

“What can the government do to reduce unemployment?”

Business & Economics Coursework

Introduction

In this coursework I aim to research into unemployment in the UK and explain why unemployment is high in certain areas, whilst low in others. I will also explain what the government is doing at the moment to get more people into employment. I will mainly focus on the Governments ‘New Deal Scheme’ which tackles the ongoing unemployment problem by offering subsidies to companies to employ workers who would otherwise be on the dole. However, I will also offer other suggestions that may help lower unemployment.

Across the UK it has almost become accepted that unemployment is here to stay. Proposals for higher infrastructure spending or new ways of editing the labour market produce little confidence, there’s a general feeling that everything has been tried in the past, and has proven to be unsuccessful. But surely it is unacceptable for the government to simply accept permanent unemployment and all the social costs that it brings.

Former solutions to tackle unemployment don’t work because they do not recognise that its causes aren’t just to do with the economy, but culture and politics has as much to do with employment levels. Subsidising companies to take on workers helps create jobs, but this requires large government spending. Training is essential, but cannot create jobs itself, and is also costly.

Any new solutions must be broader and more imaginative. The government must forget about conventional ideas. The aim must be to help many more to take part in useful and fulfilling work, and so revive our governments claim to offer opportunities for all.

The first point to get straight is that unemployment can be reduced; this has been shown by previous government initiatives. The need for a new approach is rising as more people's lives and jobs fall victim to the insecurity generated by global competition and sweeping technological change.

The New Deal Scheme

“New Deal is a key part of the Government's Welfare to Work strategy. It gives New Deal jobseekers aged 18-24, 25 plus, 50 plus and New Deal jobseekers with disabilities a chance to develop their potential, gain skills and experience and find work. In addition, New Deal for Lone Parents and New Deal for Disabled People offers the opportunity to lone parents and disabled people on health related benefits to explore work options. It's also an opportunity for businesses to make use of the untapped energies and talents of a new labour force. More than 89,729 companies have signed New Deal employer agreements so far. Partnership between the Employment Service and a wide range of organisations is crucial to the success of New Deal. The New Deal Innovation Funds have been set up to support local pilots designed to improve the performance of New Deal.” (www.newdeal.gov.uk).

For the first time in at least three decades, an employment opportunity for all is now a realistic goal. This has been achieved because the Government has tackled the problems it promised to take on when it was brought into to power: economic instability; an inefficient labour market; low investment in education, training and skills; and a passive welfare state. The government have invested more in helping individuals participate in the labour market. This is not only a better use of their resources; it means that everyone is given the opportunity to develop their talents to the full. This way, everyone seems to benefit – not only individuals, but also the communities in which they live and the businesses in which they work.

Rising Unemployment

The first step for the government to take before considering reducing unemployment is to make sure the levels don't rise anymore- and recent news will not please them. It would seem that for the first time in over eight years, unemployment could be on an upward trend. The spate of high profile job losses finally seems to be making its presence felt in the dole queue. The number of people claiming benefit rose by over 4,000 in October. That jobless count can, however, be misleading, as it depends on people being able to comply with the (increasingly stringent) criteria for receiving benefit.

Even the government admits that an alternative and wider measure - known as the ILO one - is more reliable. That is based on a survey of households, and classes someone as unemployed if he or she is available for work, and has looked for a job in recent weeks. It also shows unemployment has risen over recent months, by an average of 10,000 per month. Job losses are of course nothing new in manufacturing. The recession-hit sector has been shedding workers for the last few years, and has lost over 300,000 jobs in the last two years.

The size of the manufacturing workforce is now at its lowest since records began almost 20 years ago. However, rising service sector employment meant that unemployment was on a downward trend until very recently. But with the jobless total now appearing to be at turning point, it is a sign that services jobs are also being shed.

Even before the 11 September, employment was being squeezed in areas such as financial services and tourism. Since then, airlines and other sectors have added to the total. Airlines are estimated to have cut over 70,000 posts. But given the scale of the job losses announced in recent months it may be surprising that unemployment hasn't started rising sooner.

There are a number of explanations for these trends, firstly, job cuts tend to get far more coverage than the creation of new jobs. And despite the headlines, there are still new positions appearing. Most recently B&Q has created 4,000 jobs, and other household names, such as Asda, are also creating positions. It may be that, as usual, the media is demonstrating the worse end of the news. Even if that is not the case, it may be taking time for the job losses to feed through to the unemployment figures because those laid off may not qualify for benefits immediately. Or, if they have large redundancy packages, or have large savings, they may not qualify at all. In that case, there may be a lag before they appear in the claimant count figures.

At a time when those being laid off include some very high earners, the ILO numbers are likely to paint a more accurate picture.

And certainly, ILO numbers have shown a larger rise in the jobless total in the last few months - and they too may be affected by a lag.

If so, the post-11 September lay-offs could result in a sharp rise in unemployment in the coming months. Or it even may be the case that the ILO count fails to capture the full scale of the job losses. During the early 1990s recession, thousands of those who were made redundant put off, or gave up looking for work. They were counted in the ILO survey, but come under the term "economically inactive", not unemployed, as they were not seeking or available for work.

Whatever the true picture, economists think the number of those out of work will rise, perhaps by about a quarter of a million or so in the next year. While clearly, this would be very bad news for those directly affected; it would be a small rise by the standards of previous downturns. The number of people in work would still be close to 28 million. And unemployment would still be among the lowest in Europe. Such a rise would be consistent with the idea that the UK is in for a slowdown rather than recession. But it is at the point when unemployment is rising that the risk of a sharper slowdown for the economy may occur. As the job losses intensify, even those still in employment start to worry about their prospects - and tighten their belts. Because consumer spending is keeping the economy afloat, the impact of unemployment figures could be crucial for the continued growth of the UK economy.

ONS figures

4,300 claimants in Oct- 1st increase since Oct 2000
Unemployment rate 2.3%
Unemployment has been falling since 1992 to 26 year low

Experience of Unemployment - Economic Journal research

Long -term 'scars'
Increased likelihood of future unemployment
Lower subsequent earnings
Redundancy ranks only behind bereavement & divorce
social exclusion