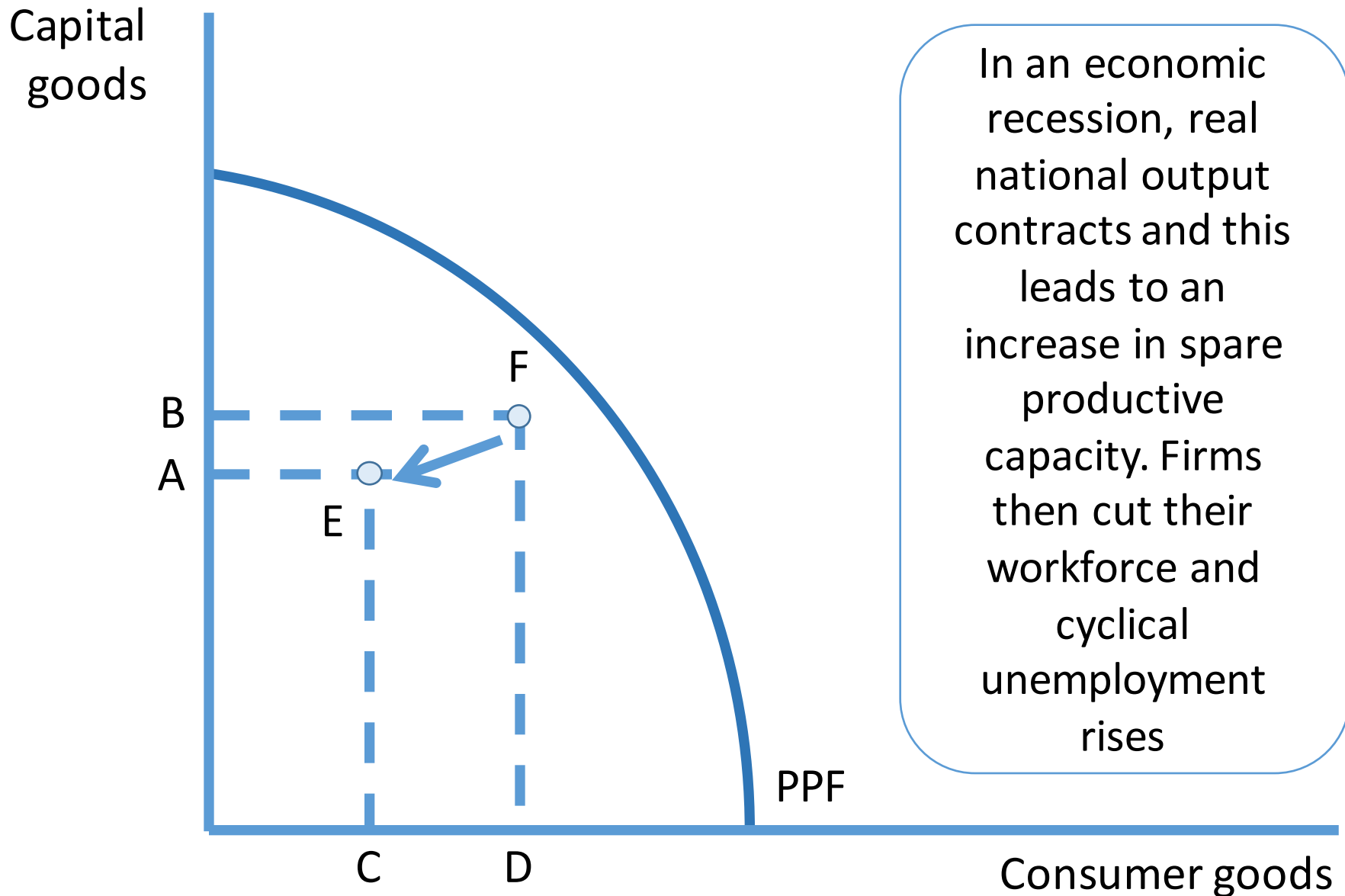


UK Economic Growth and Unemployment

Source: ONS



Economic Recession and Cyclical Unemployment



Structural Changes in Employment

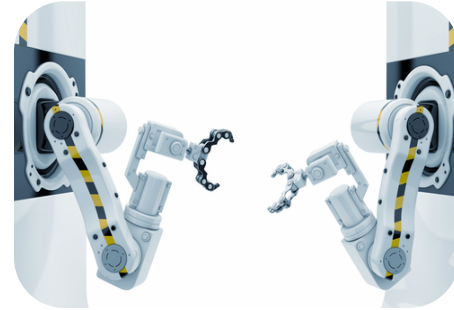
Structural unemployment when there are significant changes in the pattern of employment in an economy



Decline of heavy manufacturing



Rising incomes causing shift towards services



Automatic – i.e. robotics replacing jobs



Foreign competition – rising imports



Long-term regional economic decline



Outsourcing of production overseas

Structural Barriers to People Finding Work

Structural unemployment can arise from a series of labour market failures i.e. structural barriers / hurdles to people finding work



Skills gaps - new jobs often require new skills – cost of re-training



Unaffordable housing (to buy and to rent)



Disincentives created by the Poverty Trap (tax and welfare)



Risk of employer discrimination



Erosion of skills and motivation from long term unemployment

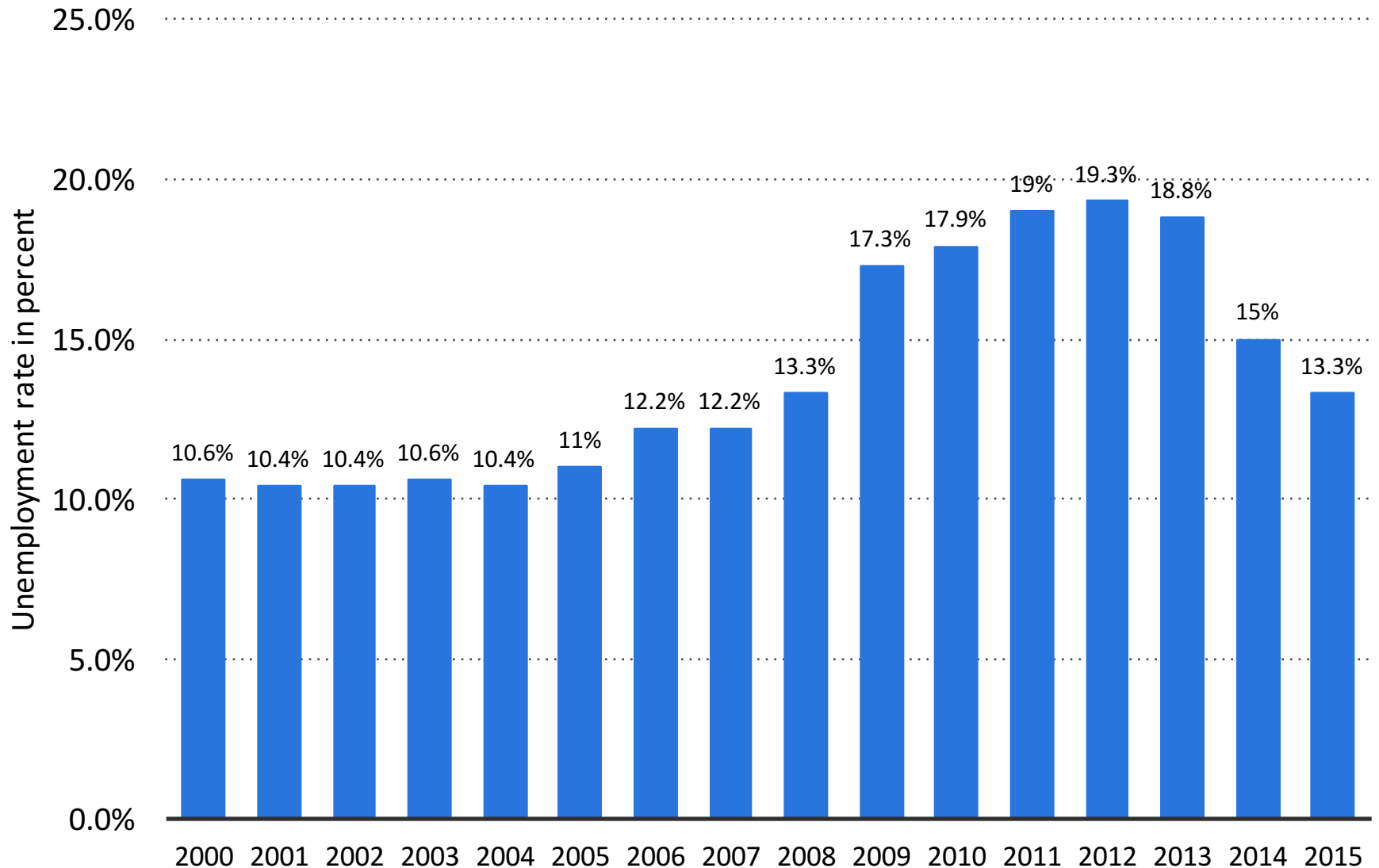


Disincentives created by Unemployment Trap (e.g. child care costs)

Youth Unemployment Rate in the UK

Youth unemployment rate (18-24 years old)

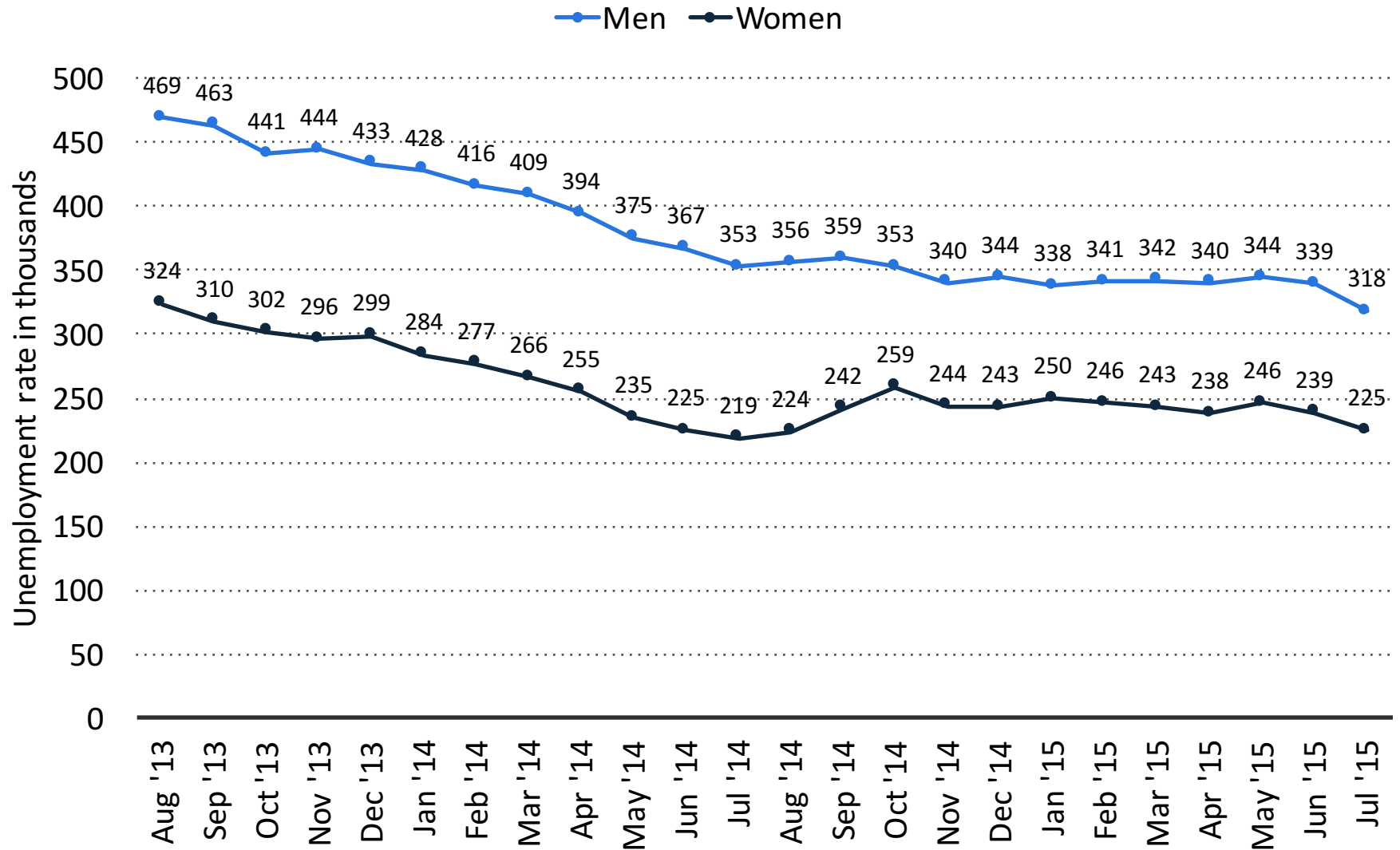
Source: Office for National Statistics



UK Youth Unemployment Levels By Gender

Youth unemployment (18-24 years old)

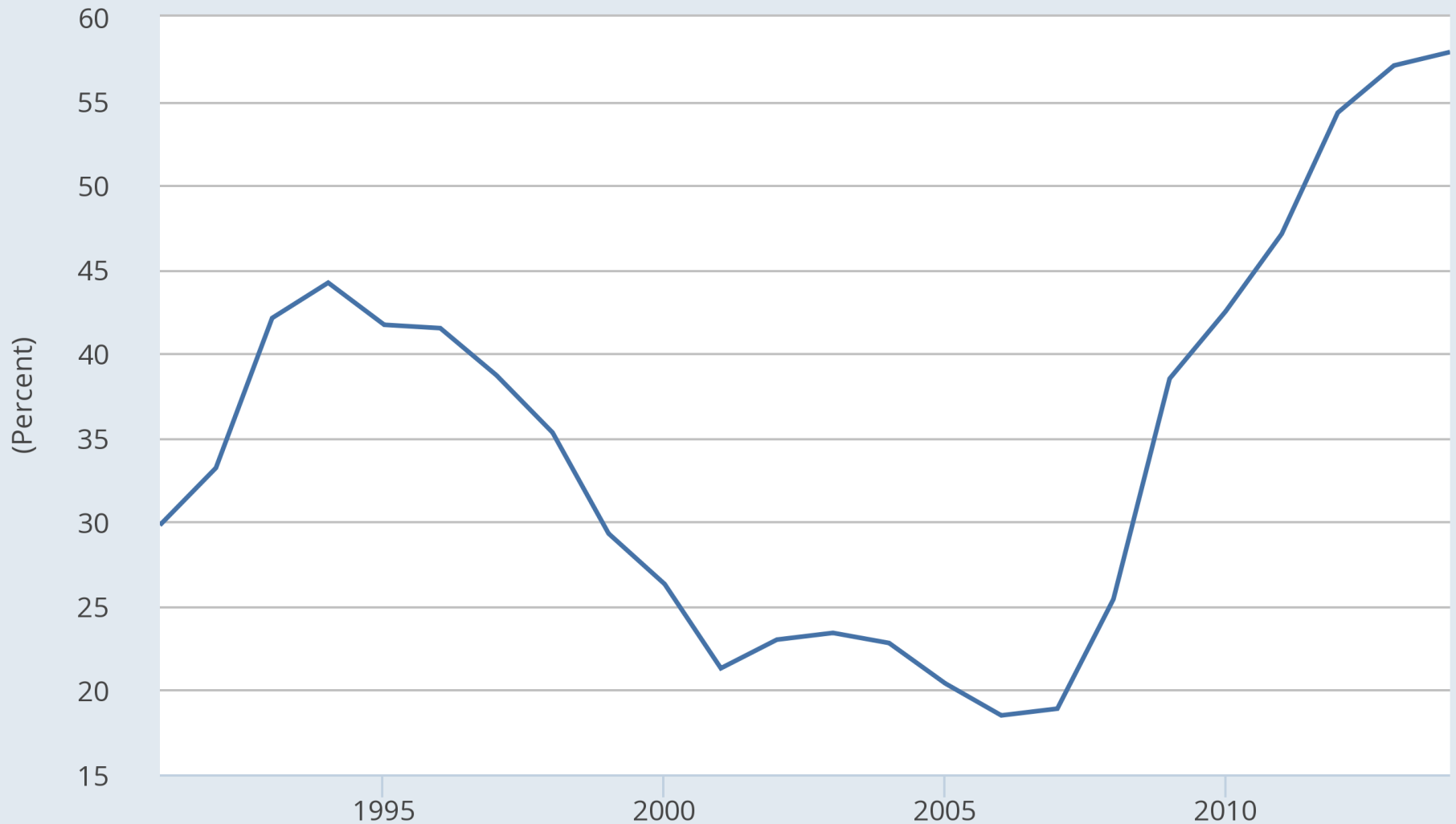
Source: Office for National Statistics



Youth Unemployment Rate in Spain



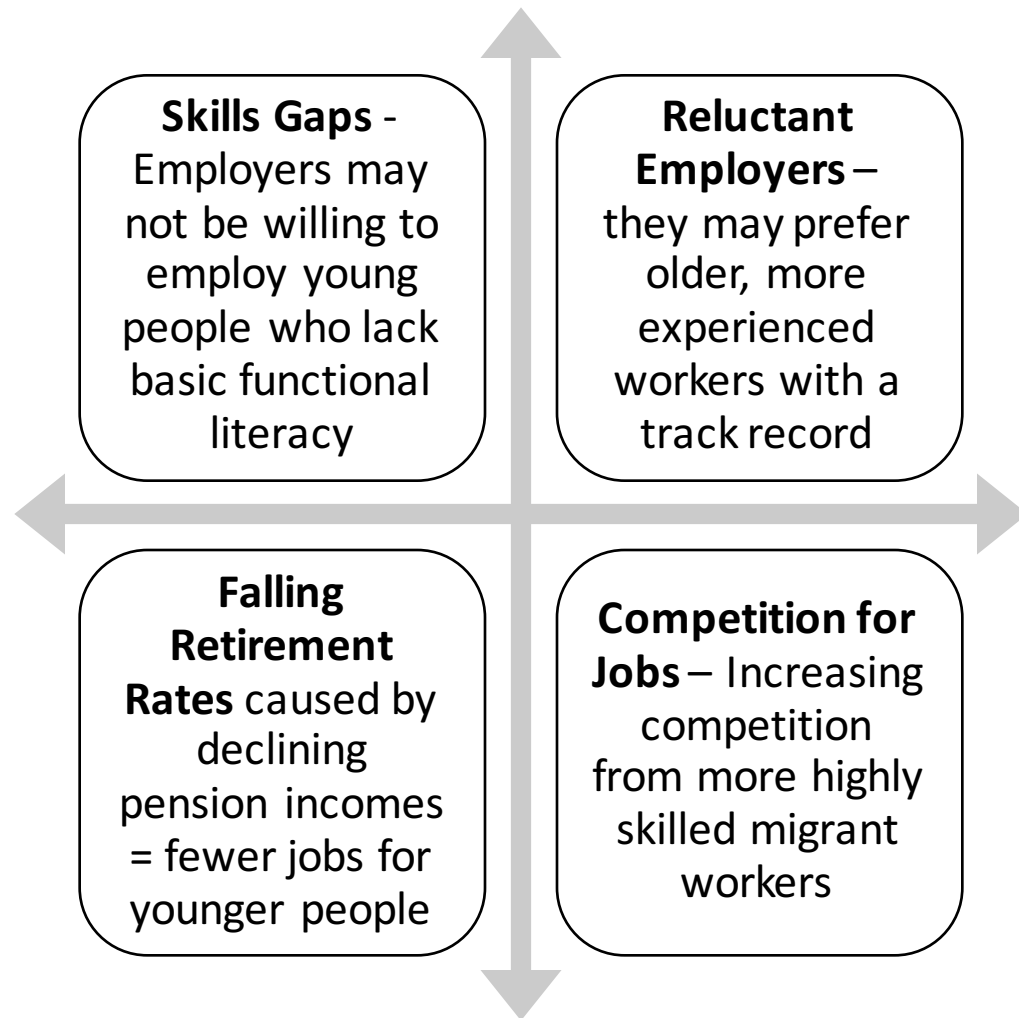
— Youth Unemployment Rate for Spain



The Problem of Youth Unemployment

- 627,000 people aged 16-24 were unemployed in December 2015-February 2016, down 115,000 on the previous year.
- The unemployment rate for 16-24 year olds was 13.7%
- High rates of youth unemployment have serious **economic** and **social consequences**

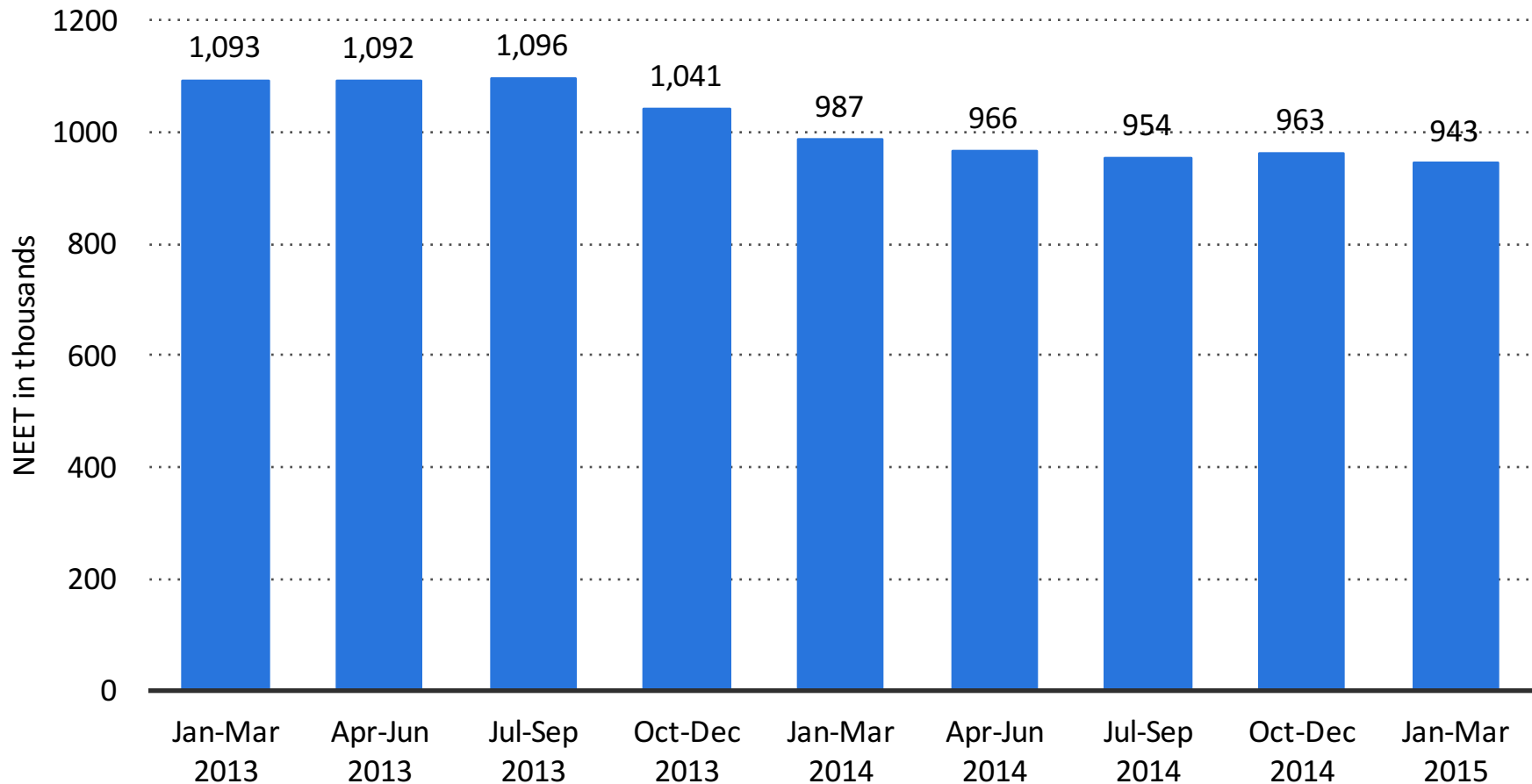
Some of the causes of high youth unemployment are shown below



NEETS

Young people not in education, employment or training (NEET) in UK from Jan-March 2013 to Jan-March 2015 (in 1,000)

Source: Office for National Statistics



NEETS are “outsiders” in the labour market and this group has become a key area for policy intervention e.g. via apprenticeship schemes

Consequences of High Youth Unemployment



Cost to the government in lost tax revenues and increased welfare

Fall in aggregate demand as young workers have less disposable income (they have a high marginal propensity to consume)

Long term economic inactivity can have huge effects on expected lifetime income

Diminished access to credit if young people do not have formal employment - risk of penal interest rates

Brain drain effects as younger workers leave a country in search of work e.g. exodus of Spanish youth unemployed to Germany & UK

Policy Options to Cut Youth Unemployment

Expand mentoring programmes - more alternatives to university post 18

More certified apprenticeship schemes

Better career education in schools

Lower national insurance for employers who take on younger workers

Increased funding for education in STEM and coding

Improvements in basic skills including numeracy and literacy

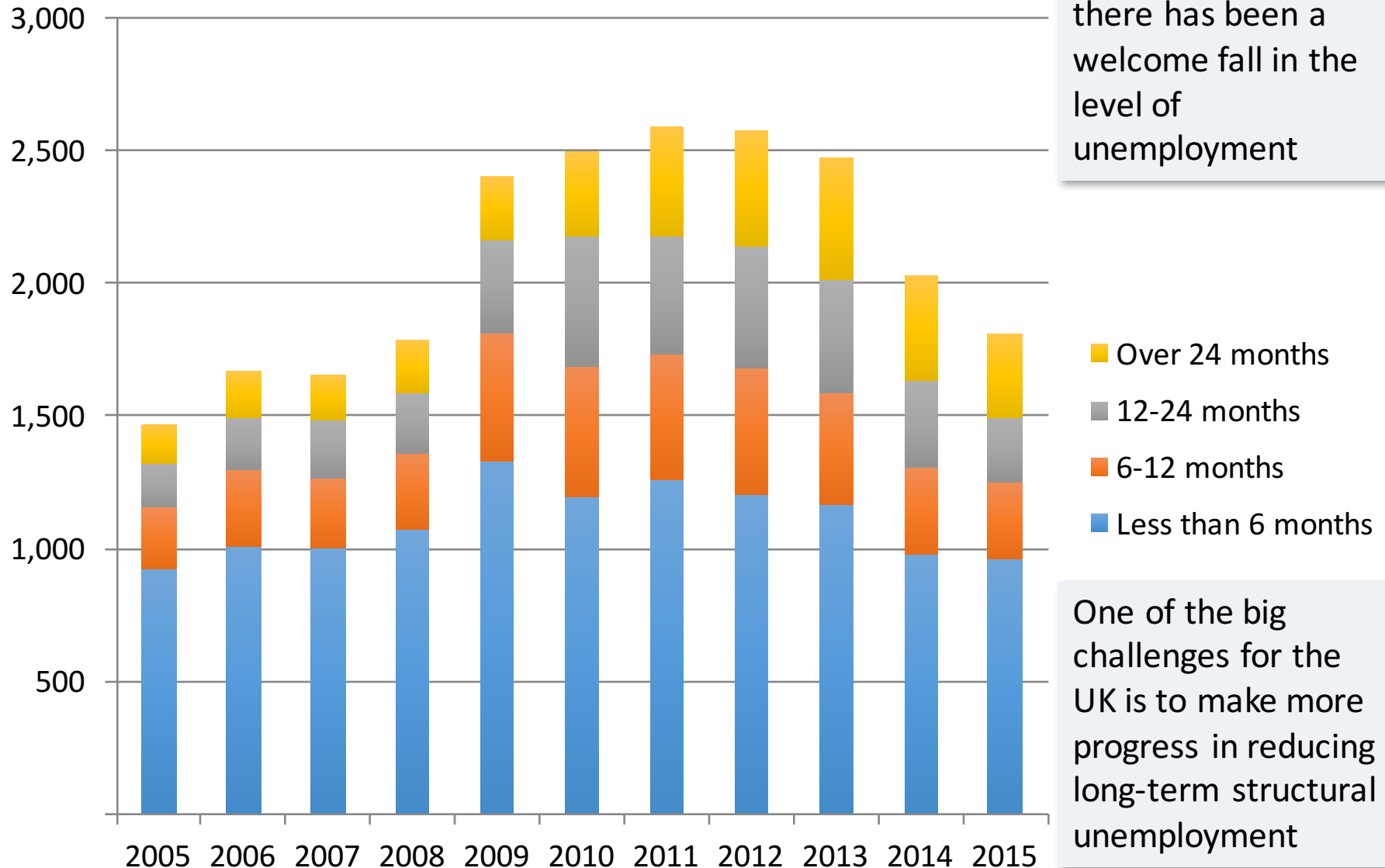
Increased bursaries for university tuition

Macroeconomic policies that help avoid recessions

A lower minimum wage for younger workers?

Duration of LFS Unemployment in the UK economy

Total unemployment, seasonally adjusted



In the last few years there has been a welcome fall in the level of unemployment

One of the big challenges for the UK is to make more progress in reducing long-term structural unemployment

“Labour Scarring Effects” from High Unemployment



Loss of work experience

- Reduced employability from a depreciation of skills
- Gaps in CVs may influence potential employers
- Decline in quality of human capital



Loss of current and future income

- Vulnerability to consumer debt at high interest rates
- Decline in physical health and increase in psychological stress – less likely that someone will find work again



Changing pattern of jobs in the economy

- New jobs in recovery stage are different from lost ones
- Structural unemployment – i.e. occupational immobility – makes it harder to get people into the new jobs

Summary of Main Costs of Unemployment

Unemployment has significant economic and social costs especially when the rate of unemployment is persistently high and many people are out of work for prolonged periods. The damage for example caused by very high unemployment in many struggling Euro Zone countries is testimony to the impact that unemployment can have.

Slower
growth

Rising
inequality

Erosion of
skills

Fiscal costs

Externalities

Policies to Reduce Unemployment – Labour Demand



Macro Stimulus Policies (+ Multiplier Effects)

- Low interest rates + improving credit supply to businesses
- Depreciation in the exchange rate (to help exporters)
- Infrastructure investment projects (fiscal policy)



Cutting the cost of employing extra workers

- Reductions in the rate of national insurance contributions
- Financial support for apprenticeships / paid internships
- Extra funding for regional policy – special economic zones



Competitiveness Policies

- Reductions in corporation tax (to increase investment)
- Tax incentives for research / innovation spending
- Enterprise policies to encourage new business start-ups

Policies to Reduce Unemployment – Labour Supply



Reducing occupational mobility

- Better funding for and more effective work training
- Teaching new skills e.g. Coding for gaming, languages
- An expansion of apprenticeship / internship programmes



Improving geographical mobility

- Rise in house-building will help to keep property prices lower and encourage more affordable housing rents
- Active regional policy to improve transport infrastructure



Stimulate stronger work incentives

- Higher minimum wage (now rebranded as a living wage)
- Increased tax free allowance of £11,500 from 2016
- Welfare reforms to help reduce the risk of the poverty trap

Getting UK Unemployment Down Below 5%

Requires sustained
real economic
growth – reducing
cyclical volatility

Requires more
balanced growth
e.g. between the
regions

Policies need to
make work and
education
investment pay

A flexible labour
market helps
absorb external
economic shocks

Re-skilling the
workforce in a fast-
changing labour
market

Effective policies
focus on the
underlying causes

Evaluation: Key Barriers to Lowering Unemployment

- High levels of long-term **structural unemployment** in the UK
- Hard to overcome the **disincentive effects** of
 - A complex welfare benefits and tax system
 - An **unaffordable housing sector** (both to buy and to rent)
 - **Low-paid jobs** that keep families in relative poverty
 - High costs and uneven availability of quality **child care**
- High rates of **public sector dependency** in some areas
- Many people are **under-employed**, stuck in part-time jobs
- **Skills shortages, creaking infrastructure**, + huge variations in **educational outcomes** and **opportunities**
- Weak demand in domestic & export markets e.g. economic problems in the European Union

Evaluating the Benefits of Falling Unemployment

Standard economic and social benefits of falling unemployment	Potential disadvantages of falling unemployment
<ul style="list-style-type: none">• Increased employment – boosts real GDP, helps to lift living standards, demand	<ul style="list-style-type: none">• Extra spending from expanding labour market might worsen the current account
<ul style="list-style-type: none">• More people in work – creates extra tax revenues for the government either to lower the deficit / increase spending (G)	<ul style="list-style-type: none">• Risk of an acceleration in demand-pull and cost-push inflationary pressures if unemployment falls rapidly
<ul style="list-style-type: none">• Social costs of high unemployment are severe – progress in cutting it has important economic + social benefits	<ul style="list-style-type: none">• Fewer spare labour will mean a rise in unfilled vacancies; labour shortages might put off some inward investment

Macro Objectives: Unemployment

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