

FACTFILE: GCSE ECONOMICS

UNIT 3.4 UNEMPLOYMENT



Unemployment

Learning Outcomes

Students should be able to:

- define unemployment and explain how it is measured;
- examine unemployment's negative effects on individuals, communities and the economy as a whole;
- analyse the causes of unemployment;
- identify, explain and evaluate government policies to reduce unemployment.

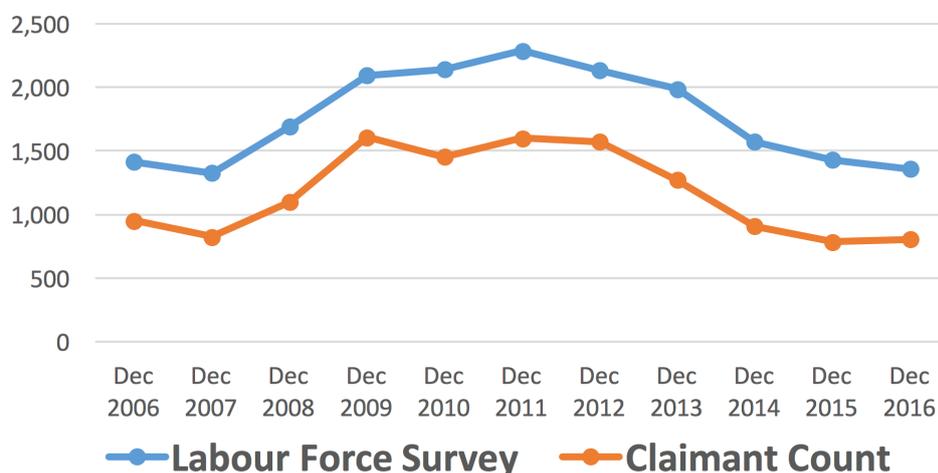
Definition and measurement of unemployment

The main way in which unemployment is defined and measured in the UK is by the **Labour Force Survey (LFS)**. Unemployment is defined as including anybody without a job who is actively seeking work and is available to start work in the next 2 weeks.

As can be seen from the diagram below unemployment rose sharply when the UK recession began in 2008 but has fallen since as the economy has recovered.

The alternative measure of unemployment is the **Claimant Count (CC)** which measures the number of people claiming Jobseekers Allowance (JSA). This is always lower than the Labour Force Survey figure because some people may not have jobs but are not entitled to or do not wish to claim JSA.

Figure 1 – UK Unemployment 2006–16 (thousands)



Source ONS

In November 2016 adults in the UK could be divided into 3 employment groups:

Table 1 – UK employment status November 2016

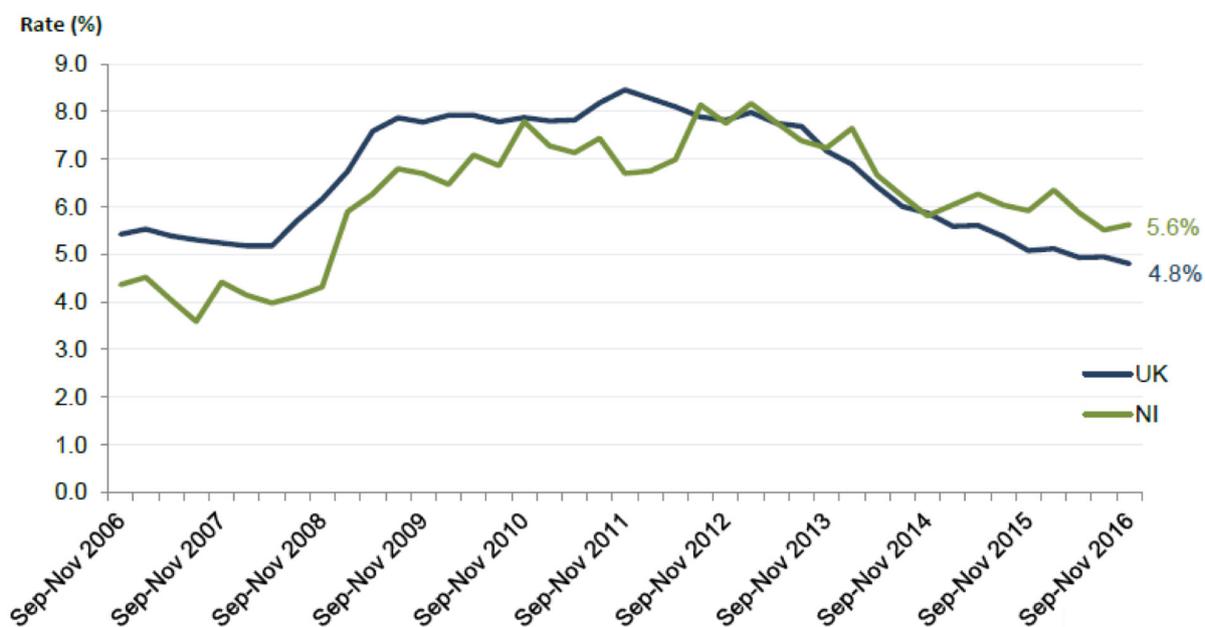
Status	People (millions)	% of adults
Employed	31.8	60.6
Unemployed	1.6	3.0
Economically inactive	19.1	36.4
Total	52.5	100

'Economically inactive' includes people such as students, domestic carers, long-term sick and disabled and retired pensioners who were not actively seeking work.

Northern Ireland unemployment

As can be seen in Figure 2, unemployment in Northern Ireland tends to follow a similar trend to that of the UK as a whole.

Figure 2 – UK and Northern Ireland unemployment 2006-16



Source: NISRA

Effects of unemployment on individuals

Unemployment can have serious negative effects upon people, particularly if it is long-term. These effects may include:

- lower income, especially as unemployment and other out-of-work benefits are generally significantly lower than the wages an individual might earn. An individual might be forced to take on part-time and/or lower-paid employment;
- if unemployment becomes **long-term** i.e. for more than 12 months it becomes far more likely that an individual will find it hard to find employment;
- unemployment can have severe psychological effects upon an individual such as loss of self-esteem, depression and stress-related illness.

Exercise 1

Explain why a person unemployed for more than 12 months may find it difficult to find employment.

Effects of unemployment on communities

Negative effects of unemployment on communities include:

- ‘knock-on’ or ‘multiplier’ effects of loss of jobs. This is particularly likely if a large local employer or industry is in decline and lays off workers. These unemployed individuals will have lower incomes and will therefore spend less in local shops, restaurants, bars etc. This may lead to even more local people becoming unemployed, who in turn will have less to spend;
- increased unemployment may have external costs such as rising crime and poorer health in an area.

Exercise 2

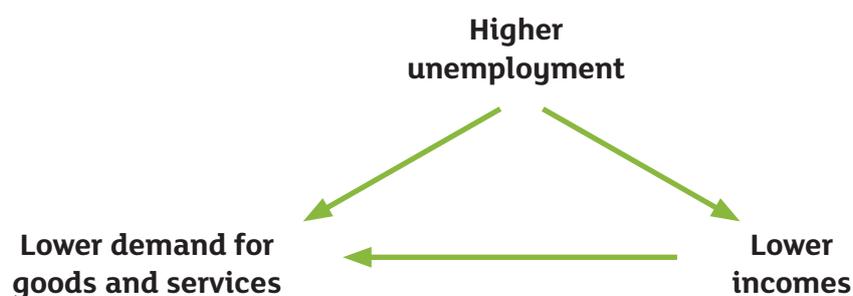
Why might higher unemployment in an area lead to an increase in the crime rate?

- increased unemployment may cause people to leave an area. This will often be the more highly-educated or skilled individuals who can find work elsewhere.

Effects of unemployment on the economy as a whole

Rising unemployment may cause serious problems for the economy as a whole because:

- it may lead to further unemployment (as described above) because of lower incomes leading to lower demand throughout the economy. This can be shown by a very simple diagram;



- unemployment means that the economy has resources that are not being fully used. This is a waste of scarce resources.

Exercise 3

Draw a production possibility frontier diagram to show an economy which is not fully using its resources.

- higher unemployment and lower demand will tend to lead to lower profits for businesses, which are then likely to cut their investment in new capital such as shops, factories, machinery and new technology. This is likely to reduce the economy's **productive capacity**;

Exercise 4

Draw a production possibility frontier diagram to show a reduction in an economy's productive capacity.

- higher unemployment is expensive for the Government because it loses revenue from income tax, VAT and other taxes that people pay on what they earn and spend. As well as losing income the Government will have to pay out more on unemployment and other benefits. It may have to borrow more or cut its spending.

Exercise 5

Why might cutting Government spending cause problems for an economy?

Causes of unemployment

The causes of unemployment are often split into 4 categories.

Voluntary unemployment

This refers to people who deliberately choose not to work e.g. because they do not like work or cannot earn more in employment than they can receive in social security benefits.

Frictional

Frictional unemployment refers mainly to people who are 'between jobs' and are temporarily unemployed, usually only for a month or two. It is also often regarded as including seasonal unemployment, where work is concentrated into certain times of year, especially the summer months and the time before and around Christmas. Examples of seasonal industries include hotels, tourist attractions, agriculture and retailing.

Because it tends to be short-term frictional unemployment tends not to be regarded as serious a problem as longer-term structural and cyclical unemployment.

Structural

Structural unemployment occurs when jobs are lost in declining industries such as agriculture, coal-mining, steel, shipbuilding and manufacturing. These losses of jobs may be caused by factors such as new technology, falling demand for products and competition from other countries.

In the UK recent structural unemployment has tended to occur mostly in agriculture and manufacturing, as can be seen in Table 2.

Table 2 – Employment in the UK 1997–2016 (thousands)

	All	Agriculture forestry & fishing	Mining, energy and water supply	Manufacturing	Construction	Services
Mar 1997	26245	407	368	4370	1891	19092
Sept 2016	31880	358	516	3012	2290	25506
Change 1997–2017	5635	-49	148	-1358	399	6413

Exercise 6

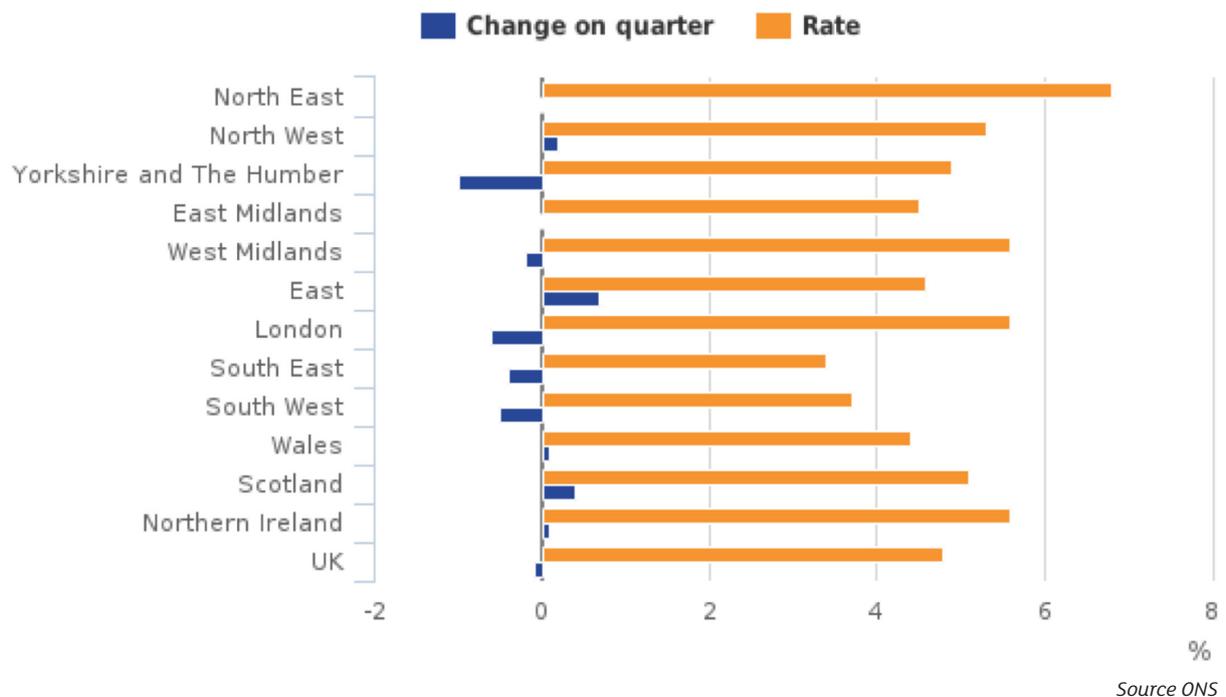
Explain TWO possible reasons for falling employment in agriculture, forestry and fishing.

Structural unemployment can often lead to **regional unemployment** because the traditional industries which have been declining were often concentrated in certain parts of the UK such as North-East England, the West Midlands and Northern Ireland. If new industries do not develop to replace the lost jobs these areas will remain in high unemployment, as can be seen in Figure 3.

Exercise 7

Name TWO industries in which employment has fallen in Northern Ireland

Figure 3 – Unemployment by region November 2016



Cyclical

Cyclical unemployment refers to the way in which unemployment may be affected by changes in Gross Domestic Product (GDP). An **increase** in real GDP (**economic growth**) will tend to reduce unemployment. A **fall** in real GDP (**recession**) will often lead to higher unemployment as businesses lay off workers as a result of reduced demand for their goods and services. These effects can be seen in Table 3.

Table 3 – Unemployment and economic growth 2006–16

Year	Economic Growth %	Unemployment (millions)
2006	2.5	1.4
2007	2.6	1.3
2008	-0.6	1.7
2009	-4.3	2.0
2010	1.9	2.1
2011	1.5	2.3
2012	1.3	2.1
2013	1.9	2.0
2014	3.1	1.6
2015	2.2	1.5
2016	2.0	1.4

Government policies to reduce unemployment

Fiscal policy

Fiscal policies to maintain full employment include:

- Cutting employers' National Insurance contributions;

Exercise 8

Explain how reducing employers' National Insurance contributions might help to reduce unemployment.

- increasing Government spending to increase demand for goods and services;
- reducing direct taxes such as income tax to increase disposable income and household spending.

Increasing Government spending and cutting direct taxes is known as reflationary or expansionary fiscal policy, as shown in the diagram below.

Reflationary (expansionary) fiscal policy
(Lower taxes and higher Government spending)



People have higher disposable income to spend
Government spends more on goods and services



INCREASED Aggregate Demand
Businesses sell more goods and services



Businesses take on more workers

Expansionary fiscal policy may however lead to inflation because of increased demand. Also, higher disposable income may lead to people spending more on imports such as cars, electronic equipment and foreign holidays.

Monetary policy

In order to increase demand the Government may reduce interest rates. This will make it cheaper for people to borrow money and encourage them to spend more. It will make mortgages cheaper to repay and therefore leave people with more to spend on other goods and services.

Lower interest rates may also encourage firms to invest more. Borrowing will be cheaper and firms will also expect demand for their products to increase and therefore be willing to spend more on new equipment, factories, vehicles and other types of investment.

Exercise 9

How might higher investment by businesses help to reduce unemployment?

As with reflationary fiscal policy cutting interest rates may lead to inflation and increased imports. It will also only work if people and firms are confident enough in the state of the economy to borrow money to spend.

Supply side policies

Supply-side policies work by increasing the QUANTITY, QUALITY and MOBILITY of factors of production (land, labour, capital and enterprise). Examples of these might include:

- QUANTITY
e.g. persuading more people to look for employment;
new firms to enter an industry;
new uses of agricultural or derelict land;
- QUALITY
e.g. better-trained labour;
improved information for firms;
public services more customer-oriented;
- MOBILITY
e.g. easier movement of labour from one area of industry to another;
fewer restrictions on firms moving in or out of industries;
relaxation of licensing requirements/planning permission.

The aim of supply-side policies is to increase the productive capacity of the economy.

Exercise 10

Below are some supply-side measures to reduce unemployment. Explain how they might be expected to work.

- income tax cuts;

- corporation tax cuts;

- grants and tax-free allowances for firms for capital investment and R & D;

- high-quality education and training;

- abolishing statutory minimum wage-rates;

- restrictions upon trade unions' ability to take industrial action such as strikes;

- Government spending on infrastructure.

The main arguments AGAINST supply-side policies are that:

- supply may not create its own demand e.g. firms may not be confident enough to invest even if taxes are cut because they may be worried about being able to sell the increased production;
- supply-side policies may take a long time to have an effect e.g. improving education and training will not have an effect for several years as it takes this long to educate and train better workers and get them into the workforce;
- abolishing restrictions may lead to increased external costs such as pollution, traffic congestion, lower quality products, dangerous goods and services etc.;
- removal of labour market restrictions may lead to increased poverty.

Exercises

Outline a range of consequences of unemployment for:

- Individuals;
- Businesses;
- Economy (government).

Which types of unemployment can be corrected by:

- Demand-side policies;
- Supply-side policies.

