

Unemployment in the UK

HOBSON Economics

Applied Economics



WORKSHOP

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Introduction

Recently there have been conflicting reports about the state of the UK's labour market. It seems the case that there is a major misunderstanding about the true state of the labour force. Some newspapers claim the number of unemployed is 5 million, while others claim that there is a record number of employed.

As the labour force count for a significant proportion of both the governments spending and taxation, we need an accurate analysis of the UK's labour market and minimise these contrasting figures.

This report will point out the problems in the ways Britain measures unemployment.

Up to date data and graphs will be used to illustrate these problems. The different factors that affect unemployment in Britain will also be pointed out.

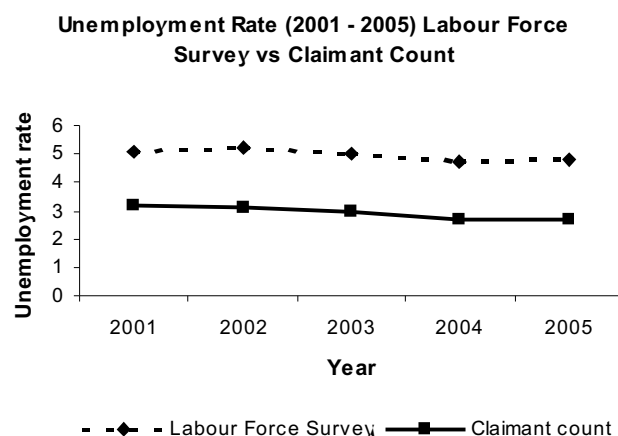
How UK measures Unemployment

There are two major ways in which the UK measures its unemployment. These are the Labour Force Survey and the Claimant Count method. The fact that there are two different ways of measuring the unemployment, which give two different results, already means possibility of confusion and misleading data.

The Labour force survey method is simply conducting surveys to which the data collected specifically provides information about the labour force. This method of calculation has its advantages and disadvantages.

The data collected through this survey can be used to compare unemployment in other countries. The major disadvantage of this method of calculation unemployment is that it is cost ineffective and is very time consuming when it comes to processing and publishing the data. There is also a chance that an error might occur which will render the data null and void.

Fig.1



The claimant count method is taking into account the people claiming unemployment benefits like job seekers allowance (JSA) and national insurance credit. The people receiving JSA must declare that they are out of work, able and willing to work and are looking for work during the week the claim is made.

The advantage of using the form of measuring unemployment is that it is easier to collect the data. The disadvantage is that not everyone qualifies for unemployment benefit. This means that even if a person is fit, able and willing to work and does not qualify for the unemployment benefit, they will not be included in the data. Therefore this method can be misleading as to what the real unemployment figure is. The government can improve this method of employment by changing the criteria to which people can qualify for the benefit. However, it could be an economic pull down if the changes are too lenient, as the government will have to pay a lot more in benefits.

As Fig.1 shows, the two different methods of calculating unemployment give very different results. In every year the Claimant count unemployment rate is around 2% less than the Labour Force Survey. You could say that the Labour force survey is more accurate because it includes more unemployed people than the Claimant count. On the other hand, it could be argued that the extra numbers in the Labour force survey are slightly irrelevant as some of these do not claim any benefits – i.e. government does not have to spend extra money.

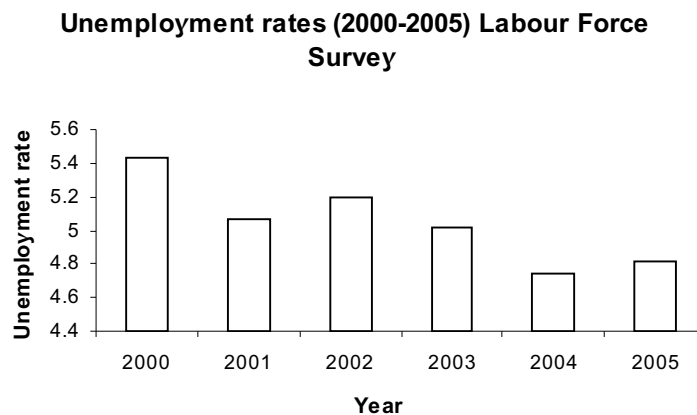
The government could select one method to measure the labour market as the current situation is very deceptive.

“The Business” claimed that the ‘real unemployment figure’ included 2.7 million people on incapacity benefits, 777,000 lone parents and 368,000 people judged to be in unpaid work. In 1998 the government introduced the new deal programme, which has helped the labour market. Over the years there have been new features on the new deal programme where there is restriction on benefits for lone parents and greater strictness in the tests for disability benefits, while the incomes of these in work are enhanced.

UK's performance in the Labour market

Ever since 1993, unemployment in the UK has been on the decrease. In the period, 1993 – 2001, unemployment fell from a peak of 3million (11%) to 1.5million (5%). After that, there has been a steady decline in unemployment, but not at as fast a rate. Some of this is due to stronger GDP growth. In 1998, the New Deal programme was introduced by the government to reduce long-term unemployment among the younger generation.

Fig.2

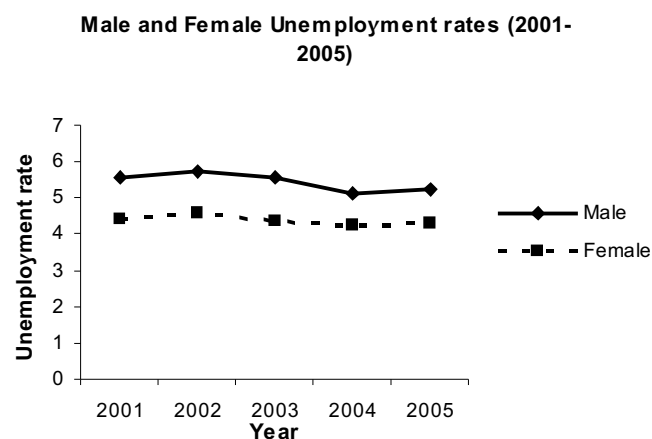


However, as you can see in fig.2 there was a slight rise in unemployment at the end of 2005. One of the reasons for this was the high level of migration into the UK after the latest 10 states joined the EU in 2004. There were a lot of migrants coming especially from Poland, seeking work and if they were unsuccessful, they would be counted as unemployed. There can also be a large amount of people employed in the UK but pay taxes elsewhere. They would be listed as employed but may be members of other EU countries. This means there may be a large amount of people listed as working as well as a large amount of people collecting public funds, which may send conflicting messages. The unemployment rate in the three months to September 2005 was 4.7%.

Unemployment Trends

With changes to the economy such as rise of the service sector compared to the relative fall of the manufacturing sector in the UK economy, there have been certain trends developing in the past decade. Fig. 3 shows the rate at which unemployment differs with genders.

Fig.3



full essay Historically in the UK the unemployment rate for men has generally been higher than for women. But over the recent years there has been an increase in the number of women playing a role in the labour force, this may alter the rates in the future to bring the two more closer together. This can be seen in Fig. 3 above during the periods of 2003 and 2004. the number of single mothers claiming benefits has increased over the years which could explain the rise in female unemployment over recent years.

Another group of people who are believed to be more likely to be unemployed are younger workers. The reasons for this vary as many are less skilled and easier to be replaced, or may be seen as more valuable as they may stay in employment longer. It is also believed that the variation between unemployment rates for younger labourers and older (25 and up) tend to be different, so combining the two groups can create potentially misleading information depending on purpose of use. In most cases younger unemployed labourers tend to be in that position for shorter periods unlike older labourers who are less likely to be employed if they lost their job or need to be retrained. Over the years there have been new features on the new deal programme for claimants under 25. Individual activity plans are drawn up with the employment service, which requires transition from benefit receipt to a subsidised job or full time education.

Fig.4

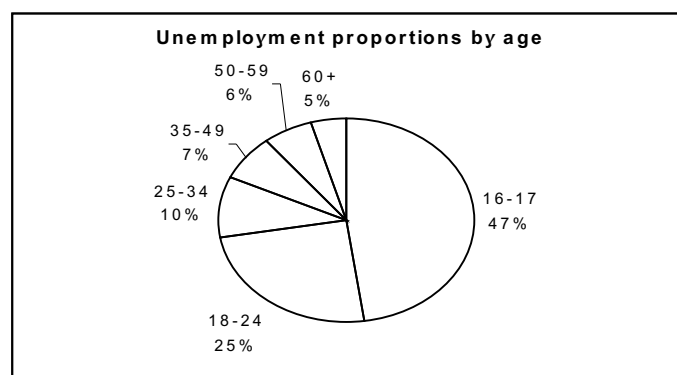


Fig.4 shows that 16-17 year olds make up fifty per cent of the total unemployed. It clearly shows strong negative correlation between age and unemployment. Individual activity plans are drawn up with the employment service, which requires transition from benefit receipt to a subsidised job or full time education.

The probability of an Unemployed person finding a job

It is well known that the probability of an unemployed person finding a job decreases over time, however, this can result from the duration dependant on the individual, as unemployed jobseekers may become discouraged due to lack of success of being able to find a job, and in the process they loose their skills and become stigmatised by their potential employers.

Jobs on average have also become more demanding in the sense that they involve more skilled and intensive labour, with the nature of modern technology, underlying the increasing intensity of competition.

The 'overly generous' unemployment benefit can be seen as part of the problem, as although they were set up to relieve the unemployed from the economic hardships that arise, it however, reduces the incentive of unemployed workers to look for jobs, therefore increasing the length of time being unemployed, and helps to reduce the efficiency of job hunting and people become more excessively choosy to which job they accept.

There are various implications for short-term unemployment. One can be seen as a positive effect for some business in the short term, as there is an abundance of labour, which allows employers to be more selective. And as there are more people competing for positions it is possible that the labour could be cheaper. The negative effect for the government would be a reduction in tax revenue, and an increase in claims for public funds. There could potentially be a fall in consumption as there is less income, which may lead to less investment. If continued there could be a general drop or reduction in Gross Domestic Product (GDP). A fall in GDP represents lack of growth for the economy.

UK Unemployment vs. Europe

The UK is performing far better in employment than the majority of their EU counterparts. At the end of 2005, unemployment in the UK was 4.9%, compared to the average EU rate of 8.4%. Although there has been a little decline in the unemployment rate of the EU and a slight increase in the UK over the last year, unemployment in the UK is significantly lower than in the EU.

Fig.5



Although there has been a little decline in the unemployment rate of the EU and a slight increase in the UK over the last year, unemployment in the UK is significantly lower than in the EU. The rise in unemployment from the end of 2005 can partly be explained by immigration from the other EU members, especially the states in the eastern part of Europe. At June 2006, the unemployment rate in the UK is nearly 2.5% lower than the EU average. So it is fair to say that the UK should be quite happy about the state of its labour force.

Conclusion

In Conclusion the Unemployment rate at the moment is 5.5%, which makes it 29 million people roughly employed .It is hard to get an accurate figure because there are different ways in which unemployment is measured this is probably why the newspaper articles had contrasting figures.

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