

Discuss The Types Of Unemployment And The Benefits Of Controlling It In The UK. (20 Marks)

Unemployment is the number of people out of work who are actively seeking employment at the current wage rates. To be actively seeking work you must be of working age: 16-64 for males and 16-59 for females and not economically inactive. That means you cannot be in full time education, be on a training scheme, have retired early or be raising children at home. To measure unemployment in the UK the government uses two methods to quantify the rate. The first is the Labour Force Survey, in a monthly survey of a sample of households representing the entire population. The surveys are based on the activities of each person of working age in the households, within a one week period. A person who did any work during that week for pay or profit, worked 15 hours or more as an unpaid worker in a family business, or had a job from which he or she was temporarily absent, is counted as employed. A person who was not working but was looking for work or was on a temporary lay-off and available to take a job is counted as unemployed. The second is the claimant count, where the governments collect figures on the number of people claiming unemployment benefits from the DSS. This second method often gives lower values as they is likely to be many people who do not except the benefits, purely on principal or because they do not need the extra cash.

There are five main types of unemployment which all affect the economy in different ways. These are cyclical or demand deficient unemployment, frictional unemployment, seasonal unemployment and structural unemployment.

The first of these, cyclical or demand deficient unemployment is based around what will happen to demand in a recession. When the economy goes into a recession there is a rise in unemployment as there is insufficient demand within the economy. This is really only a short term cause to unemployment, because when in recession the economy is in disequilibrium. However macroeconomic forces will work to restore the economy to its long run equilibrium, however in the short run there will be unemployment.

In a recession the demand curve will shift left to D_2 . With the wage rate remaining constant at W in the short term there will be unemployment of GE created. In response macroeconomic forces will cause one of two changes. Either the economy will move out of recession, causing the demand curve to shift right and back to the equilibrium point of W, E . Else if the economy stays in recession the forces will cause the wage rate to drop to Y and cause the number of workers employed to rise to F . However as the economy moves out of recession the demand curve will shift right, causing the economy to move back towards its equilibrium at W, E .

The second types of unemployment, frictional unemployment is the term used to define workers who have recently lost a job and are in short term unemployment until they find further employment. There is always turnover of labour in a free market, so frictional unemployment is not regarded as a major problem.

Seasonal unemployment is when workers work within an industry that only requires them to be employed at certain times of the year. For example in the tourist industry workers tend to work in the summer, but are then laid off in autumn months before taking up their jobs again the next spring. There is very little that can be done to prevent seasonal unemployment in a market where the demand for labour varies throughout the year.

Structural unemployment is when the demand for labour is less than the supply in an individual labour market. There are three main examples of this. Regional unemployment, where different areas of the country have different rates of unemployment and because of a lack of factor mobility, labour is not able to freely move between regions and balance unemployment. Sectoral unemployment is when workers from

one industry are unable to adapt to a different industry, therefore not being able to follow the changes in demand. Finally if technological unemployment, where technology advances and replaces manual labour, therefore without retraining workers would not have the skills to operate these machines and therefore would not be suitable for the demand of labour.

Controlling the rate of unemployment in the UK is going to be a key element in the performance of the UK economy. The rate of unemployment is directly related to real GDP. So in both the short run and the long run if the economy is to grow then unemployment must be controlled. The rate of unemployment will also determine the kind of policy the government will have in place to boost the economy, although this is also based on the type of government in power. The current labour government are Keynesian economists and believe that in the long run there may be mass unemployment. They also use fiscal policy, which is a demand side policy.

So their economic goals will depend a lot on the long term unemployment levels that are predicted. If the government are predicting a period of sustained unemployment they are likely to be aiming at lowering inflation. Whereas if they predict full employment they can aim for increased GDP. Because of the shape of the long run aggregate supply curve, both these goals can be achieved without altering any other elements of the economy.

To lower inflation the demand function would need to be shifted left. This could be achieved by an increase in the National Insurance contributions of workers. This would cause more of people's income being taken in taxation leaving them with less money to spend on goods and services, which would cause a decrease in the total demand in the economy. To help increase economic growth the total demand in the economy would need to be increased. This would need a shift left in the demand function, which could be caused by a fall in interest rates. This would cause more people to borrow money and less to save, leaving more money in the economy which will increase the demand for goods and services.

If unemployment can be kept low then the costs of unemployment are minimised as well. Not only do the government have to spend less on unemployment benefits but also have less trouble with crime and vandalism, which will also save them valuable money. Also everyone will have more money to spend, not only the previous unemployed, but also previous taxpayers as the government will require less money from them. This will increase total money in the economy and cause the aggregate demand to shift right, which will cause the growth of the economy to increase.

So sustainable unemployment is good for the economy as it enables the government to set goals and work towards them around the long term predictions for unemployment rates. This is only an option if unemployment is kept in a boundary. Else if it is too fluctuated then it is hard to judge what the government will need to do from one day to the next.

However controlling unemployment may not always be a good thing. For example because unemployment is directly related to economic growth, if you are controlling unemployment then you are also controlling economic growth. This will not be a good thing as the economy is at its most efficient when economic growth is climbing at a rate constant to the economy, not controlled by the government.

