

114 Unemployment

Unemployment and underemployment

There are always unemployed workers in a market economy. However, the level of UNEMPLOYMENT can vary as Figure 1 shows. Official statistics on unemployment tend to measure those who do not have a job, but who are actively looking for work.

There are many more, however, who would take on a job if it were available, but are not actively seeking work. The largest group of these **underemployed** people is women who remain at home to look after children. Another large group is the over-50s. Many have taken early retirement because they were made redundant from an existing job. However, they would re-enter the workforce if there were a suitable job available.

Types of unemployment

There is a number of different types of unemployment. Each type is related to a different **cause** of unemployment.

Frictional unemployment Often workers voluntarily leave their jobs or are made redundant before they have another job. Or they may leave one job but their next job only starts in, say, two weeks' time. In between jobs, they are classified as unemployed. This type of unemployment is called **FRictional UNEMPLOYMENT**.

Seasonal unemployment In some industries, it is common for workers to be employed only at certain times of the year. In tourism, for example, workers are taken on just for the tourist season. In the construction industry, outdoor construction workers can often be laid off in the winter when building conditions become difficult. In agriculture, extra workers are taken on at harvest time. In general, unemployment tends to go up in the winter and down in the summer because of this **SEASONAL UNEMPLOYMENT**.

Cyclical unemployment Economies can go from boom to recession. The unemployment caused by the move to recession is

called **CYCLICAL UNEMPLOYMENT**. Usually it occurs because aggregate (or total) demand in the economy stops growing at a rate that is fast enough to maintain current levels of employment. At worst, the economy can go into a depression and aggregate demand can fall. With less demand for goods and services, unemployment will rise.

Structural unemployment Today, the pace of change in an economy can be very fast. These changes can lead to **STRUCTURAL UNEMPLOYMENT**. This is unemployment caused by changes in the structure of an economy.

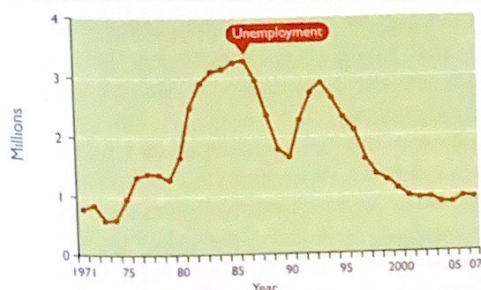
There is a number of different types of structural unemployment.

- **Technological unemployment** is caused by changes in technology which allow different methods of production to be used or permit new goods to be made. For example, computer technology has transformed much of manufacturing. It has reduced the number of workers needed to produce a given output. Equally, it has created jobs in industries such as computer manufacturing. However, the workers who lost their jobs in manufacturing are unlikely to live in the place where the new jobs are created. Even if they were, they might not have the right skills. They might not even want the new jobs if the new jobs are at a much lower rate of pay.
- Where a whole region is affected by a run down of major industries, **regional unemployment** is said to exist. The reason for the run down may be changes in technology. Or it could be that major industries in a region have become uncompetitive. In the UK, for example, much of manufacturing has closed down and the jobs have been transferred to the Far East where wages are much lower. It could be that demand for the product of a region has fallen. Lace making in Nottingham or coal from Wales are examples.
- **Sectoral unemployment** is said to exist when major industries collapse leaving large numbers of unemployed workers.

These different types of structural unemployment are usually linked. Structural unemployment would not exist if there were perfect **mobility of labour** within an economy. If the labour market were perfect, workers would be able to move from job to job instantly. They would have the skills to move from being a coal miner to being a computer technician. They could move from Wales to London. They would also be able to understand that they might have to take a cut in pay to get a job.

In the real world, however, there are barriers to mobility. Workers don't have transferable skills. Housing costs are a major barrier to mobility. Workers might not want to leave the town where they were brought up. There might be discrimination against unemployed workers in their 50s trying to get jobs.

Figure 1: Unemployment, claimant count, millions, not seasonally adjusted.



Source: adapted from *Economic and Labour Market Review*, ONS.

Question 1.

Last year was a watershed year for Gill's, the US fast food chain. For the first time, it made a loss. Outside of the USA, the company is still expanding profitably. But in its core US market, it has experienced significant difficulties. Competition has been intense and US consumers have begun to desert Gill's for fast food chains offering healthier alternatives.

Problems for Gill's have been made worse by a downturn in the US economy which has seen rising unemployment. The result has been that fast food chains have suffered from a lack of lunchtime foot traffic. The company claims that it is fairly recession proof because 'when people are cutting back we tend to be one of the last things to be eliminated because our product is not very expensive'. However, to offset rising unemployment and increased competition, the company recently introduced a \$1 menu.

A sign that not everything was well with Gill's was the announcement this year that it would be closing 175 outlets, many in the US where there were simply too few customers due to fierce local competition. Some analysts believe that a more savage cut in capacity in the USA, particularly where Gill's outlets were very close to each other, would boost profits.

- Explain why rising unemployment could lead to problems for Gill's.
- Discuss whether closing outlets in the USA in a recession would be a sensible strategy for Gill's to adopt.



Effects of unemployment on businesses

Changes in the unemployment levels in a local area, region or country can have major effects on businesses.

Output Rises in unemployment are likely to affect output and sales of businesses. For example, a small town may have a factory that employs 10 per cent of its workers. If that factory closes, shops in the town will almost certainly see a downturn in trade because unemployed workers will spend less. Suppliers to the factory, perhaps in the local area, will also see a fall in sales.

Low unemployment, on the other hand, is associated with rising output as employed workers spend their wages and other firms invest.

Redundancies and recruitment A fall in output because of rising unemployment could lead to businesses making some of their workers redundant. Redundancies have many effects on businesses. It can be costly if redundancy pay is given. It takes management time to organise. It leads to demotivation amongst staff. On the other hand, if a business is able to recruit in a high unemployment period, it could have a large number of applicants from which to choose. High unemployment can also help put downward pressure on pay and reduce the willingness of workers to take industrial action to support a pay claim.

Low unemployment, on the other hand, is associated with recruitment of workers in tight labour markets. So businesses may have relatively few workers applying for a job. There is also upward pressure on wages because the demand for labour is high and the supply relatively low.

Capacity If unemployment is rising and a business is suffering falling orders as a result, it is likely to suffer from excess capacity. Machines will be idle and office and factory space will be underutilised. This can raise average costs because fixed costs

won't change, but less will be produced. Eventually, businesses will be forced to cut their excess capacity by closing sites, not replacing equipment and moving to smaller premises.

On the other hand, falling unemployment leading to higher output is likely to increase capacity utilisation and reduce average costs. Eventually, businesses will increase their capacity, which will fuel demand in the economy further.

Government spending and taxes In a downturn, with rising unemployment, government spending will increase. This is because there will be a rise in social welfare payments to the unemployed. The government is unlikely to raise taxes at this point for fear of reducing spending in the economy even further.

However, if unemployment starts to fall, the government may begin to raise taxes to reduce its borrowing. Higher taxes may be targeted at households, which will slow down the pace of recovery. Taxes could also be targeted at businesses. For example, corporation tax, a tax on company profits, might be raised. This would hit profits.

Sectoral and regional effects Some businesses would be more affected than others by rising unemployment. If the rising unemployment was structural, then businesses in certain industries or certain regions would be affected. For example, the decline of heavy industry in the UK between 1950 and 1990 hit regions such as Scotland, Wales, Northern Ireland and Northern England very hard. Many service industries in these regions were then affected by the knock-on decline in demand from workers who became unemployed.

If the rising unemployment was caused by a recession in the economy, then industries which provide essential goods and services would suffer far less than industries providing luxury goods. For example, in the UK recession of 1990-92, supermarket chains were relatively unaffected as households maintained spending on food. However, the car industry was

badly affected because many households and businesses delayed buying new cars and made do with their existing vehicles.

Social issues Long-term unemployment tends to create areas of poverty where the unemployed tend to live. Vandalism, crime and other types of antisocial behaviour can result in those areas. This will affect any business located there. For example, business premises may be broken into, equipment stolen, or vandals may set fire to the premises. New businesses thinking of setting up in such areas might be deterred, whilst existing businesses may relocate or shut down, making the problems of unemployment worse.

Strategy and unemployment

If there are small changes in unemployment, then businesses need not change their existing strategies. If there is a large rise in unemployment, this is likely to be associated with a recession and falling demand in the economy as a whole. Different businesses will then be affected in different ways. Businesses which produce essentials like food may see little change in demand for their products. However, businesses making products which see a sharp fall in demand should cut their production too. This could mean making workers redundant and closing factories, outlets and offices. Businesses which fail to make the necessary cuts could themselves become casualties of the recession. Rising unemployment, however, could be an opportunity to pick up workers who are better skilled and motivated.

Large falls in unemployment are likely to be good for most businesses. Demand is likely to be increasing at an above-average rate. Sales will be rising. Businesses should use the

opportunity to expand. However, they may have increasing problems recruiting the right sort of workers.

KEY TERMS

Frictional unemployment - when workers are unemployed for short lengths of time between jobs.

Structural unemployment - when the pattern of demand and production changes, leaving workers unemployed in labour markets where demand has shrunk. Examples of structural unemployment are regional unemployment, sectoral unemployment and technological unemployment.

Cyclical unemployment - when there is insufficient demand in the economy for all workers to be able to get a job. Cyclical unemployment occurs in recessions.

Unemployment - when those actively seeking work are unable to obtain a job.

KNOWLEDGE

1. Explain the difference between (a) frictional unemployment and seasonal unemployment; (b) cyclical unemployment and structural unemployment.
2. Explain why 300 workers being made redundant in a small town could affect services industries in the local area.
3. Why might rising unemployment lead to overcapacity in industry?
4. Why might a business be deterred from setting up in an area of high unemployment?



Case Study: UK textile industry

The UK textile industry employs around 300,000 workers, more than the farming, car manufacturing or chemicals industries. When a car production plant like Dagenham in Essex or Longbridge in Birmingham faces closure, it is national news. But the 41,000 job losses in the textiles industry last year passed almost unnoticed by the media. One difference between textiles and these other industries is that the textile job losses being experienced are almost all amongst low paid women. In the car production, farming and chemicals industries, the workforce is often made up of better paid male workers.

Maggie Rowley provides an example of the story. She worked as a machinist for Coates Viyella, a major supplier to Marks & Spencer, for 20 years. She was one of 450 women made redundant 18 months ago when M&S moved its manufacturing base for the trousers on which she worked to Morocco. Her factory was one of two in Rossington, an old mining village outside Doncaster. On the one road into the village is the

pit where her brothers, all miners, were once employed; one still is, the rest work on chicken farms.

Maggie Rowley was lucky enough to get another textiles job after the factory closed, but it was two bus rides away and only paid at the national minimum wage rate. She was quickly made redundant from that job too and now she works in a lighting components factory. Commenting on her job loss at Coates Viyella, she said that it was caused because 'there was no investment, no training, no planning. Now we're losing a whole industry and it's devastating.'

There are significant centres of textile production around the country with a quarter of the industry based in the East Midlands. In Maggie Rowley's home area, 1,000 textile jobs have gone, plus more jobs lost in Doncaster itself. Closures can hit an area hard. Often, textile plants close in areas where there is already high unemployment, particularly male unemployment. Women working in textiles may well be the only wage earner in their household. They often don't have cars and find it difficult to travel far to get a job.

- (a) Discuss the possible effects of textile closures on manufacturing and service businesses in the Doncaster area. (40 marks)
- (b) 'There was no investment, no training, no planning.' To what extent can a UK business avoid closing down plants and making workers redundant by investment, training and planning? (40 marks)