What is Unemployment?

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Unemployment rate = Unemployed / Participants

Employment rate = Employed / People in the working age.

Governments “sometimes” play around with figures

Participation rate is labour force divided by civilian noninstitutional population

Gender matters too

Unemployment and labour activity strongly dependent on age

OECD Europe Labour Market Variables 2000

OECD Europe Labour Market Variables (Men) 2000
OECD Europe Labour Market Variables (Women) 2000

Unemployment Rates (USA 2001)

As does Education

Table 2

<table>
<thead>
<tr>
<th>Educational attainment</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher diploma</td>
<td>3.9</td>
</tr>
<tr>
<td>Postgraduate diploma</td>
<td>4.4</td>
</tr>
<tr>
<td>Bachelor degree</td>
<td>3.1</td>
</tr>
<tr>
<td>Ungraduate diploma</td>
<td>2.8</td>
</tr>
<tr>
<td>Associate diploma</td>
<td>3.2</td>
</tr>
<tr>
<td>Skilled non-academic qualification</td>
<td>2.4</td>
</tr>
<tr>
<td>Completion of high school</td>
<td>2.2</td>
</tr>
<tr>
<td>Did not complete high school</td>
<td>3.6</td>
</tr>
<tr>
<td>FRS at school</td>
<td>20.5</td>
</tr>
<tr>
<td>Total</td>
<td>7.8</td>
</tr>
</tbody>
</table>

Note: * Subject to sampling variability too high for most practical purposes.
Source: ABS (May 1998), Transition from Education to Work, 4122.0, Table 11.


OECD Unemployment 2001

Non-OECD Unemployment 1999

Long Term Unemployment 2000

% of Total Unemployment

6 months and over

12 months and over
Government can counteract these effects by **Active Labour Market** expenditure - policies aimed at making job search easier for unemployed and improve their chances of getting a job. Table on next slide shows Active Labour Market Expenditure as % of GDP.

**Another view of the labour market**

We have just focused in detail on unemployment and its determinants. Another aspect is how workers loose jobs and how unemployed find new jobs:

The crucial innovation in this new approach is not to focus only unemployment but also on the flows in and out of the labour force.

This approach is necessary because the labour market is a lot more complex and diverse than a simple focus on unemployment suggests.

**What use can we make of this for thinking about unemployment?**

The unemployment rate equals the proportion of jobs destroyed in a period divided by the sum of the proportion of jobs destroyed and the probability an unemployed person finds work i.e. $\frac{d}{d + p}$.

If an economy experiences lots of turnover each period i.e. $d$ is high then it will tend to have high unemployment rate.

Similarly if it is difficult for unemployed individuals to find new jobs - i.e. $p$ is low - then it will tend to have high unemployment rate.

This is a situation where the process of matching unemployed workers to jobs is slow.
This is useful for thinking about employment protection legislation.

**Two key determinants of unemployment:** p and d.

Employment protection tries to reduce unemployment by lowering d - reducing redundancy rate.

This will work so long as p does not change.

But employment protection also reduces p - firms have to take account of expected firing costs when they try and hire individuals.

Larger severance packages means it is less likely firms will take on new hires.

On the next slide we see individual countries EPL indicators and the final chart shows summary measures of EPL strictness. Note the USA figures!