

Thinking like an economist

Measuring unemployment

In economic theory, unemployment is defined as those without a job but who are seeking work at current wage rates. Measuring the number of unemployed in an economy, however, is more difficult than economic theory might suggest. In the UK, there are two ways in which unemployed is calculated: the claimant count and the Labour Force Survey (LFS) measures.

The claimant count

The claimant count measures unemployment by counting the number of people claiming benefits for being unemployed. It was the main measure of UK unemployment until 1997. However, it was open to political manipulation. In the 1980s and 1990s, the UK government introduced over 30 different changes to the way in which it was calculated to reduce the politically sensitive headline unemployment figure. The claimant count is also not an internationally recognised way of measuring unemployment. Hence it cannot be used to compare UK unemployment levels with those in other countries.

LFS (or ILO) unemployment

LFS (or ILO) unemployment is calculated using Labour Force Survey statistics. Each month 44 000 households with over 100 000 individuals are surveyed. The questionnaire used covers economic activity as well as household size and structure, accommodation details, and basic demographic characteristics such as age, sex, marital status and ethnic origin. To be classified as unemployed, an individual has to be without a paid job, be available to start a job within a fortnight and has either looked for work at some time in the previous four weeks or been waiting to start a job already obtained.

This measure of unemployment is based on an international standard set by the International Labour Organization (ILO). The UK is required by EU law to measure unemployment according to this definition. It then provides a way in which unemployment can be compared between countries.

LFS unemployment compared to the claimant count

Figure 6 shows that LFS unemployment figures differ significantly from claimant count figures. LFS unemployment tends to be above claimant count unemployment and since 1994, there has been a growing divergence between the two. LFS unemployment is likely to be above the claimant count figure because the claimant count excludes a number of key groups of unemployed workers.

- Many female unemployed workers are actively looking for work (and are therefore included in LFS unemployment) but are not entitled to benefits for being unemployed. For instance, they might not have built up sufficient National Insurance contributions to qualify for unemployment benefit, a National Insurance benefit. They may also be living in a household where the husband or partner is earning too high a wage for them to qualify for means-tested benefits.

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Employment and unemployment, LFS measures, millions

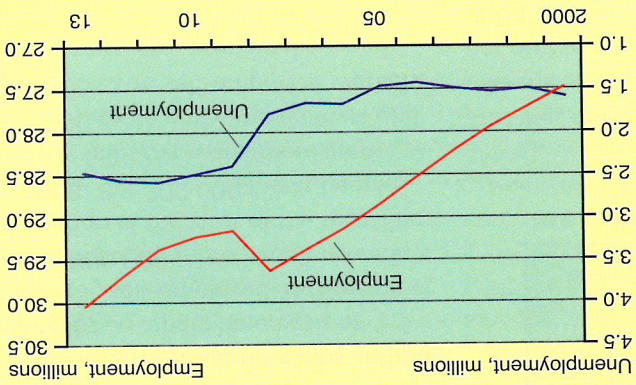


Figure 7

- Older, particularly male, workers in their 50s and 60s may be collecting a pension from their previous employer or be supported financially by their spouse. They are therefore not entitled to benefits but may be actively seeking work.
- Workers are not entitled to register as unemployed with the DWP until they have been out of work for a number of weeks. However, anyone interviewed for the LFS count who is unemployed and is looking for work is counted as unemployed regardless of how long they have been unemployed.

LFS and claimant count measures of unemployment

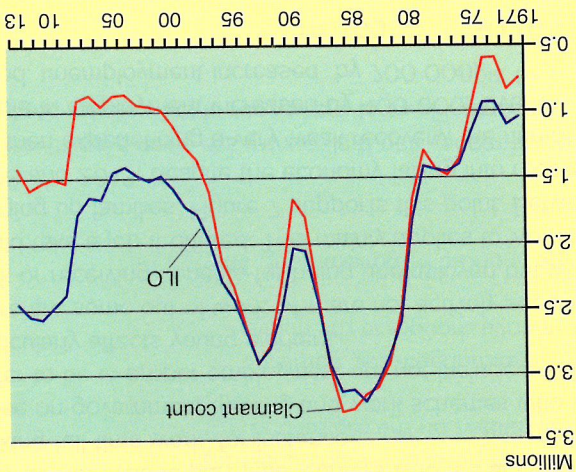


Figure 6

Source: adapted from www.ons.gov.uk