

Unemployment

Officially the unemployed are the people who are registered with the government as willing to work and able to work at a going wage rate but can't find suitable employment despite an active search for work.

Structural Unemployment

This type of unemployment exists even when there are job vacancies, due to the mismatch between skills of the registered unemployed and those required by the employers. People made redundant in one sector of the economy cannot immediately take up jobs in other sectors.

Seasonal Unemployment

- Regular seasonal changes in employment/labour demand.
- Affects certain industries more than others e.g. catering and leisure, construction, retailing, tourism, agriculture.
- Seasonal unemployment is not a major cause of concern.

Frictional Unemployment

- Frictional unemployment is transitional unemployment due to people moving between jobs: Includes people experiencing short spells of unemployment.
- Includes new and returning entrants to the labour market
- Imperfect information about available job opportunities can lengthen the period of someone's job search.
- Frictional unemployment also affected incentives/disincentives to search and accept paid work
- The unemployment trap may exist for some workers

Full Employment

This does not technically mean that everyone in the country has a job. There will always be some people out of work, either voluntarily (early retirement, for example) or perhaps those who are structurally unemployed (Lost their job in an old industry and their skills are non-transferable). In the UK at the moment, the official claimant count of unemployment is about one million. This is considered to be fairly close to full employment.

Private costs for the unemployed

- Loss of income- but many households have major spending commitments(mortgage ,credit arrangements)
- Fall in real living standards
- Increased health risks e.g. stress, reduction in quality of diet, increased risk of marital break up, social exclusion because of loss of work and income.
- Loss of marketable skills(human capital) and motivation
- The longer the duration of unemployment, the lower the chances of finding fresh employment-the unemployed become less attractive to potential employers.

Economic Consequences

Negative

- Fall in demand for goods and services
- Fall in demand for businesses further down the supply chain
- Consider the negative multiplier effects from the closure of a major employer in a town or city

Positive

- Bigger pool of surplus labour is available-but still a problem if there is plenty of structural unemployment.
- Less pressure to pay higher wages
- Less risk of industrial/strike action –fear job losses -leading to reduced trade union power

Consequences for the government

- Increased spending on unemployment benefits and other income- related state welfare payments.

- Fall in revenue from income tax and taxes on consumer spending
- Fall in profits-reduction in revenue from corporation tax
- May lead to rise in consumer borrowing

Consequences for the economy as a whole.

- Lost output (real GDP) from people being out of work- the economy will be operating well within its production frontier.
- Unemployment seen as inefficient way of allocating resources-labour market failure?
- Some of the long term unemployed may leave the labour force permanently- fall in potential GDP
- Increase in the inequity –rise in relative power.

Measuring Unemployment

The claimant count measure

- The number of people claiming the Jobseekers Allowance
- Monthly count of unemployed
- One problem with the claimant count is that it misses out many people who are interested in finding work and who might have searched for work in the recent period - but they don't meet all of the criteria for claiming and therefore are not included in the monthly unemployment count.

The labour force Survey

- Must have actively sought work in the previous four weeks and be available to start work immediately
- Higher figure than the claimant count-approximately half million higher
- The Labour Force Survey covers those who have looked for work in the past month and are able to start work in the next two weeks. The claimant count only includes those who are unemployed and claiming benefit. As such it excludes a number of people who are classed as unemployed under the ILO definition - for example women seeking work whose partners are on means tested benefit. On average, the labour force survey measure has exceeded the claimant count total by about 400,000 in recent years.