

A level Economics Theme 2

The UK Economy- Performance and Policies

Edexcel

Course companion **4**

2018-19

Employment and unemployment

Research task: Migration- effects on employment and unemployment



NAME:

TG:

TEACHER:

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Subject content	What students need to learn:
2.1.3 Employment and unemployment	<ul style="list-style-type: none"> a) Measures of unemployment: <ul style="list-style-type: none"> o the claimant count o the International Labour Organisation (ILO) and the UK Labour Force Survey b) The distinction between unemployment and under-employment c) The significance of changes in the rates of: <ul style="list-style-type: none"> o employment o unemployment o inactivity d) The causes of unemployment: <ul style="list-style-type: none"> o structural unemployment o frictional unemployment o seasonal unemployment o demand deficiency and cyclical unemployment o real wage inflexibility e) The significance of migration and skills for employment and unemployment f) The effects of unemployment on consumers, firms, workers, the government and society

Definitions

Population of working age: the total number of people aged between the statutory school leaving age and the state retirement age.

Employed: the number of people in paid work

Employment rate: The percentage of the population of working age that is in a job.

Unemployment: the number of people out of work who are willing and able to work.

Unemployment rate: The percentage of the workforce (that is, able and willing to work) that is not currently employed.

Labour force / workforce: those in work or actively seeking work.

Participation rate: The percentage of the working population who are in the labour force. 18-65 year olds either working or actively seeking work.

Active population: those in work or actively seeking work; also known as the labour force.

Activity rate or participation rate: the number of those in work or unemployed divided by the population of working age expressed as a percentage.

Inactive: the number of those not in work and not unemployed.

Inactivity rate: the number of those not in work and not unemployed divided by the population of working age expressed as a percentage Inactivity rate (the proportion of people aged from 16 to 64 who were economically inactive)

Table 1: Summary of UK labour market statistics for July to September 2018, seasonally adjusted

	Number (thousands)	Change on Apr to Jun 2018	Change on Jul to Sep 2017	Headline Rate (%)	Change on Apr to Jun 2018	Change on Jul to Sep 2017
Employed	32,409	23	350			
Aged 16 to 64	31,152	-3	275	75.5	0.0	0.5
Aged 65 and over	1,257	26	75			
Unemployed	1,381	21	-43	4.1	0.1	-0.2
Aged 16 to 64	1,366	23	-37			
Aged 65 and over	15	-2	-7			
Inactive	19,328	30	-6			
Aged 16 to 64	8,736	1	-147	21.2	0.0	-0.4
Aged 65 and over	10,592	29	141			

Source: Labour Force Survey, Office for National Statistics

Questions: For the period July-September 2018

1. What % of the labour force is employed?
2. What % of the labour force is unemployed?
3. What % of the labour force is inactive?

Measures of unemployment:

1. The claimant count,
2. The International Labour Organisation (ILO) and the UK Labour Force Survey

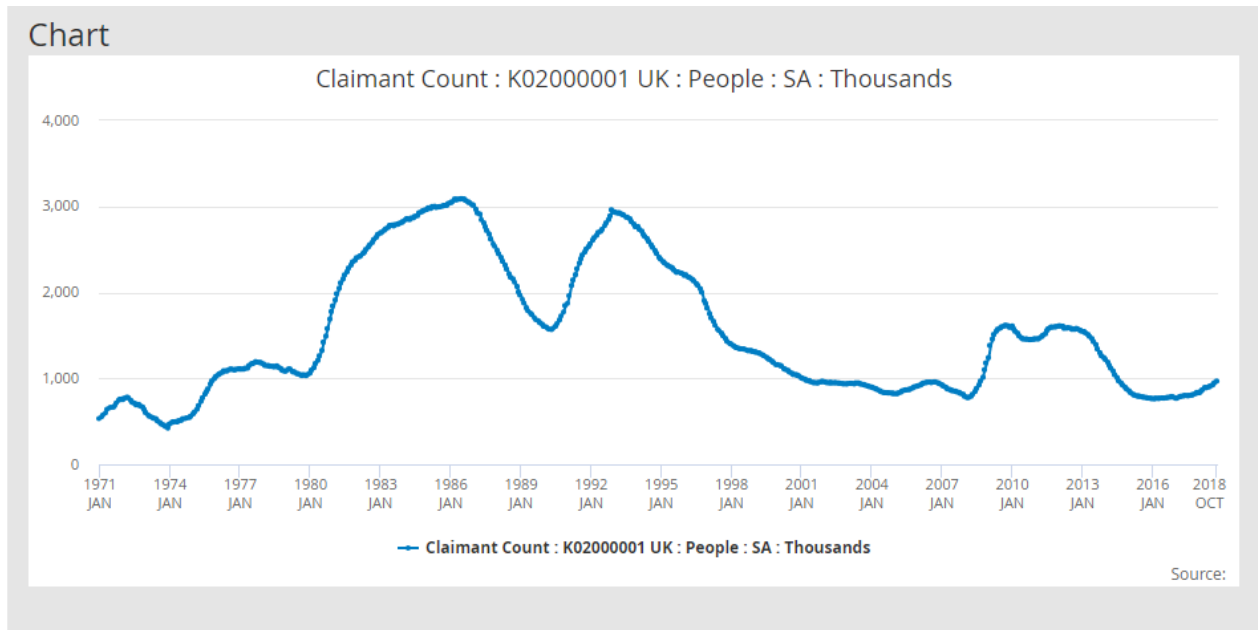
Typical Exam questions

- Explain how 'UK ILO unemployment' (Extract 2, line 1) is measured. (4)
- With reference to the information provided, explain the methods used to obtain measures of ILO unemployment and the claimant count. (6)

Claimant Count (old measure of unemployment, not official measure)

- The claimant count includes those people who are claiming unemployment related benefits, mainly the Job Seeker's Allowance (JSA) but also including those seeking work and claiming the Universal Credit.
- Claimants must be 18 or over but below state pension, not be in full-time education, be available for work, actively seeking work and work on average less than 16 hours per week.
- Claimants are means tested after 6 months, and may lose the benefit if their partner is working or they have savings.
- It excludes those who have recently voluntarily left employment. Recipients have to register at a Jobcentre Plus.
- JSA may be temporarily withdrawn if a claimant refuses to apply for jobs, attend interviews or take a job/training place offered.
- The claimant count is published monthly, with monthly figures available right down to local level. It is quick and cheap for the government to obtain the data, as it is required anyway for the administration of benefits.

Data exercise



Source: ONS

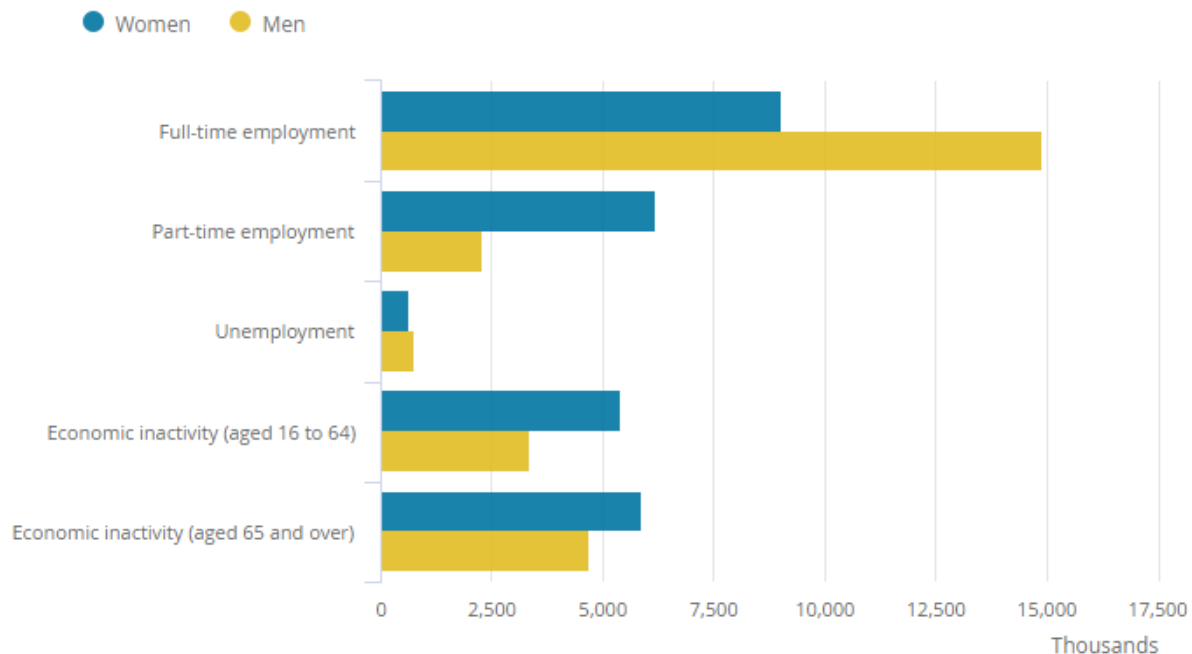
- Describe the changes in claimant count unemployment from 1971 to 2018
- Why is it difficult to make comparisons over time from this data?

Labour Force Survey used by the International Labour Organisation (ILO) – (official measure of unemployment)

- The labour force survey (LFS) measure of unemployment covers people who have looked for work in the past 4 weeks and are able to start work in the next two weeks.
- It is an internationally recognised survey used across the EU, with all countries using the same methods.
- It is carried out by face to face interview followed by a quarterly telephone survey of 60,000 households.
- The age range is 16 -65.
- On average, the labour force survey measure has exceeded the claimant count total by over 600,000 in recent years.

The ILO has become the government's official measure of unemployment, but some argue it overestimates true unemployment by including people only looking for a few hours of part-time work. It can be subject to sampling errors. The survey data are 6 weeks out of date by the time they are published, monthly.

Figure 1a: Summary of UK labour market statistics for July to September 2018, seasonally adjusted



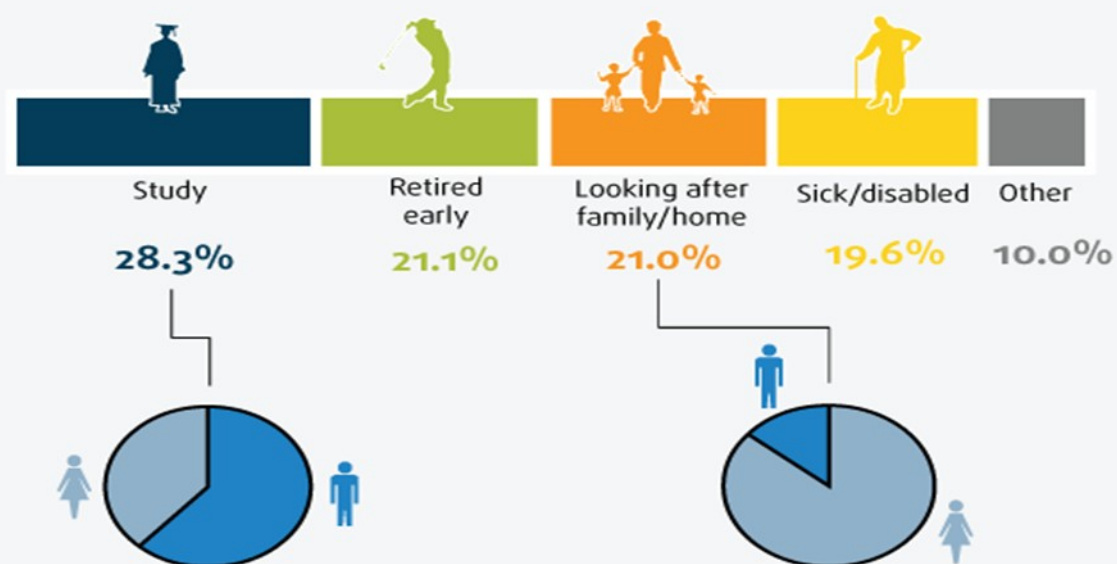
Questions:

Calculate the ratio of full time to part time workers for

a. Men

b. Women

Considering **all people** aged 16 to 64 in England & Wales who stated that they were **inactive** . . .



1. Explain why the number of economically inactive might:

- Rise
- Fall

2. Why might employment and unemployment both fall? Explain possible reasons.

3. Why might employment and unemployment both rise? Explain possible reasons.

The causes (types) of unemployment

- Structural unemployment,
- Frictional unemployment,
- Seasonal unemployment,
- Demand deficiency and cyclical unemployment,
- Real wage inflexibility

Structural unemployment

Structural unemployment: When the pattern of demand and production changes leaving workers unemployed in labour markets where demand has shrunk. Examples include regional, sectoral or technological unemployment which result from labour immobility

Geographical immobility: Refers to the inability of workers to move from one area to another.

Occupational immobility: refers to the inability of workers to move between jobs due to lack of appropriate skills.

Long term unemployed: The number of people out of work for at least one year

Deindustrialisation: a fall in the proportion of national output accounted for by the manufacturing sector of the economy.

Structural Unemployment

Structural unemployment occurs when the demand for labour is less than the supply of labour in an individual labour market



Decline of manufacturing



Occupational immobility



Geographical immobility



Robotics replacing jobs



Foreign competition – rising imports



Long term regional decline



Disincentives
e.g. Poverty Trap



Outsourcing of production overseas

Data question

A report by Sheffield Hallam University has found that the South Wales valleys are still suffering the effects of large scale mine closures 30 years ago. In the Welsh valleys, per cent of all adults of working age were benefits compared with a national figure of per cent. The rate of disability allowance claimants was 10.7 per cent, double the national average. One in five of the working age population had no qualifications and about 44 per cent of those in work were employed in unskilled work manual jobs, compared to 36 per cent nationally. Average wages and average output per head of the population were lower than the national average.



17
on
11

Source: Anderton, adapted from Financial Times, 20/6/14.

a. Why are the effects of the mine closures still being felt after 30 years?

b. Why are the unemployed not moving to other areas to find work?

Housing and Geographical Immobility

Big differences in regional and local house prices are perhaps the biggest single cause of geographical immobility

- Average house prices in London are more than twice the UK average
- The high cost of renting in major towns and cities is also a barrier
- Many people are reluctant to move to areas where living costs are higher
- And people living in high-price areas may want to stay and gain from house price inflation
- The lack of affordable housing is a huge issue in the UK economy

(Price Data is for Q3, 2014)	Average Price
East Anglia	£195K
London	£401K
North	£121K
North West	£146K
South East	£234K
South West	£210K
Yorks & Humber	£145K
Wales	£144K
Scotland	£142K
Northern Ireland	£120K
United Kingdom (average)	£188K

c. How is education and skill levels making the situation worse?

d. What is the difference between geographical and occupational immobility of labour?

Listen to the video clip and take notes on why some cities are creating more jobs than others:

<http://www.bbc.co.uk/news/business-30869982>



Frictional unemployment

This is transitional (temporary) unemployment due to people moving between jobs.

Imperfect information about job opportunities will increase the amount of frictional unemployment. It will therefore always be present in the economy. It is sometimes called **search unemployment** and can be **voluntary**.

How will frictional unemployment be affected by:

- a. The level of redundancies
- b. The level of unemployment-related benefits

Seasonal unemployment

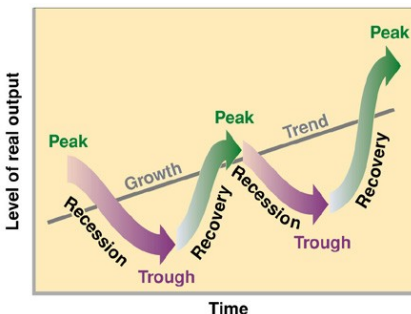


This is sometimes considered to be a type of frictional unemployment. Certain industries/ occupations are seasonal in nature. It is also often regional in nature e.g. Cornwall has seasonal unemployment in winter. Spain has a problem with seasonal unemployment due to its large tourism sector.

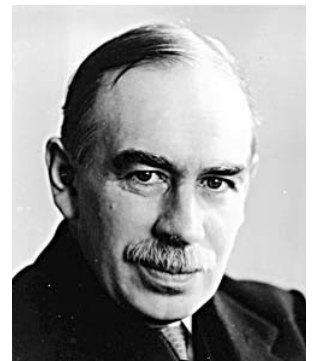
- a. Why might seasonal unemployment be a greater problem for rural areas and economies?
- b. Why might seasonal unemployment also be considered by some to be 'voluntary' unemployment?

Demand deficiency and cyclical unemployment

This occurs when there is a severe **slowdown in economic growth** or a **recession**. It is caused by a lack of demand for goods and services,



i.e. a **fall in aggregate demand**. The unemployment is caused by factory and office closures and an increase in **redundancies**. The fall in aggregate demand causes a **fall in output** in the economy. Firms may reduce their workforce in order to cut costs and maintain their profitability.



Keynes identified as the major cause of unemployment in the 1920s and 1930s so it also sometimes called Keynesian unemployment.

- a. Why is Keynesian unemployment also called 'demand-deficient' unemployment?
- b. What policies might be appropriate to reduce cyclical unemployment?
- c. Why might there be a time lag between a fall in GDP and a rise in unemployment?

Real wage inflexibility

Also called classical unemployment: When workers are unemployed because real wages are too high and inflexible downwards, leading to insufficient demand for workers from employers.

This might be caused by a minimum wage above equilibrium wage rates, strong trade union pressure or a high level of benefits deterring some from taking lower paid jobs



Comment:

Extract A

National Living Wage 'has not hit employment' (BBC 29 November 2016)

The National Living Wage has not affected employment, says the body that monitors low pay for the government. The Low Pay Commission said it had found "no clear evidence" of changes in employment or hours since the higher minimum wage was introduced in April. It said employment had continued to rise even in sectors most obviously affected, such as cleaning, hotels, horticulture and retail.

The finding contradicts warnings from economists over the wage's impact. On Tuesday, the Organisation for Economic Co-operation and Development said the UK should be careful with plans to raise the National Living Wage, warning it could affect employment. The think tank's stance echoes the widespread claims of business organisations in the 1990s that the introduction of the UK's national minimum wage - which started in 1999 - would lead to widespread job losses. Those fears proved to be groundless, with the number of people in employment rising from 27 million then to nearly 32 million now.

The Low Pay Commission warned that "in some cases" employers may have reduced other staff payments or perks to fund the higher basic wage, but said it had found "no significant

change" in levels of overtime and the higher hourly rates paid for working on Sundays or bank holidays. The commission also said that the higher National Living Wage could "present challenges" for the social care sector, with many providers facing losses.

The National Living Wage was introduced by Chancellor George Osborne in his Budget in July 2015. It came into effect in April this year, and was set at a rate of £7.20 an hour for workers aged 25 and over, with the aim of increasing it to £9 an hour by 2020.

- a. What is meant by the National Living Wage?

- b. Why has it NOT led to a rise in unemployment in the UK?

Extract B: Trade unions

In the early 1980s when trade unions were more widespread and powerful than they are now, research showed that they raised pay and constrained employment growth. Legislative restrictions to reduce trade union power in the 1980s and 1990s caused membership to decline. Trade unions continued to raise pay in the private sector until about 1998, keeping it above pay in the public sector but this was not true across all industries. The 'trade union premium' has largely disappeared caused by continually falling trade union membership, the effects of inward migration and globalisation, and public sector pay restraint.

Why are trade unions now less able to push wages above the equilibrium level in most occupations?

Exercise on types of unemployment



Read through the following examples and consider what type of unemployment (if any) is being experienced in each case. Choose from *Cyclical/Structural/Frictional/Seasonal/Not counted as unemployed*

	Situation	Type of unemployment
1	A worker loses his job at a factory which made refrigeration components. The company closed the plant down because of an inability to cope with lower-wage cost foreign competition.	
2	Workers lose their job at a paper factory due to a steep downturn in demand across the paper industry and an increase in energy costs.	
3	Employees at a brick manufacturer are laid off following a recession in the housing market.	
4	A newly qualified plumber opts to spend some time looking for a new job rather than accept employment with a local business.	
5	A number of journalists are made redundant when a magazine decides to use copy from press agencies as a cost-cutting measure.	
6	Newcastle Building Society announces it is to make 150 workers redundant as a result of a downturn in the mortgage market.	
7	A building firm lay off ten workers for three weeks and mothballs their existing building sites because of harsh weather in the winter.	
8	A former bank manager decides to leave her job and take early retirement in order to look after an elderly relative.	
9	A steel smelting plant closes and thirty workers with job specific skills are forced to look for new work elsewhere in the locality.	
10	The Honda plant in Swindon closed temporarily in February and March 2008 due to fall in demand for new cars caused by the recession.	
11	Barclays is closing its branch-based financial advice service, putting 1,000 jobs at risk.	
12	Arsene Wenger, football manager, resigned from Arsenal Football Club	

The distinction between unemployment and under-employment

Underemployment: those who would work more hours if available or are in jobs which are below their skill level.

Full-time workers: workers who work hours and the days which are the norm for a particular job.

Part-time workers: workers who only work a fraction of the hours and the days which are the norm for a particular job.

Hidden unemployed: partly those in the population who would take a job if offered, but are not in work and are not currently seeking work; and partly those who are underemployed.

Self-employed: workers who work on their own account and are not employees.

The idea of under-employment became particularly important in the aftermath of the 2008 Global Financial Crisis. The number of under-employed workers was fairly stable over the period before the onset of the economic downturn in 2008, but between 2008 and 2012 it increased by 47% to reach 3.05 million. In the UK, the ONS defines an under-employed worker as someone who is currently in employment, but wants to work more hours. In 2014, just under 1 in 10, or 3.0 million people, employed in the UK wanted to work more hours, on average an extra 11.3 hours per week each.

Hidden unemployment may include:

- Those who lose jobs, become discouraged and not actively seeking a new job, but if a suitable job came up (at little cost to them) they would take it.
- Those who stay on in education rather than leaving and seeking work
- Those who are under-employed

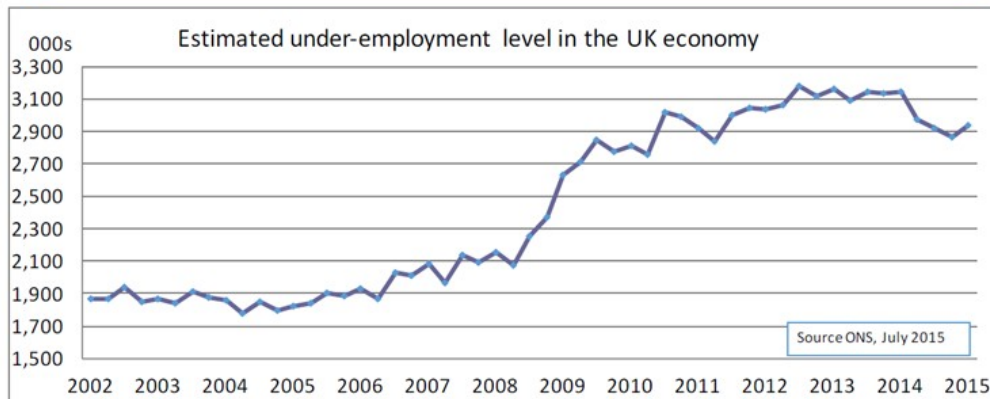
Look at the data below and describe the trend in underemployment from 2002 to 2015:

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



Zero hours contracts

There are a number of employee/employer relationships which are now different from the traditional 9-5 job. A person's employment status will determine their rights and their employer's responsibilities.

A zero hours contract is generally understood to be a contract between an employer and a worker where:

- the employer is not obliged to provide any minimum working hours
- the worker is not obliged to accept any work offered.

On 26 May 2015, new regulations about zero hours contracts were brought in. The law prevents employers from enforcing 'exclusivity clauses' in a zero hours contract. An exclusivity clause would be where an employer restricts workers from working for other employers. (source: ACAS)

Key zero hours contract points:

- Zero hours contracts normally mean there is no obligation for employers to offer work, or for workers to accept it.
- Most zero hours contracts will give staff 'worker' employment status.
- Zero hours workers have the same employment rights as regular workers, although they may have breaks in their contracts, which affect rights that accrue over time.

- Zero hours workers are entitled to annual leave, the National Minimum Wage and National Living Wage and pay for work-related travel in the same way as regular workers.

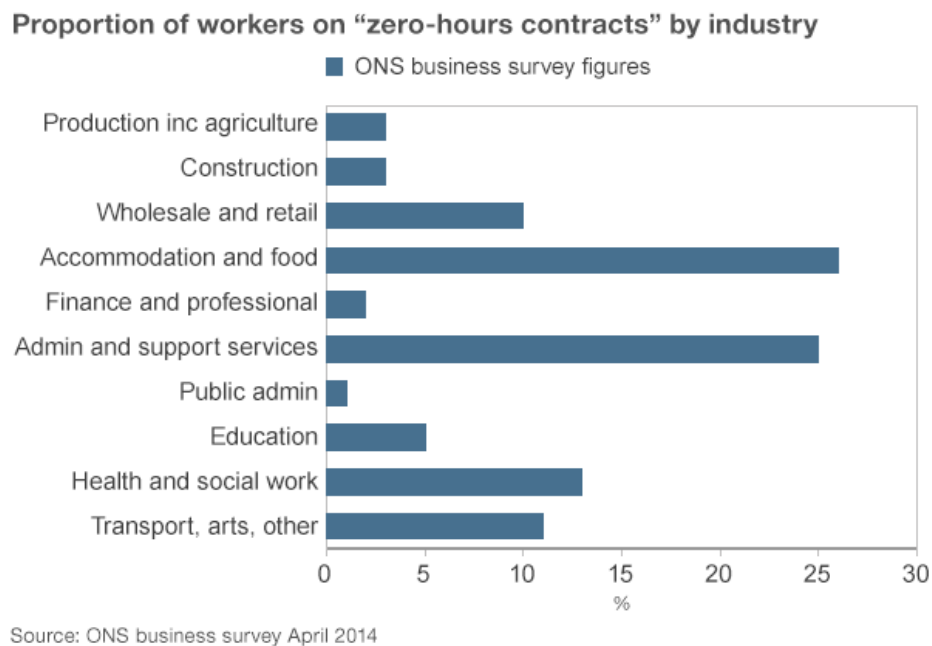
When are zero hours contracts used?

Zero hours contracts can be used to provide a flexible workforce to meet a temporary or changeable need for staff. Examples may include a need for workers to cover:

- unexpected or last-minute events (e.g. a restaurant needs extra staff to cater for a wedding party that just had their original venue cancel on them)
- temporary staff shortages (e.g. an office loses an essential specialist worker for a few weeks due to bereavement)
- on-call/bank work (e.g. one of the clients of a care-worker company requires extra care for a short period of time). (source: ACAS)



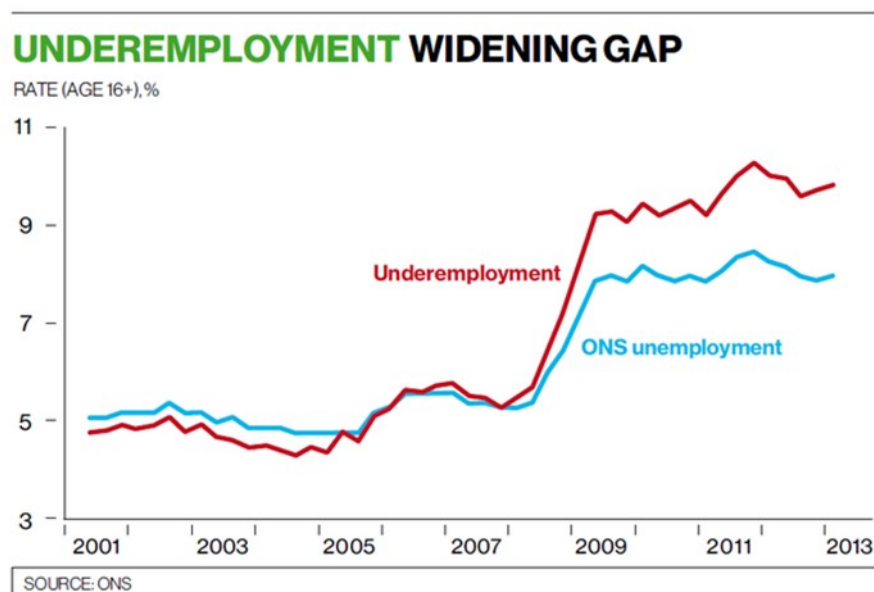
1. What is a zero hours contract?
2. What are their benefits for employers and workers?



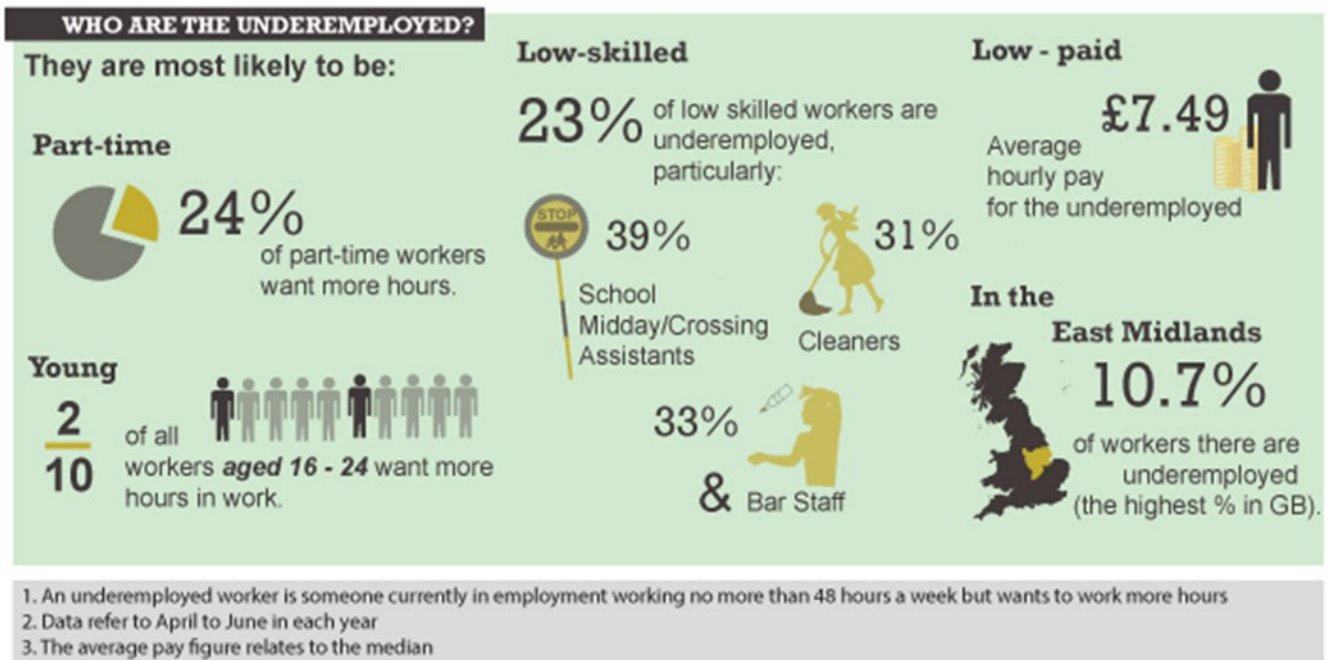
3. What are the drawbacks for workers?

4. Why are they more prevalent in some industries than others?

Figure 1



With reference to Figure 1, suggest possible reasons for the recent trends in underemployment.



Who is most affected by unemployment?

RESEARCH TASK

The significance of migration and skills for employment and unemployment

Migration: movement of people to a new area/country in order to find work or better living conditions.

Immigration: coming to live in a country

Emigration: leaving a country to live in another

Net migration: the difference between immigration & emigration (immigration – emigration)

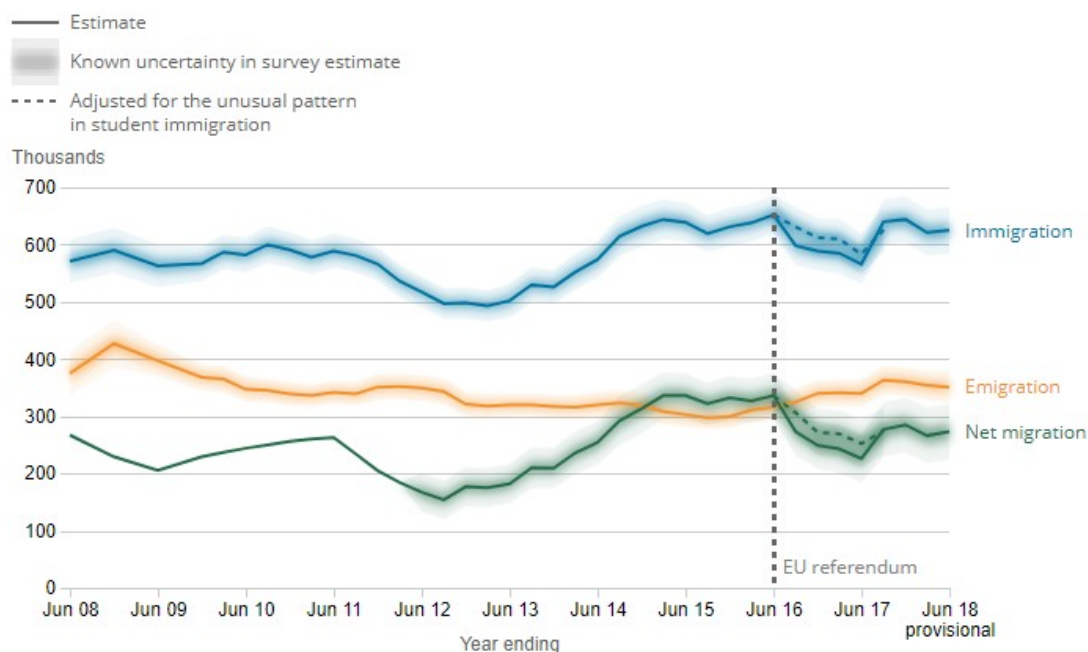


Watch the video clip from the BBC website (Oct 2016) and take notes on the reasons for migration to the UK

<http://www.bbc.co.uk/news/uk-politics-37555238>

Figure 1 (ONS November 2018)

Figure 1: Long-Term International Migration, UK, year ending June 2008 to year ending June 2018



Source: Long-Term International Migration, Office for National Statistics

Notes:

1. Confidence intervals are not available for net migration estimates prior to 2012 as revisions were made to data for 2001 to 2011 following the 2011 Census. This does not mean the revised estimates are more certain.

Table 2 (ONS August 2018)

Long-term immigration to the UK by main reason, year ending March 2018

	YE March 2018
Work	253
Definite Job	176
Looking for Work	77
Study	191
Accompany or Join	77
Other	57
No reason stated	37

Impact on employment, unemployment and wages (University of Oxford study)

The impacts of immigration on the labour market critically depend on the skills of migrants, the skills of existing workers, and the characteristics of the host economy.

Immigration can increase competition for existing jobs but it can also create new jobs.

The share of foreign-born people in total employment increased from 7.2% in 1993 to 18.0% in 2017 and the share of foreign-citizens increased from 3.5% to 12.8% over the same period

The share of EU workers in total employment increased from 2.3% in 1993 to 7.6% in 2017, and the share of Non-EU workers in total employment increased from 4.9% in 1993 to 10.3% in 2017

EU born workers are over-represented in the least skilled occupations and non-EU born workers are over-represented in professional jobs

In 2017 one in every four EU migrants were employed in the retail, wholesale and hospitality industries, while 30% of non-EU born workers were in public administration and education

Just over 40% of food and drink processing workers were EU born in 2017, and one quarter of doctors were non-EU born

UK research suggests that immigration has a small impact on average wages of existing workers but more significant effects along the wage distribution: low-wage workers lose while medium and high-paid workers gain.

Research does not find a significant impact of overall immigration on unemployment in the UK, but the evidence suggests that immigration from outside the EU could have a negative impact on the employment of UK-born workers, especially during an economic downturn.

For both wages and employment, short run effects of immigration differ from long run effects: any declines in the wages and employment of UK-born workers in the short run can be offset by rising wages and employment in the long run.

EU migration — the effects on UK jobs and wages (Financial Times 2016)

In 2015, there were approximately 3.3 million EU immigrants living in Britain. About a third live in London. EU migrants tend to be younger and better educated than the UK-born population. They are also more likely to be employed — indeed, work is the main draw for them to come to Britain.

One theory has it that migrants compete with the local population for jobs, driving down wages and pushing up unemployment for British people. But this ignores the fact that migrants also buy goods and services — providing a boost to the economy and creating new

jobs. Migrants might also bring useful skills that complement those of the indigenous workforce.

There is little evidence that more migrants push wages down or unemployment up. Economists from the Centre for Economic Performance at the London School of Economics say that when they look at the areas with the largest increase in EU immigration, these have not seen the sharpest falls in employment or wages since 2008.

Do low-skilled UK citizens bear the brunt of EU migration?

A number of studies have found there is a small negative effect of migration on the wages of low-skilled workers — those with whom migrants compete most directly.

Research published last year by Sir Stephen Nickell of the Office for Budget Responsibility suggested there was a small negative effect of migration on the wages of locals in the semi-skilled and unskilled service sector — such as care workers, shop assistants, restaurant and bar workers.

Mr Portes of the NIESR thinks Sir Stephen's research results are nevertheless small. "The impact of migration on the wages of the UK-born in this sector since 2004 has been about 1 per cent, over a period of eight years," he says.

What effect do migrants have on public services and the public finances?

Recent EU migrants have typically been relatively young and are more likely to be in work than the local population. Consequently, they place less demand on many public services, are less likely to receive benefits and pay higher levels of taxes on average than UK citizens do.

Professor Christian Dustmann of University College London has found that between 2001 and 2011, the net fiscal contribution of migrants from the ten central and eastern European countries that joined the EU in 2004 or 2007 was almost £5 billion. Over the same period, British citizens received more in public spending than they paid in tax.

But this sort of comparison provides a partial picture. New migrants are young and likely to be employed. Locals with the same characteristics will also place a relatively low average demand on the public purse. If migrants stay in Britain into old age — when they may start to draw more heavily on health services and public pensions — their net contribution is likely to diminish.

Summarise the effects of UK migration on employment, unemployment, wages and the government budget

Effects of migration on	
Employment	
Unemployment	
Wages	
Productivity	
Government budget	

The effects of unemployment on Consumers, Firms, Workers, the government, Society

Extract A

Keynes: "It may seem very wise to sit back and wag the head. But while we wait, the unused labour of the workless is not piling up to our credit in a bank, ready to be used at some later time. It is running irrevocably to waste; it is irretrievably lost."

Case study research into unemployed families during the 1980s recession found that nearly all the families had had a lower standard of living in unemployment than when they had been employed and many "described what they saw as a continuing decline, at least for the first two or three years of unemployment, until they hit 'rock bottom.'" Debt was a major problem for families in long-term unemployment, and more and more important as resources were used up: savings, loans, sale of goods, help from family and friends. (TUC)

Extract B

A "lost generation" of unemployed young people is costing the taxpayer £3.65 billion a year, according to a disturbing report. The study of youths not in education, employment or training — known as Neets — conducted by the London School of Economics suggests that 1.2 million Britons are facing a lifetime on benefits. It found that a fifth of young people in England, Scotland and Wales are Neets — double the number in Germany and France.

The report, *The Cost of Exclusion*, commissioned by the Prince's Trust, says that youths cost the taxpayer £1 billion a year through the costs of crime. Youth unemployment costs £90 million a week, including the £20 million weekly cost of funding jobseekers' allowance for 18 to 24 year-olds. The lifetime cost of educational underachievement will be £18 billion. "There is a major cost to young people in terms of their lives. If a young person gets on to benefits and stays there they are always going to be a drain on the economy."

Extract C

Rising unemployment is linked to social and economic deprivation - there is some relationship between rising unemployment and rising crime and worsening social dislocation (increased divorce, worsening health and lower life expectancy).

Areas of high unemployment will also see a decline in real income and spending together with a rising scale of relative poverty and income inequality. As younger workers are more geographically mobile than older employees, there is a risk that areas with above average unemployment will suffer from an ageing potential workforce - making them less attractive as investment locations for new businesses.

Non-Monetary Costs

Non-monetary private costs of unemployment arise because the unemployed are more prone to psychological pressure and ill health. Although the unemployed of today do not suffer physical deprivation and malnutrition on a scale that was often experienced by the unemployed during the inter-war period, the statistical evidence suggests that the unemployed still suffer physical deprivation and malnutrition. For example, in Northern Ireland, where infant mortality is higher than in other parts of the UK, it is at its highest among unemployed families. While firm conclusions cannot be drawn, the evidence is at least suggestive that the loss of income that accompanies unemployment is associated with lower levels of nutrition which have detrimental effects on newborn babies.¹¹

A study¹² carried out in the US in the 1960s on redundancy among blue-collar workers found pathological and psychological changes that were sufficient to increase the likelihood of gout, hypertension and coronary heart disease. A more recent study in the UK by Fagin¹³ also found that unemployed workers and their families tend to suffer greater health problems.

Effects of unemployment on:	Explain problems	Evaluation: extent of problem, depends on.. (type of unemployment?), advantages, possible solutions
Consumers		
Firms		
Workers		
Government		
Society		