CHAPTER 3

EMPLOYMENT

WHAT IT'S ALL ABOUT

- How the labour market works and the measurement of jobs/unemployment
- How employment and wages are determined
- Different types of unemployment and why they exist
- How unemployment moves with economic activity
- The link between unemployment and inflation
- Recent changes to the structure of the labour market

INTRODUCTION

Along with economic growth and inflation, the number of people employed or unemployed in the economy are among the most important of economic indicators. In the UK you'll often hear political parties point-scoring, arguing over how joblessness changed under current or previous governments. How the number of people in work in America changes from one month to the next is probably the single most important piece of economic news influencing financial markets around the world.

The reason employment – and for that matter unemployment – is so important is that it has a direct bearing on peoples' lives and the wellbeing of society as a whole. The number of people with jobs governs the total amount of wages that people take home. Remember from the circular flow of income in Chapter 1 that households use their incomes to spend on goods & services. When unemployment rises incomes fall, spending is lower, and firms may be forced to lay off even more staff as demand for their output declines. It's not difficult to see how a downward spiral in economic activity and employment can be created.

We begin by looking at a few basic definitions and explaining how the jobs – or labour – market fits together. In most countries the total population of 'working age' is made up of anyone who is over 16 but younger than the retirement age. The vast majority of these people will

be in employment – whether they be full-time, part-time, temporary or self-employed workers. But some will be out of work and looking for a job – this is the level of unemployment. Together, the employed and unemployed are what we term 'active' in the jobs market because they are either working or looking for work. You may also hear the number of active people being referred to as the 'labour force' or the level of 'participation'.

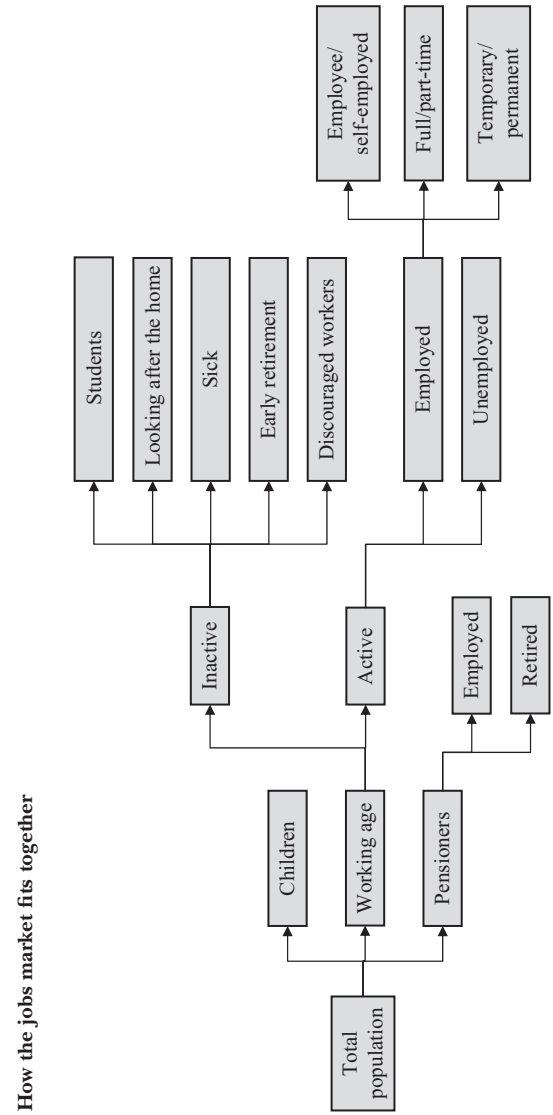
But some people of working age are neither employed *nor* looking for a job. For one reason or another they are not interested in – or able to – work. We refer to these people as 'inactive'. There are a number of reasons that someone may be inactive: they are students, they have opted to look after the home rather than work, they are sick, they have entered early retirement, or they are discouraged – they are not looking for work because they believe there are no jobs available.

The following chart shows how all of this fits together. But how do we put numbers on each of these types of people?

MEASURING JOBS AND JOBLESSNESS

We can look at employment and unemployment in terms of both absolute numbers as well as rates. For example, following the recession of 2008–09, the level of employment in the UK had fallen to just under 27.5 million people, which was around 72% of the working age

How the jobs market fits together



WHO YOU NEED TO KNOW

Thomas Malthus

Thomas Malthus is probably best known for his views on population, but also wrote on unemployment, trade and state-provided welfare. His *Essay on the Principle of Population* (1798) was written as an argument against those who believed that the government should provide help to the working classes.

He argued that the population would, if left unchecked, mushroom over time, but that food production could only grow at a steady pace. The reason food could not grow as quickly was that there was a limited amount of land, and that the most productive land was already under cultivation. Thus increasing the amount of food would require the use of land that yielded less.

While he suggested the use of birth control to limit the rise in the population, he also said that this would probably not be enough to prevent famine – a somewhat more drastic way of controlling the population. Malthus said that

by redistributing wealth to the poor the government could be making matters worse, encouraging an increase in the birth rate and leading to higher food prices through greater demand. It's hardly surprising that Malthus' work earned the subject of economics the title of the 'Dismal Science' (courtesy of nineteenth century historian Thomas Carlyle).

His views on recessions were that they were caused by insufficient demand following a boom. During the boom phase, capitalists would have experienced rapidly rising profits which could not be invested quickly enough back into the economy – and they may not have wanted to because of labour shortages and resultant higher wages. Malthus' solution to this problem was straightforward – redistribute income away from the capitalists and towards land owners who were considered more likely to spend it.

population. Likewise, the number of people who were unemployed had risen to 2.4 million, or 8% of the working age population.

WHO SAID IT

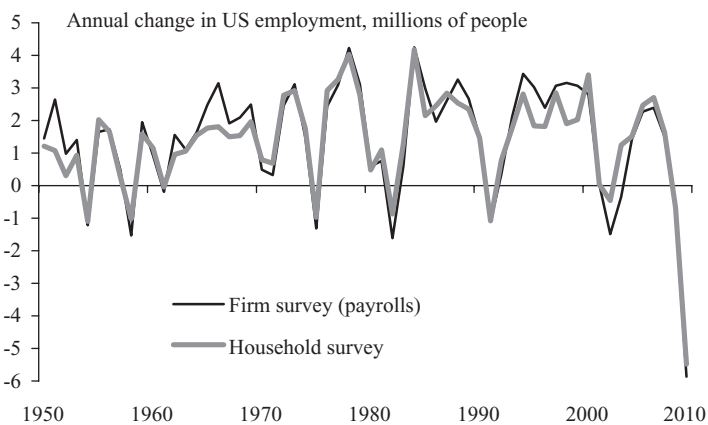
"Economics is extremely useful as a form of employment for economists."
– John Kenneth Galbraith

In most countries, these figures are reported on a monthly basis by national statistics offices. Usually they are measured by a large survey of households which asks about their current status. The International Labour Organisation (ILO) – which is an agency of the United Nations – lays down guidelines about who exactly is classified as employed or unemployed, making it easier for us to compare the figures across countries. For example, under these definitions someone is classified as unemployed if they have been looking for work in the past four weeks and are available to start in the next two.

To complicate matters, however, there is another way that countries can estimate employment – by a survey of *firms* rather than *households*. Firm surveys tell us about the number of *jobs* rather than the number of *people in jobs*. The two may differ to the extent that some people have more than one job. The trends in both measures tend to be similar to one another, as the graph below shows, although they can vary from month to month.

While the household survey is the main indicator of employment in the UK, the focus in the US is on the firm (or 'establishment') survey. This measure of employment is also known as 'non-farm payrolls' – it tells us the number of jobs (outside of agriculture) and how they change on a monthly basis. This is probably the most important monthly economic statistic you'll ever come

Firm and household surveys of US employment



across, because it is crucial in influencing interest rate decisions made by the world's largest central bank – the US Federal Reserve. The reason for this is that the US is such as consumer-centric economy: employment – and thus household income too – is a key determinant of consumer demand and therefore overall economic activity.

Not only is there more than one way of reporting *employment*, but the same is true of *unemployment*. Rather than our survey of households, we can instead add up the number of people who are actually claiming unemployment benefits from the state. This usually reports a lower total for unemployment than the household survey, because not all people who say they are unemployed in that survey collect their benefits. In the UK, for example, the so called 'claimant count' measure of unemployment stood at about 4.5% in the middle of 2010, compared to the 8% on the household survey measure.

The problem with looking at the number of people claiming unemployment benefits as a measure of the jobless total is that it can be subject to government manipulation. If, for example, a government were to reduce the number of weeks they allowed unemployed people to claim benefits (in order to incentivise employment) that might make the numbers look artificially lower than was really the case. During Margaret Thatcher's tenure as Prime Minister in the 1980s is was reported that the UK government changed the definition of unemployment around 30 times – with most of these changes

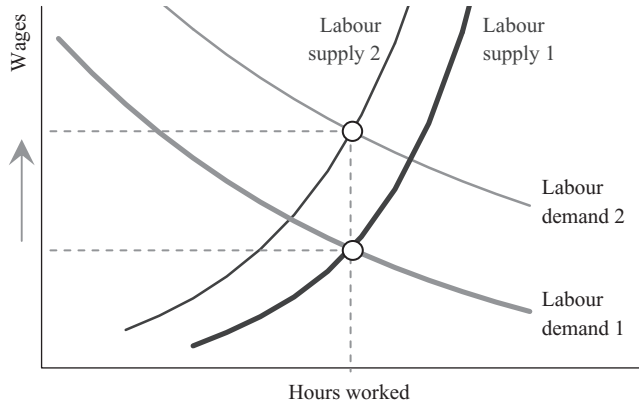
leading to a lower level of unemployment. Still, the number of claimants has two distinct advantages as a measure of unemployment: first, it is hard data rather than being based on a survey, and second it tends to be reported earlier than the surveys.

THE JOBS MARKET AND WAGES

What influences the number of people in work and the amount of pay they receive? Remember from Chapter 2 that the prices of goods & services are influenced by how much people want to buy in relation to their availability. The greater is demand relative to supply, the higher will be the price. The same is true in the jobs market, but this time instead of goods & services we are looking at the demand and supply of hours worked, with the 'price' being peoples' hourly wage rate.

As suppliers of labour, individuals would probably be willing to work longer hours if their wage is increased. But firms will probably demand more workers the cheaper they are to hire. We show this as the two bold lines in the following graph. Now imagine what happens if the prices of goods & services in the shops rise. Both of the lines in the figure would move upwards because individuals would want higher wages to compensate them, and firms would be willing to offer higher wages because they can sell the output that workers make for a higher price.

How wages and employment interact



So, higher prices mean higher wages, but – as the graph above shows – not necessarily any change in how much people work. The reason that people are left in exactly the same situation as they started is as follows: they receive a higher hourly wage, but they need that to buy the same amount of goods as they did before, when both prices and wage rates were lower. In *real* terms, nothing has changed.

What we've looked at above is called the Classical Theory of wages and employment. Economists like boiling real world issues such as jobs and pay down to simplistic explanations like this, but in reality things can be more complicated. When deciding whether to take a job or how many hours to work, a prospective employee will be interested in more than just wages. For example, he or

she must take into consideration the amount that they could receive from the government by not working and instead claiming state benefits. The higher the level of unemployment benefits compared to wages (something which economists call the 'replacement ratio') the more likely it will be that an individual opts not to work.

TYPES OF UNEMPLOYMENT

In any economy at any point in time there are always people without jobs who want them. In trying to understand why unemployment exists, we can classify it into various different types – depending on the cause. There are five major types of unemployment:

Structural. The level of unemployment that is associated with the normal operation of the economy is called structural unemployment. This usually exists because of the long-term decline of particular industries in a country and the inability of the people previously employed in those industries to retrain for other jobs. Think of the manufacturing firms in the UK (car assembly, shipyards, steel workers for example) that have succumbed to the intense competition of low cost production in emerging markets like China. It may be difficult to retrain these redundant workers for office-based employment.

This type of unemployment may be the result of technological progress which reduces the need for workers as

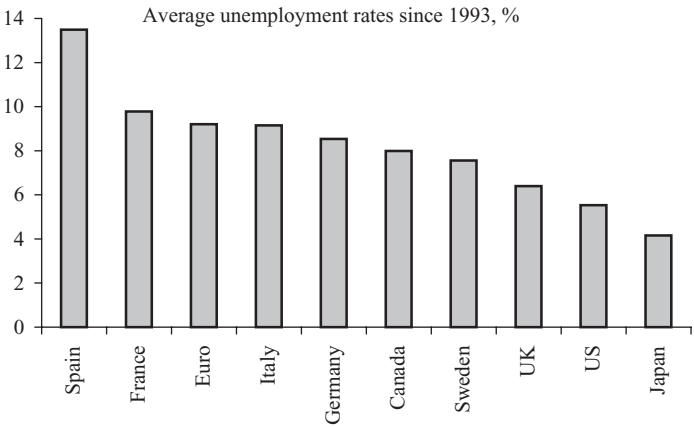
opposed to machines. Because of its nature – requiring workers to retrain for different jobs – structural unemployment tends to be long-term, with the people it affects often being out of work for a year or longer).

Cyclical. Cyclical unemployment, as the name suggests, results from a slowdown in the economy. It is also sometimes called 'demand-deficient' unemployment because, during a recession or slowdown, demand falls prompting firms to produce fewer goods & services and thereby lay off some of their staff. Typically, when the economy is growing at a rate below its trend we would expect to see cyclical unemployment rise, and when the economy is growing above its trend cyclical unemployment should fall.

Classical. Too much interference in the labour market can be the cause of higher unemployment. We saw above that if left to their own devices employment and wages will be determined by how many man hours firms want and how many workers are willing to supply. But what happens if unions try to keep wages too high? Or if the government were to set a minimum wage that was too high? Well, we can safely assume that more individuals would want to work because they are receiving a greater reward, but firms wouldn't want to hire as many people because of the additional expense. In other words, unemployment rises.

The following chart shows for various countries the average rates of unemployment over the past 15–20 years.

Average unemployment rates across countries



In the euro area unemployment has tended to be higher than in other countries such as the UK, US and Japan. One of the reasons for this may be that the labour markets of these countries are so tightly controlled and rigid – something that has been called 'euro-sclerosis'. For example, there are high costs associated with laying off workers, unions are more powerful and unemployment benefits tend to be higher. In other words, workers are being priced out of the market. Some European economies are moving towards the freeing up of their labour markets, but it will be a slow process to reduce this classical unemployment.

Frictional. If a person loses their job it may take some time to search for a new one – even if the economic cycle is

strong and jobs are plentiful. This is called frictional unemployment, and exists because of what economists call 'imperfect information' (job vacancies may exist, but it takes time before the firm and the prospective employee discover each other) and the geographical immobility of some workers (the firm and employee are physically not in the same place). It has been suggested that lowering unemployment benefit payments may encourage people to search for jobs quicker and reduce frictional unemployment.

Seasonal. Changes in employment and unemployment can be caused by seasonal influences. More people tend to be hired in the run up to Christmas, for example, than during the rest of the year. Think of the increase in temporary sales staff to cope with the increase in festive purchases in the shops. Unemployment will tend to be rise back in the New Year, however, as spending drops off again. In reality unemployment statistics are usually adjusted to smooth out such seasonal influences in a similar way to the GDP figures, as we saw in Chapter 1.

Most of these measures of unemployment are what we'd call 'involuntary' – in other words it is not by choice that people are out of work. In the case of cyclical and seasonal unemployment it is because of a fall in demand in the economy; frictional is due to the delay in finding a new job; and structural is because of the long-term decline of a particular industry. All are out of the hands of workers.

It is a different matter when it comes to classical unemployment, however. In this case, by asking for too high a wage, workers are essentially pricing themselves out of the jobs market. Were they to lower their demands then prospective employers may be more interested in hiring them. As a result classical unemployment is often referred to – possibly a little unfairly – as being 'voluntary'.

OKUN'S LAW

Let's take a closer look now at cyclical unemployment. We learned above that with cyclical unemployment, the number of people without a job rises when the economy performs poorly, and falls when it performs well. This is what is known as 'Okun's Law' after the economist Arthur Okun who, back in the early 1960s, wrote about the relationship between economic growth and the unemployment rate in the United States. Okun originally pointed out that a 3% rise in economic activity would be associated with a 1% drop in the unemployment rate, and vice versa.

If only it were this simple! In practice, the way unemployment moves when the economy strengthens or weakens can vary quite substantially. Take a look at the following chart, for example. This shows for a number of countries during the most recent recession the rise in the unemployment rate plotted on the horizontal axis against the fall in GDP on the vertical axis.

Unemployment and activity across countries

As you can see, there are big cross-country differences in the way that unemployment responds to economic activity. Countries such as the US and Spain suffered large rises in their unemployment rates relative to the economic contraction during the last recession. On the other hand, Germany and Japan experienced smaller increases in their unemployment rates compared to how sharply economic activity fell. These differences may be due to a number of factors, including so called labour rigidities (by supporting wages and hours worked trade unions may be forcing firms to reduce the size of their workforce to save money during a recession) and the fact that certain sectors are more labour intensive than others (think of the size of Spain's construction sector, for example, which was hit by a weaker housing market).

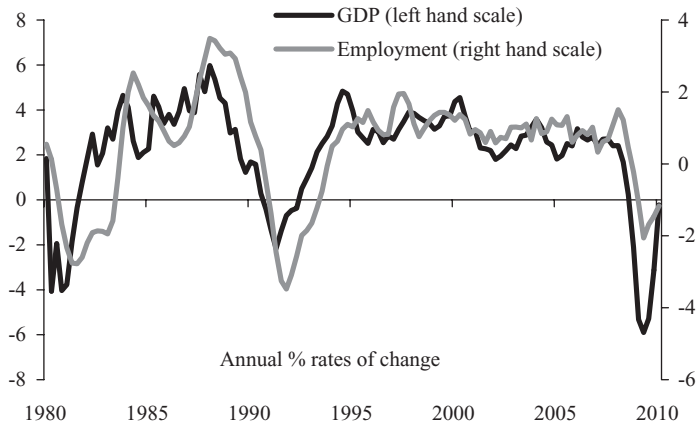
So, we've established that the way economic growth and joblessness interact can vary quite substantially across countries. But how unemployment – or, on the other side of the coin, employment – changes with economic growth can vary markedly over time in the *same country*. The chart overleaf shows how the number of people employed in the UK has changed as economic activity has swung up and down over the past 30 years.

WHO SAID IT

"It's a recession when your neighbour loses his job; it's a depression when you lose your own."
– Harry S Truman

In the recession that followed the credit crunch in 2008–09, employment in the UK did not fall anywhere near as sharply as past history suggests it might have. While GDP fell from peak to trough by more than in any other post-war recession, the fall in employment was less than it was in the recessions of the early 1990s, 1980s or 1970s.

Unemployment and activity over time in the UK



Why was this the case? It could have been that people were willing to work for lower wages or work part time, reducing firms' wage bills and thereby encouraging them to retain their staff through the recession. In addition the government continued hiring during the downturn, offsetting some of the recession-related fall in private sector jobs. And it might also have been that changes in economic policy (such as sharply lower interest rates) helped companies to weather the recession better.

TIME LAGS

One thing you might have noticed from the chart above is that economic activity seems to change before

employment does – not by long, probably only three months. We say that employment changes 'lag' changes in economic activity. Why does this happen?

Think of a typical manufacturer, who hires workers to make a product which is then bought by households. What happens if people start buying less of the firm's product – perhaps because the government has raised income taxes meaning that they have less disposable income to spend? The producer is then left with unsold goods, and might opt to reduce its workforce if it does not expect demand to recover.

But the producer must be careful – what if the fall in demand were to prove temporary? When people start buying more of the firm's product again the firm would be short of labour and have to re-hire workers. So, producers tend not to get rid of workers immediately when demand for their product falls because it is expensive to fire and then re-hire staff. Think of the payouts to staff involved in terminating their contracts, and the subsequent cost of searching for new employees when demand picks up again.

So firms will want to be cautious in reducing their workforce when a downturn comes. Likewise, in an upturn it may take some time to hire the staff that it needs to meet the extra demand for its product. In other words, there are time lags between changes in activity and employment in the upswing too.

PRODUCTIVITY

It is useful to think about what these time lags mean for productivity. Productivity is just the amount of output that an *average worker* in the economy produces. It can alternatively be measured as the amount of output produced during an *average hour* of work.

As we have seen, in a recession output falls first then employment follows shortly after. This means that for a time the same workforce is making less, and productivity falls. But in an upswing, because firms can't increase their staff as quick as activity is rising (remember frictional unemployment – it takes time for employees and employers to find one another), they have to use their existing workforce more intensively – which means that productivity rises. In other words – productivity moves in tune with the economic cycle.

What we really care about, though, when it comes to productivity is the *underlying* rate of improvement over time – not just the swings that result from the economy moving between recession and boom. Long run productivity is influenced by how efficiently the economy combines the three factors of production – natural resources (such as land), workers, and machines (or capital) – to make goods & services. Let's have a think about how changes in these factors can improve productivity:

- *Natural resources.* There's not really very much we can do about the natural resources a country

WHO YOU NEED TO KNOW

Adam Smith

Born in Scotland, Adam Smith is considered to be the father of economics – even though in his day the subject as we now know it didn't really exist (he started his scholarly life essentially as a philosopher). He is widely cited for his capitalist views, in particular his desire to promote competition in order to raise economic wellbeing.

He is best known for his book *The Wealth of Nations*, published in 1776. In it, he argued that if we all act in our own self interest then that will also be the best outcome for society as a whole. This is reflected in the most famous of Smith's quotes: an individual is, "led by an invisible hand to promote an end which was no part of his intention" – that end being to maximise national wealth.

He talked of how technological progress and the 'division of labour' could improve productivity. He used the example of a factory that made pins, arguing that if each worker was responsible for just one task in the pin-making process, output would be much larger than if each worker were to make whole pins themselves. Have a look

on the reverse side of the UK's current £20 note and you'll see a portrait of Smith and a depiction of this division of labour. The most obvious present day example of this is in the car industry, where each worker focuses their attention on assembling just one part of the vehicle.

There are a number of reasons Smith said this process would improve productivity: repetition improves speed, time is saved by not moving from task to task, and workers are encouraged to devise time-saving machinery to help them with their specific job.

On another issue, Smith supported the idea of free trade, as lower-priced imports could reduce the cost of making goods for export. That put him at odds with the conventional wisdom at the time (known as 'Mercantilism') which said that wealth would be improved by *restricting* imports. Despite his focus on free trade and competition, Smith did not denounce the role of government entirely – laws to limit large companies and the provision of policing/national defence were important for the government to provide. Still, to this day Smith remains the torch-bearer for laissez-faire (literally 'let it be' in French) free-market economics.

is – or isn't as the case may be – bestowed with. This is the factor of production that can be least influenced by human intervention.

- *Labour.* Workers can always be incentivised to work harder and become more productive – perhaps by offering them shares in the company they work for, or by setting up profit-sharing schemes.
- *Capital.* Investing in either a greater number of, or more efficient, machines can increase the amount a worker can produce. Workers are often concerned about being displaced by new technology, but don't forget that it takes a skilled workforce to create improved technology in the first place.

The importance of achieving higher productivity is that it allows us to become better off by lowering the costs of production. And ageing populations in many countries makes productivity growth a necessity, as there are an increasing number of retired people relying on a smaller percentage of those still in work. So it is not surprising that the holy grail of governments is to raise the long-run growth rate of productivity.

THE PHILLIPS CURVE AND THE 'NATURAL RATE' OF UNEMPLOYMENT

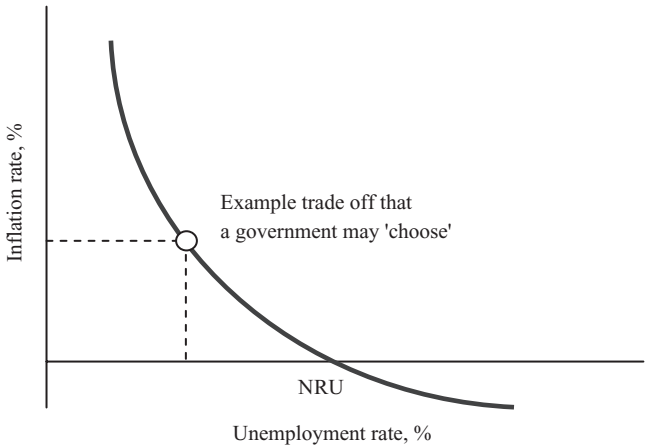
One particularly important issue in macroeconomics over the past 50 years has been the relationship between

unemployment and inflation. Economic thinking has shifted dramatically on this relationship, and in a way which has a crucial impact on policymaking – both the setting of interest rates and government decisions on taxation and spending.

In the late 1950s, the economist A.W. Phillips published a study which looked at inflation and unemployment in the United States over the previous century. He discovered that there was a clear relationship between wages and jobs – when the rate of unemployment fell wages tended to rise more sharply, and vice versa. The same was found to be true if prices, rather than wages, were compared to unemployment. The inverse relationship between inflation and the rate of unemployment soon became known as the 'Phillips Curve'.

It led to governments around the world concluding that they could decide what trade-off they wanted between the two evils of inflation and unemployment. For example, if a government believed *unemployment* to be too high it could reduce it by running expansionary policies (tax cuts, higher spending, or lower interest rates) but only at the expense of higher inflation. If, instead, the government believed that *inflation* was too high, then it could raise taxes, cut spending or raise interest rates to reduce demand and therefore inflation – this time at the cost of higher unemployment. In other words, according to Phillips, there was no 'free-lunch' – inflation and unemployment would not fall (or for that matter rise) at the same time.

The Phillips Curve



This all suggested there was a level of unemployment through which it was impossible to fall without causing prices to rise – a level that was referred to as the 'natural rate of unemployment', labelled as NRU in the chart above. At the natural rate we say we have 'full employment' – there are still people unemployed, but to raise employment/cut unemployment any further would cause other economic problems (inflation).

Another way of thinking about the natural rate of unemployment is by going back to the different types of unemployment we encountered earlier in the chapter. The natural rate is the level of unemployment that exists even if the economy is growing as it should be – in other words it's not due to a lack of demand. So, the natural rate can

be thought of as the four other types of unemployment (structural, classical, frictional and seasonal) apart from cyclical.

As Okun's law suggested, governments can deal with cyclical unemployment by stimulating activity in the economy – so called 'demand management' policies. Alternatively, policies that are aimed instead at attempting to reduce the natural rate of unemployment by dealing with problems inherent in the structure of the labour market are called 'supply side' policies because they are dealing with the supply of labour. Curbing union power, providing better retraining and reforming unemployment benefits are the sort of supply side policies that can help reduce the Natural Rate of Unemployment.

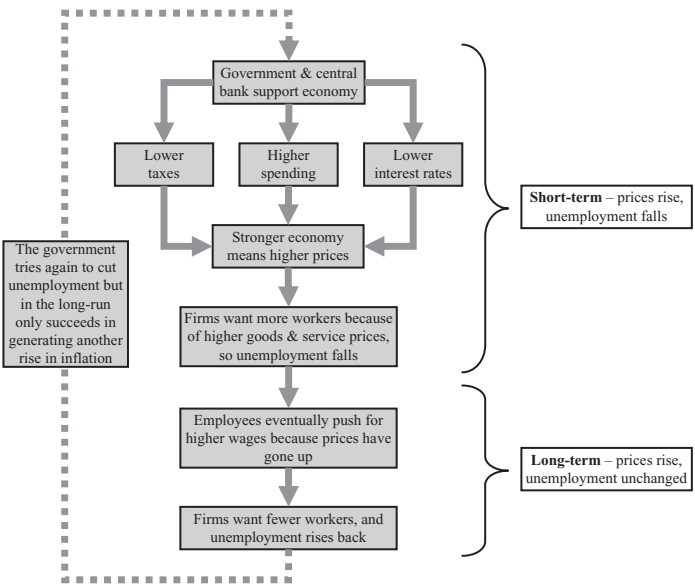
WHY THE PHILLIPS CURVE STOPPED WORKING

The Phillips Curve seemed like a good description of how economies worked up until the end of the 1960s, but things changed dramatically in the following two decades. The combination of rising unemployment *and* inflation in a number of economies during the 1970s and 1980s (in particular the UK and the US) was exactly the opposite of what Phillips said should happen.

What went wrong? Why, after a century, did the Phillips Curve stop working? Two monetarist economists, Milton Friedman and Edmund Phelps, spotted the flaw with the Phillips Curve even before it broke down.

While the Phillips Curve happened to work well over a whole century, Friedman & Phelps said that it could only be relied on to work over short periods of time. To understand why, take a look at the explanation in the chart below. Imagine a government aims to reduce

Why the Phillips Curve did not work after the 1960s



unemployment by introducing expansionary policies. This leads to stronger economic growth, in turn raising the prices of goods & services in the economy. With unchanged hourly wages, firms are happy to hire more workers because they are now getting more money for selling the product that their employees are making – and thus more profits. So, in the short-run, unemployment falls and we have higher inflation, just as Phillips suggested.

But workers will eventually realise that they are being duped – their hourly wage hasn't risen, but the cost of the goods & services they buy certainly has. So after a while they will demand higher wages – but we know that when wages rise firms want fewer workers, and unemployment goes back up again to where we started.

In the long run, therefore, Friedman and Phelps suggested that the only thing the government achieves by stimulating the economy is higher inflation, with no change in the number of workers. It would be impossible to keep unemployment below its natural rate because the government would have to continue boosting the economy by round after round of support, reducing unemployment only in the short-run and leading to ever higher rates of inflation. This is why the expansionary policies of the 1970s and the 1980s failed to reduce unemployment but caused rampant inflation.

Friedman and Phelps described the natural rate of unemployment in a different way to Phillips, therefore

– they called it the Non-Accelerating Inflation Rate of Unemployment, or for short the NAIRU. This might sound complicated but in reality it's not – it is just the underlying rate of unemployment that can be achieved in the economy without producing ever higher (this is the non-accelerating bit) rates of inflation. If inflation is kept unchanged then there should always be a tendency for unemployment to move back to this level.

The key policy implication of Friedman & Phelps' work is that a government cannot trade off unemployment and inflation in the long-run. Expansionary policies produce only a short term fall in unemployment below the natural rate until workers realised they have been conned by falling real wages (higher shop prices but no compensating change in nominal wages).

That's the theory, but how have unemployment and inflation actually moved together over recent decades? Taking the UK as an example, the following graph shows that while unemployment has moved up and down with the economic cycle, inflation has become less variable and generally lower over the past 15–20 years. This coincided with the Bank of England targeting inflation from 1993 onwards (and doing so as an independent body since 1997). In other words, inflation had to be kept stable whatever happened to unemployment.

The changing inflation/unemployment relationship in the UK

CHANGES IN THE WORKFORCE

In many countries labour markets have changed beyond recognition over the past few decades. To wrap up our exploration of the labour market we summarise below the main ways in which the market has altered:

- *Immigration.* Improved technology and transportation have 'globalised' labour markets around the world. From call centres located in Asia (so called 'offshoring') to the physical movement of workers from Eastern to Western Europe, the number of people able to provide their services to any country at any given time

has increased dramatically. If employers in the UK, for example, know they can hire lower cost (and in some cases harder working) employees from abroad, then British workers will have to compete by accepting lower wages too. Increased availability of foreign workers has therefore introduced more competition, reduced bottlenecks and as a result cut firms' labour costs.

- *Manufacturing versus services.* As developed economies have increased their imports of lower-cost goods from abroad (particularly from Asia) domestic manufacturing industries have suffered and there has been a move to producing more services instead. This has led to a sharp decline in manufacturing employment in developed economies and a rise in manufacturing activity in developing countries. In the UK manufacturing jobs were more prevalent in the north of the country than the south, leading to a rise in structural unemployment in the north. And as we saw earlier in the chapter, the decline in certain industries often means that people are unemployed for longer periods as it takes time to retrain for, or relocate to, new jobs.
- *Part-time jobs & gender.* There has been a move towards more part-time employment in the UK, particularly as female participation in the labour market has increased. More and more women work following childbirth helped by

changes in employment laws over the recent past, and because many new mothers prefer to work fewer hours the number of female part-time workers has risen – especially within the service sector. The proportion of people classified as self-employed (that is who run their own business) has also risen in the UK.

- *Ageing workforce.* Because of increased longevity in many countries people are now working until later in life to ensure they have adequate pensions to see them through their retirement. The credit crisis and the associated rise in government borrowing have meant that some governments have had to raise the retirement age to reduce state pension payments so they can balance their books. At the same time there are also fewer young people in the labour force as more students are staying on in education for longer than they did in the past. Even with a rise in the retirement age, the number of people who are not of working age (below 16 or above the retirement age) has risen sharply relative to the number of people of working age. This is known as the 'dependency ratio' as it tells us the proportion of workers who have to support the dependent or non-working population.
- *Government jobs.* In those countries where the scope of the government has been expanded over recent years, public sector employment has risen. In some cases, such as the UK, the

increase in the number of government jobs has been sharp. In the aftermath of the credit crunch, as governments globally pare back their spending in an attempt to put their finances on a sounder footing, the number of people employed by the state could well fall too.

- *Trade unions.* Unions are no longer as important in the UK as they once were, thanks to the reforms enacted by Conservative governments in the 1980s and early 1990s. Employment and trade union laws were passed in 1980, 1982, 1984, 1988, 1989, 1990 and 1993 which limited the power of unions, made it easier for firms to hire and fire staff, and generally improved the flexibility of the market. As a result, the percentage of wage negotiations being bargained by unions has fallen, and so too has the level of classical unemployment.

What this shows us is that the market for jobs is ever changing. It has become much more flexible over recent years, as union power has been curtailed and firms have been able to more effectively tap into the global workforce. The market will continue to change in the future, with one of the most challenging aspects being how governments across the world adapt to ageing populations.

WHAT YOU NEED TO READ

- We have come across a lot of new definitions in this chapter, such as productivity, unemployment, the labour force, and the number of people active in the jobs market. The Organisation for Economic Cooperation and Development (OECD) provides a comprehensive glossary of economic terms here: *www.stats.oecd.org/glossary*.

- To get a feel for the sort of information on the UK jobs market that is published every month have a look at a UK labour market press release – but beware, it is 50 pages of pure statistics! *www.statistics.gov.uk/hub/labour-market*.

- One of the most comprehensive text books on the labour market currently in print is Richard Nickell, Stephen Layard, and Richard Jackman, *Unemployment: Macroeconomic Performance and the Labour Market*, Oxford University Press, 2005. However this is not for the faint hearted – it is a challenging read with lots of equations and charts.

IF YOU ONLY REMEMBER ONE THING

The number of people with jobs usually goes up and down with the economic cycle. But all economies have a certain amount of unemployment which won't go away however fast the economy is growing. Governments have learned – painfully in the 1970s and 1980s – that they can't simply accept higher inflation in exchange for lower unemployment. Sometimes, joblessness and high inflation can co-exist.