

Unemployment, & other forms of labor under-utilization

Session Two

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We begin with two principles

First, *employment policy* should address in particular those in the working age population (1) who have a wish and ability to work, (2) that is currently unfulfilled

the unemployed are just one such group

Second, a fundamental distinction among working age people is those who have *an attachment to the labor market*, even unfulfilled, and those who do not

What is labor under-utilization?

SDG 8: Full and productive employment and decent work for all
(who would be able to and who wish to work)

Labor under-utilization can be seen as the shortfall from reaching this goal in terms of availability of employment and income from employment.

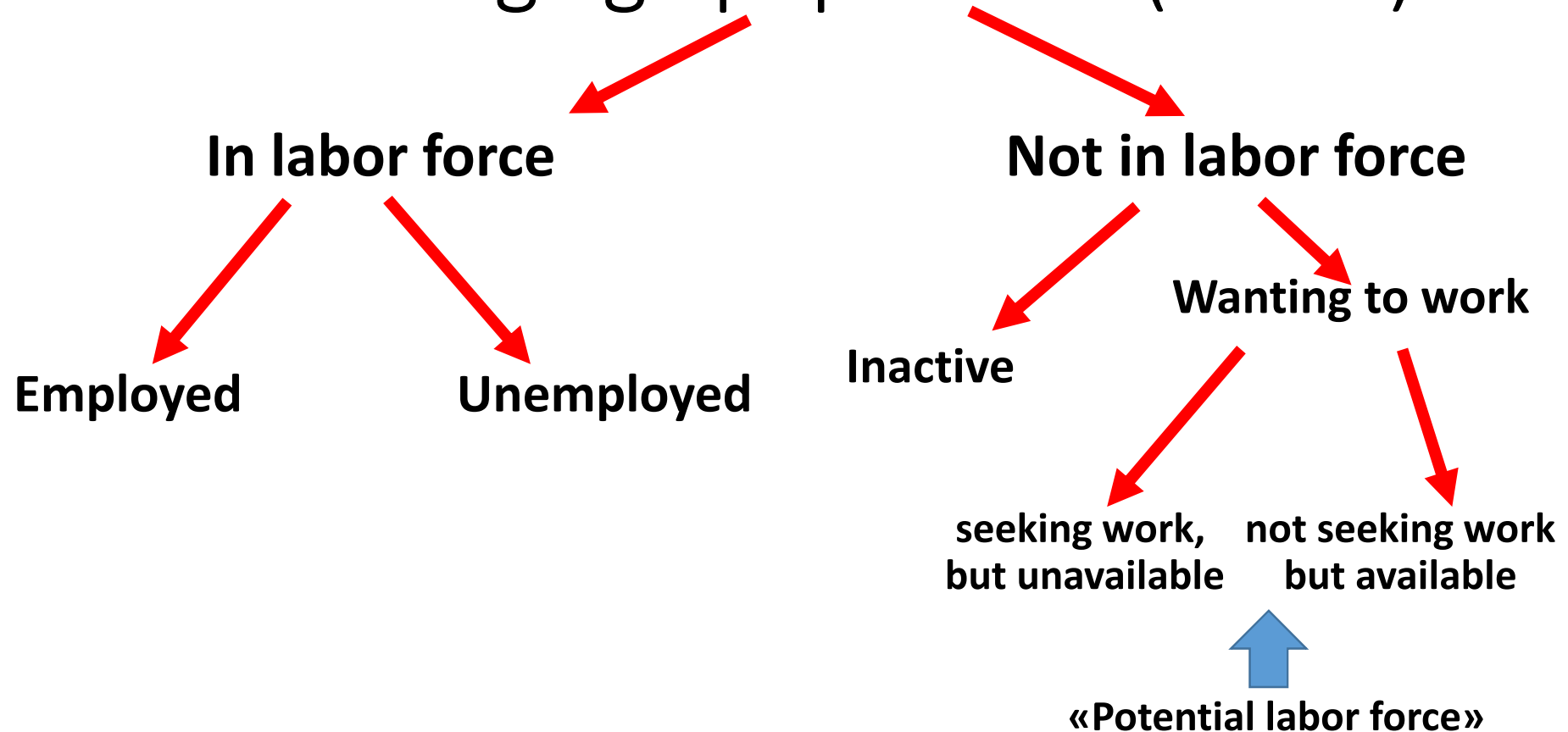
Under-utilization of labor can take several forms

Under-utilization of those in the labor force:

- Unemployment
- Time-related underemployment
- Working poor

In addition those who would like to work but how are not actively searching for work (discouraged) and those seeking work, but not immediately available for work are also included in a broader concept of unemployment and are classified as *potential labour force*

Working age population (15-64)



The most obvious form of under-utilization is
unemployment ...

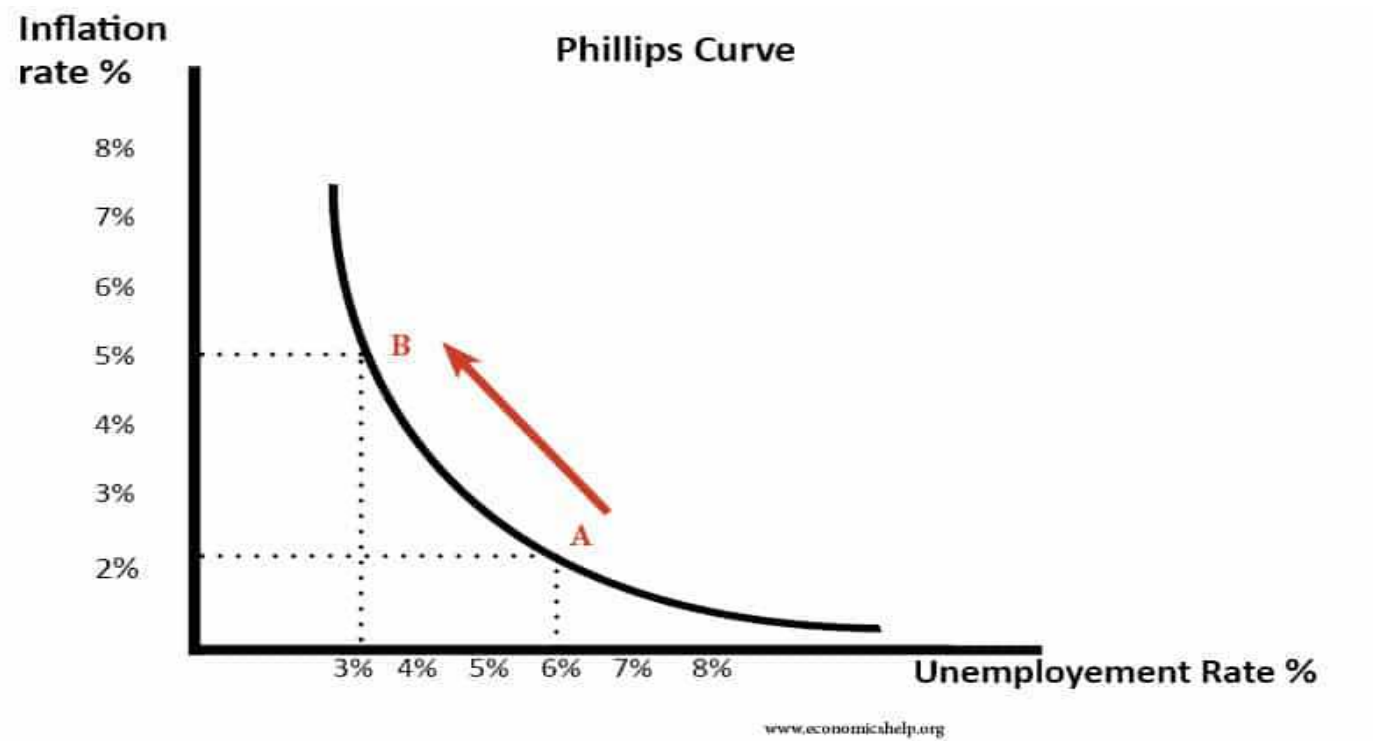
... but, as we'll see, unemployment is just the
tip of the iceberg

Unemployment: cyclical, frictional, and structural

- When we speak of «unemployment», we are most often implicitly referring to the cyclical unemployment rate – i.e. what happens to unemployment over the business cycle
- The business cycle refers to downward and upward fluctuations in economic activity in which economic activity starts to decline, often resulting in a recession, before business and consumer confidence pick up again and the economic begins to grow again – a recovery
- How do downturns happen? we can think of it as a «shock» and «vulnerability» to that shock – e.g. imprudent lending in the US housing market in 2008, an oil price shock in 2014, or a mandatory suppression of aggregate demand in 2020 (the pandemic)
- Of course, there are many other shocks ... such as the onset of a global pandemic.

Labor is a lagging variable over the business cycle; so is cyclical unemployment

- Employers try to hold on to their employees as long as possible in a downturn, (they can be costly to rehire)
- In consequence, the initial response to a downturn is a decline in productivity
- Conversely, in an upturn, employers are slow to rehire until they are convinced that the upturn is sustainable
- In consequence, in an upturn, productivity increases faster than employment



Good in theory, harder to discern in fact

- The thinking is that as unemployment falls, the labor market tightens up, and workers push for higher wages, creating inflationary pressures
- Interest rates are then raised to staunch inflation, and economic activity cools off
- The problem with this excellent theory is that low unemployment and low inflation can and have coexisted. So have high unemployment and high inflation
- It is therefore been difficult to find just what is the Non Inflation Accelerating Rate of Unemployment – or NAIRU – because it varies over time and over countries

«frictional» unemployment

- Frictional unemployment is unemployment of relatively short duration
- In any market economy, people search for jobs, whether for the first time, or after having left a previous job.
- This «job search» unemployment, or «between jobs» unemployment is called frictional unemployment

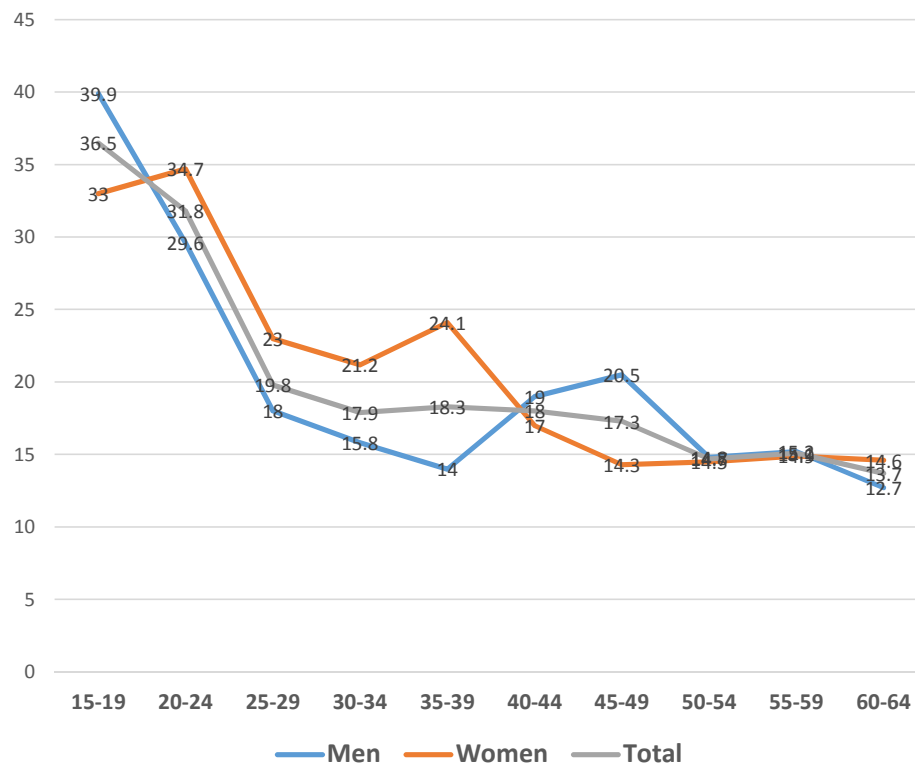
Structural Unemployment

Structural unemployment is of two types (both are instances of a mismatch between labor supply and demand)

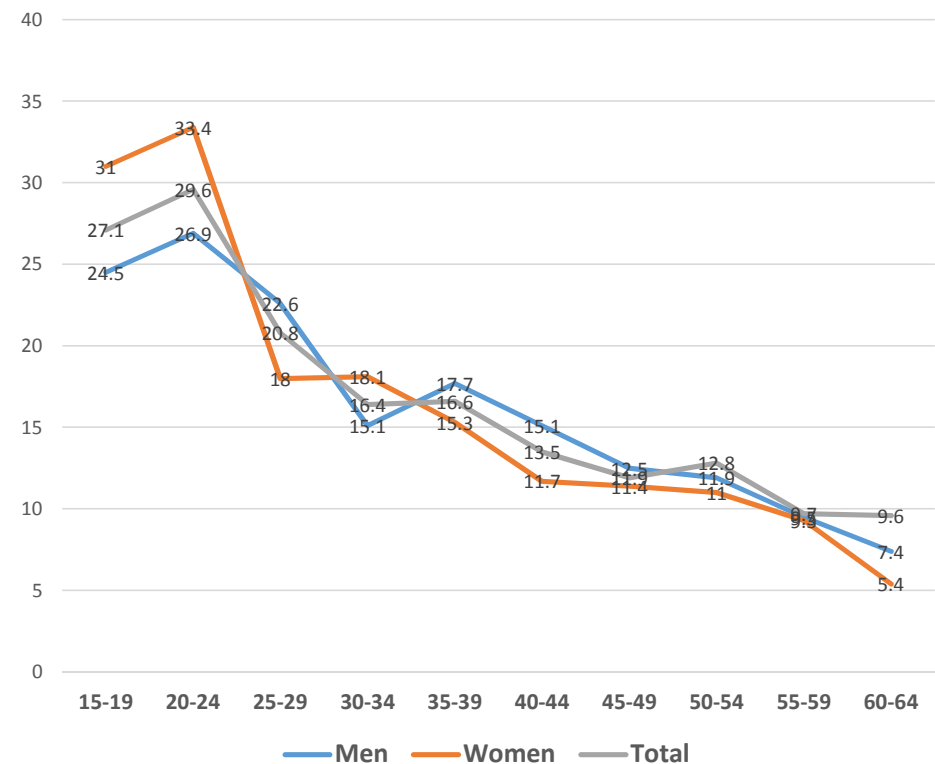
- The first is skills mismatch. This often occurs with rapid economic expansion combined with technological change – the skills now demanded on the labor market are not those that the labor supply has
- The second is geographical – job growth is strong in one part of the country, but most people live elsewhere. Labor migration is often the solution
- The long-term unemployment rate is often a proxy for structural unemployment

Countries in Southern Caucasus have high unemployment, in particular among youth

Armenia unemployment rates 2019, %

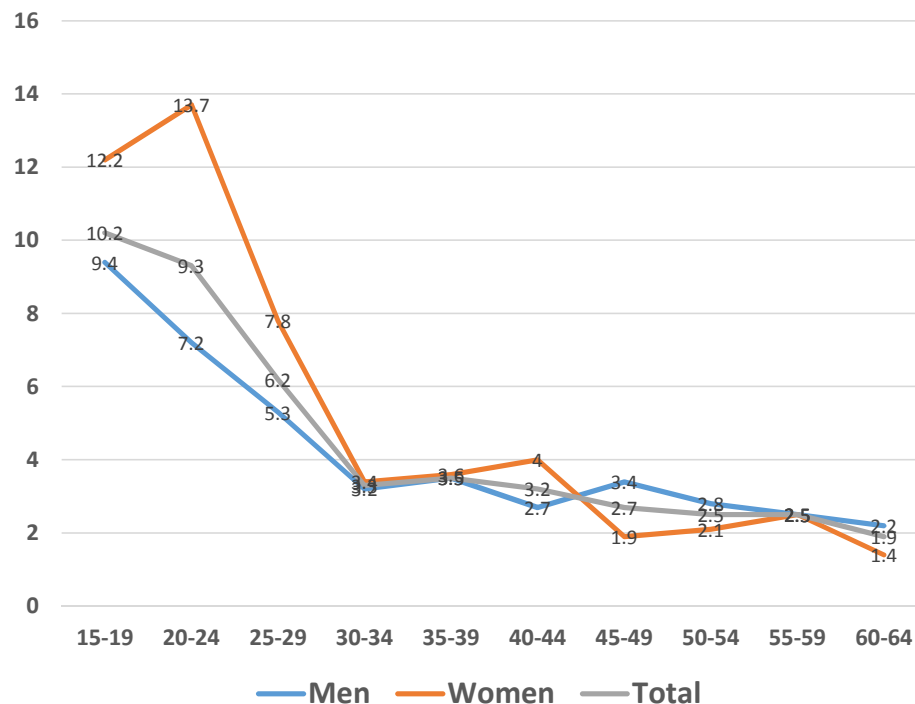


Georgia unemployment rates, 2019, %

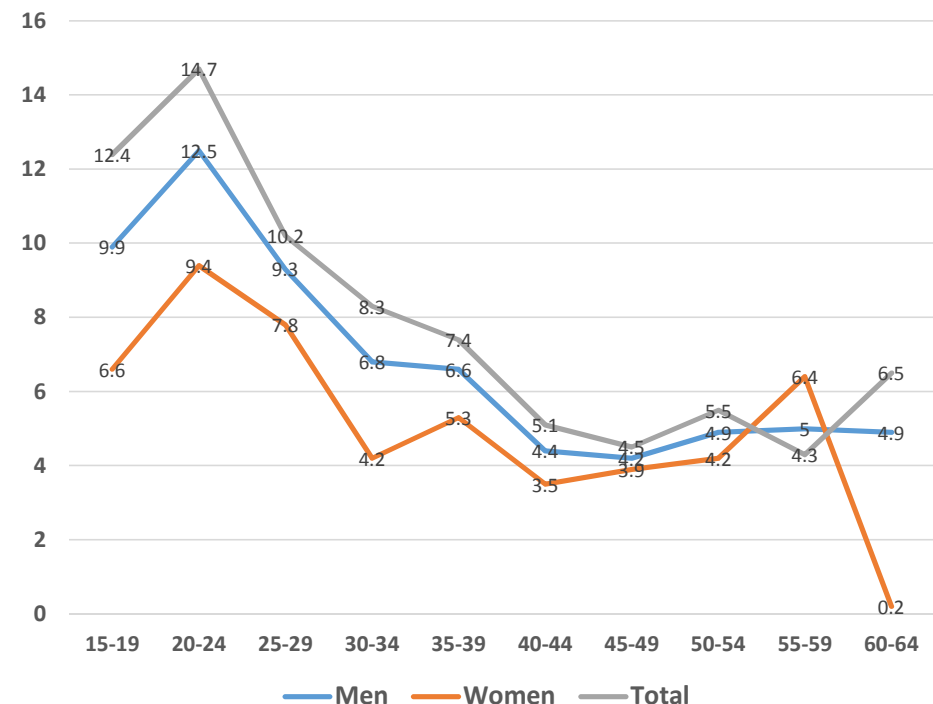


In Central Asia unemployment rates are lower, but still high among youth

Kyrgyzstan unemployment rates 2018, %



Tajikistan unemployment rates, 2016, %



Beyond unemployment ...

labor under-utilization is a broader concept

Under-utilization of labour goes beyond the labour force and affects those outside the labour force as well

- Labour migrants, who have been forced to seek employment abroad due to lack of sufficiently attractive job opportunities at home.
- Those working but not considered to be in employment; mainly those working in subsistence agriculture. Which reflects a failure to create conducive conditions for a market-oriented agriculture and earnings for farmers.
- Women who would like to have a job, but who are too time constrained due to excessively heavy and unequally shared household and care work.
- Victims of labour market discrimination and/or cultural barriers that prevents them from taking up employment outside the house.

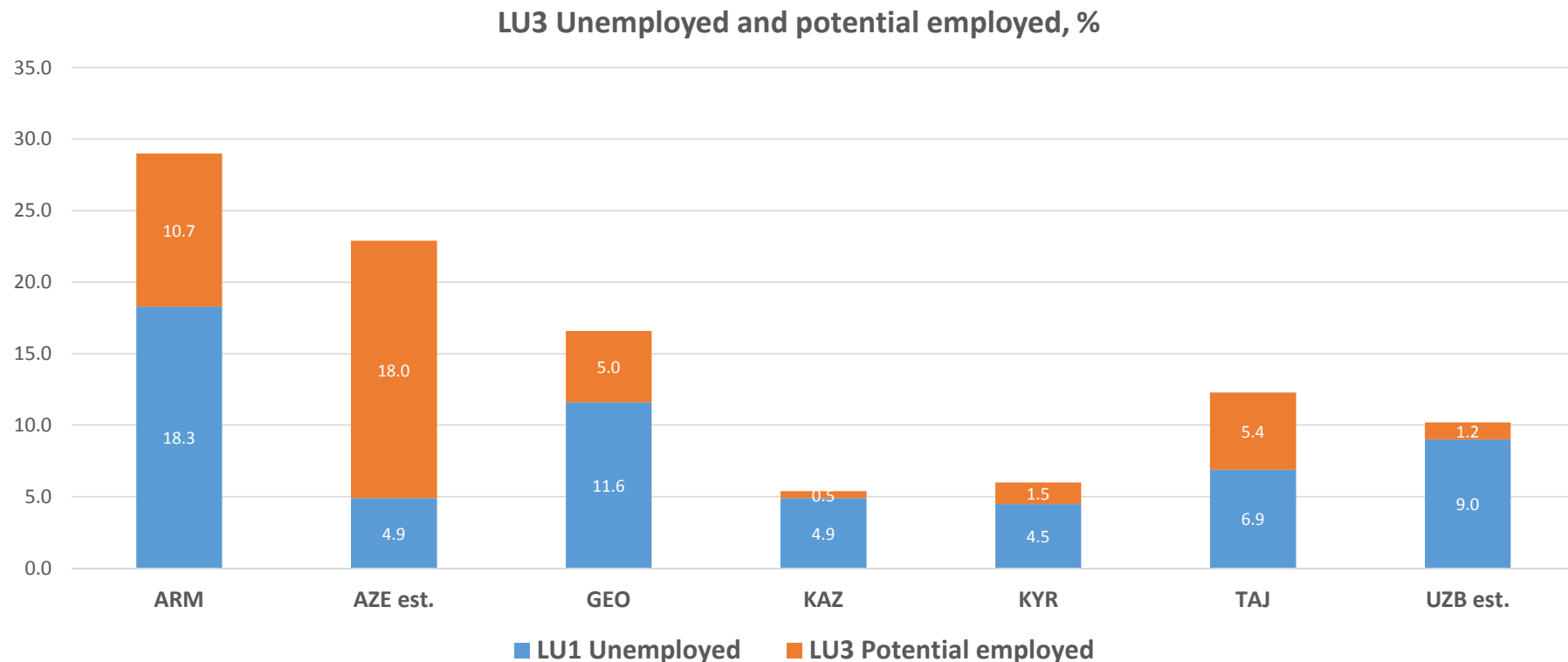
Causes of under-utilization of labor

- An absolute lack of productive jobs. The economy is too small and/or not sufficiently employment-rich; slow or jobless economic growth.
- Inadequate education and employable skills
- Skills mismatches
- Geographic mismatches between where jobs are needed and where they can be found.
- Poorly functioning labor markets
- Discrimination on the labour market. Cultural or other barriers preventing women or other groups from taking up certain occupations or jobs.
- Time-consuming and unequally shared household and care work
- Etc.

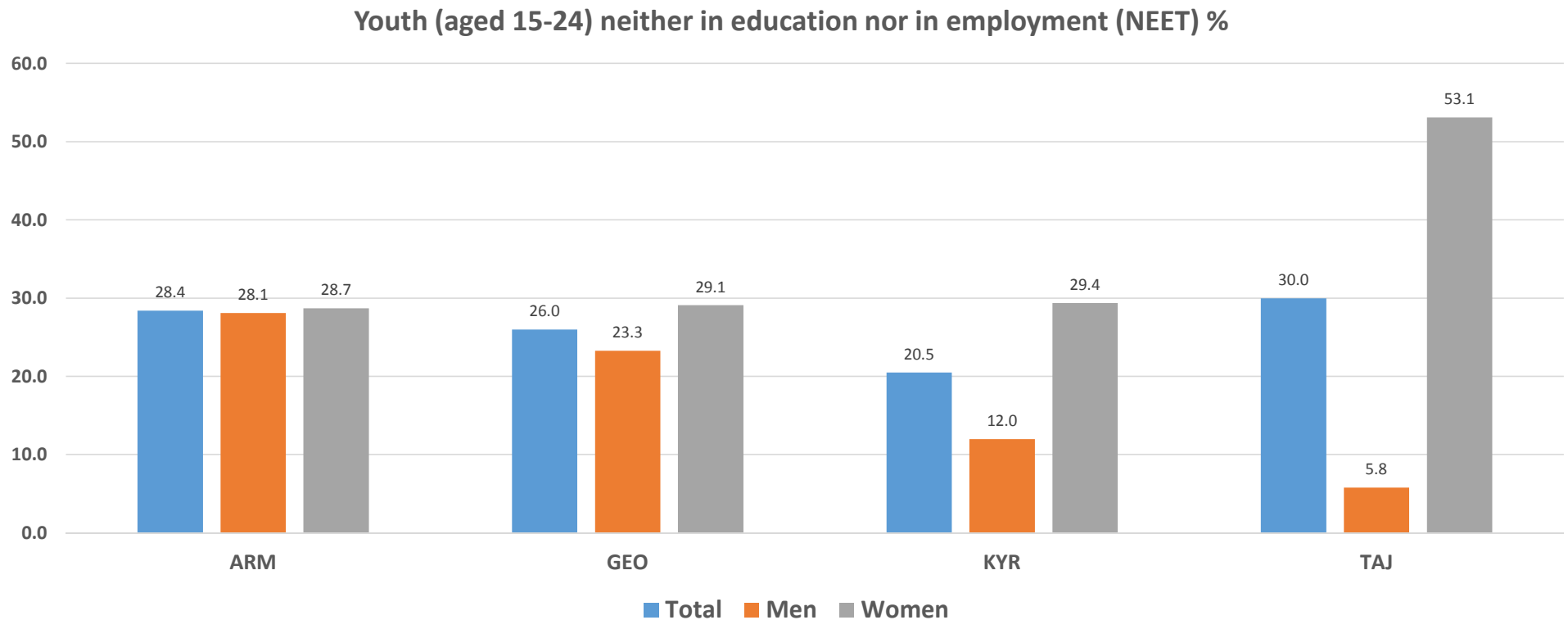
Why should we care?

- Because it results in lower human welfare.
- Because under-utilization of labor is a waste of precious human resources and reduces the scope for inclusive and sustainable economic development.
- Because it is an indication of problems in the labor market and in the economy which policies can address,
- And ... under-utilization of labour can be counted, so we know how big the problem is or is not

Labour underutilization is not just the unemployed, but also others who would like to have employment



The transition from education to employment is often long and difficult for youth.



And there are those working, but not long
enough –

these are the «time-related unemployed»

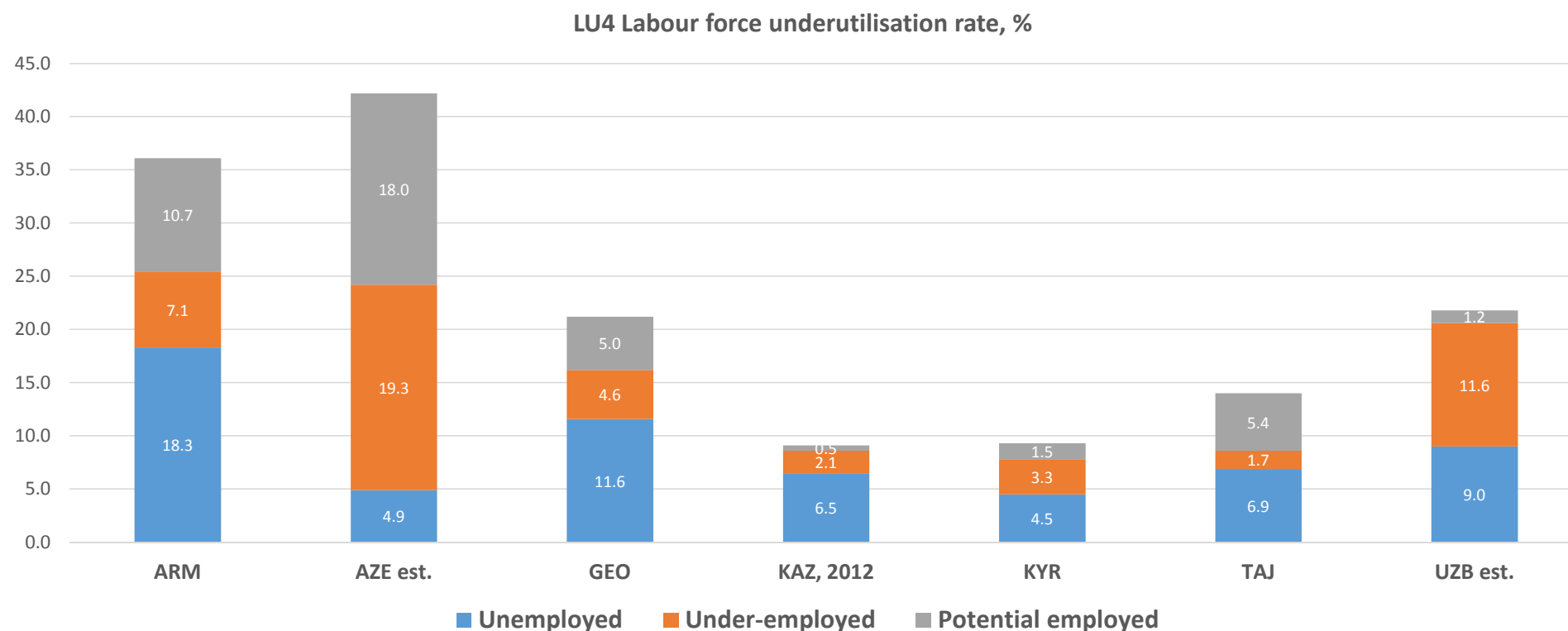
Unemployed and employed working too few hours and who would like to work full time.



The ILO's composite measure of labor force underutilization

- In ILO statistics, labor utilization (LU) is comprised of
 - LU 1 – the unemployment rate, plus
 - LU 2 – the time-related underemployment rate, plus
 - LU 3 – the potential labor force rate
- **This gives a variable, LU 4, of labor force under-utilization**

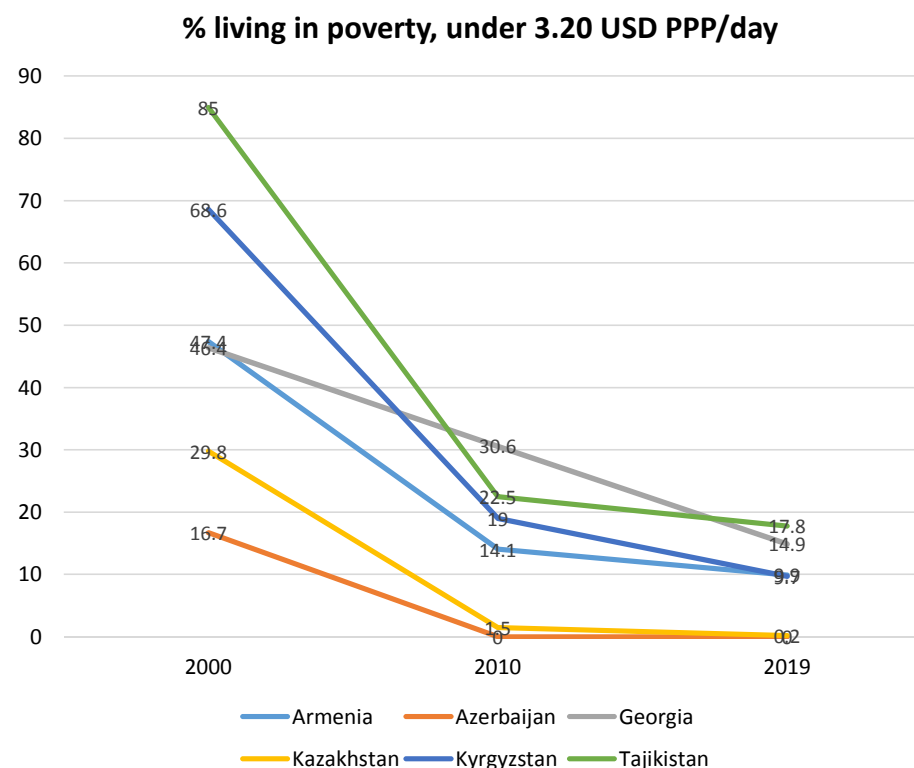
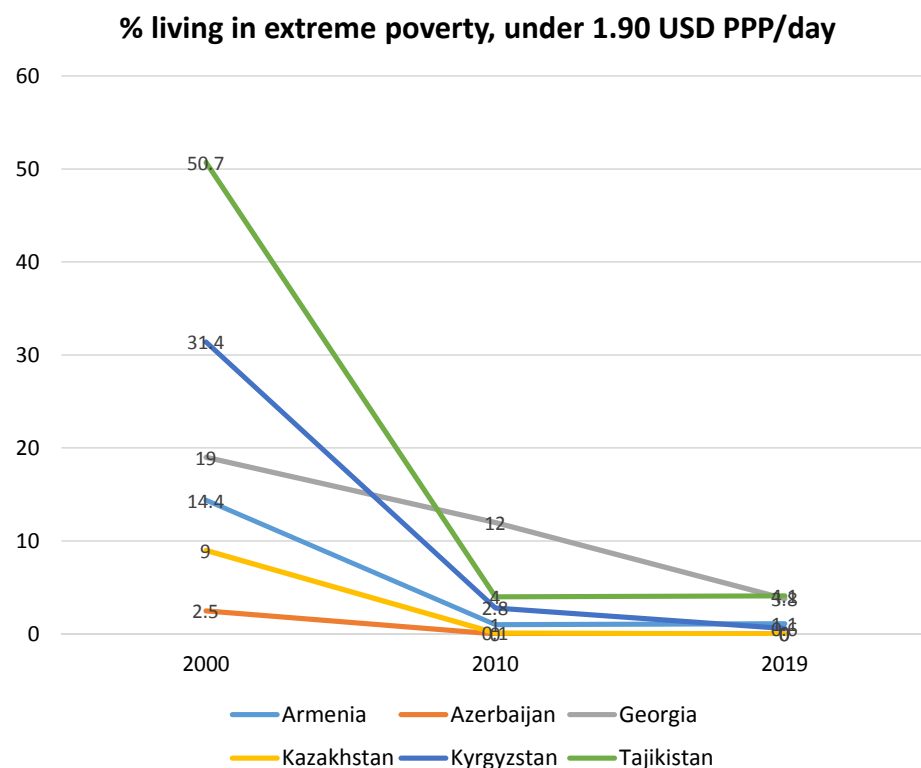
LU4 Labour force under-utilisation rate, %



There are also those who are working, but who are not earning enough to lift themselves and their dependent families out of poverty – the «working poor»

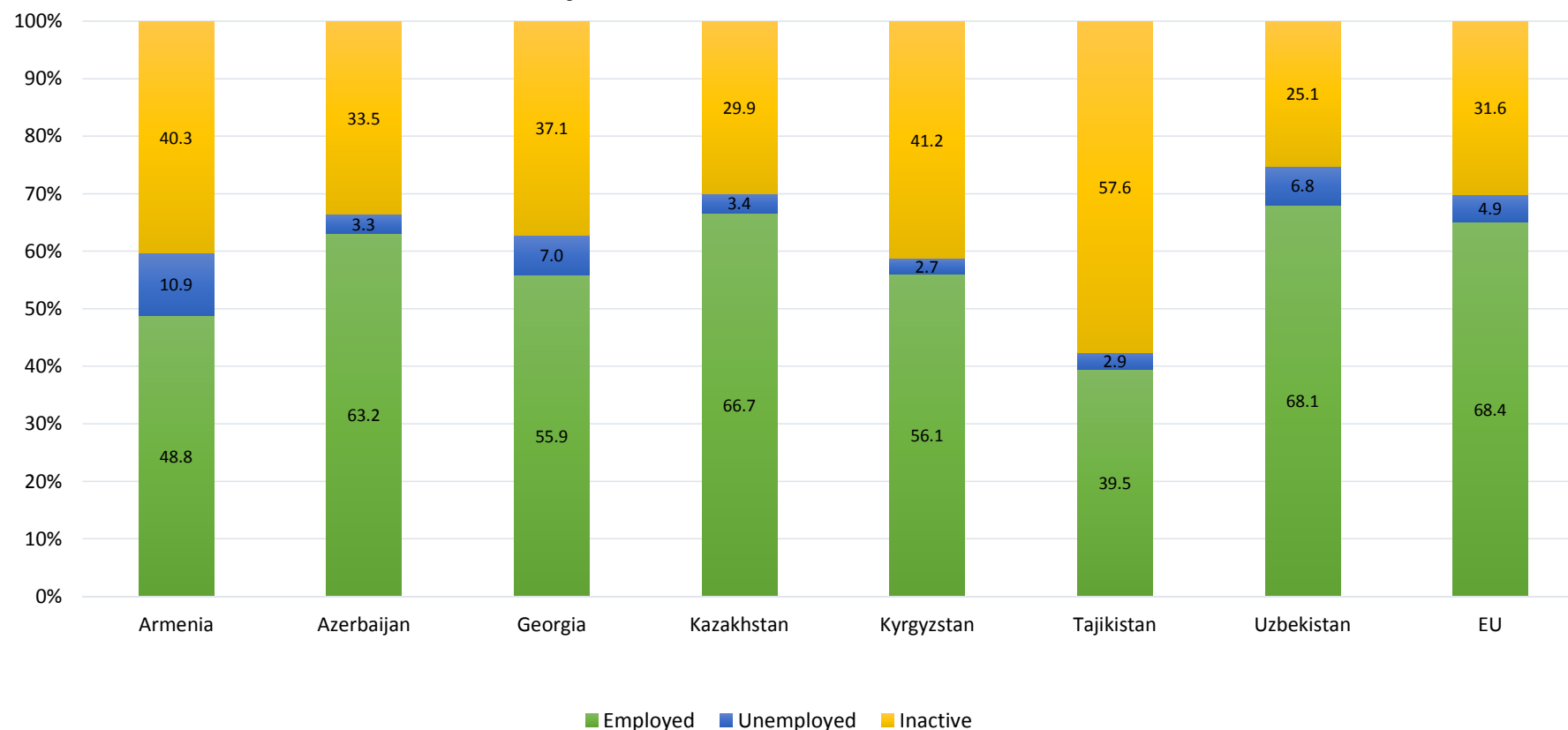
Some might be time-related under-employed, but others work long hours ... but still do not earn enough

Poverty has fallen from high level as income from employment has increased. Remittances have also played an important role in some countries



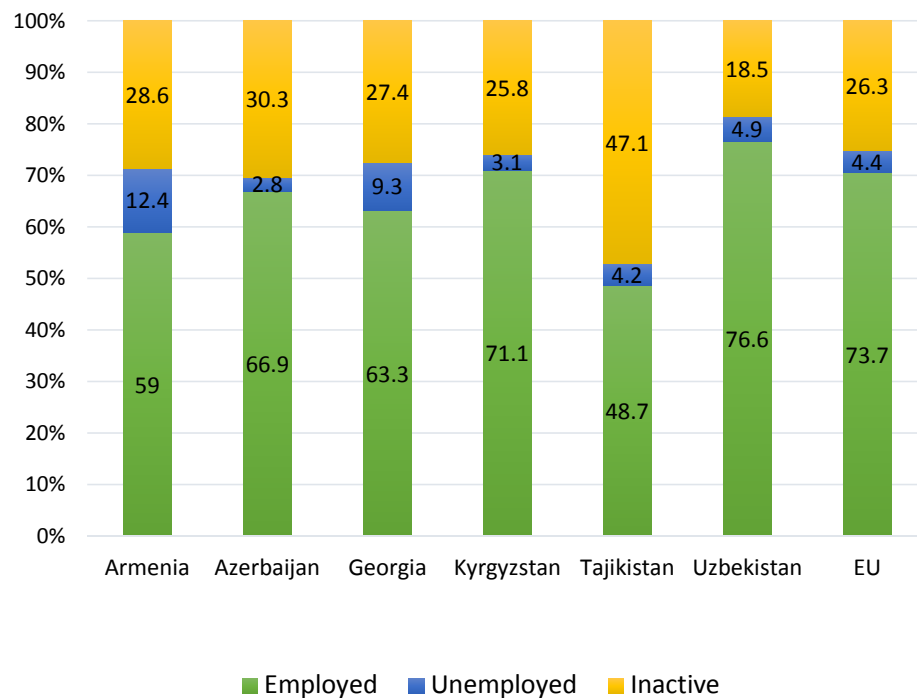
Less than two thirds of the working age population are employed

Participation in the labour force, both sexes

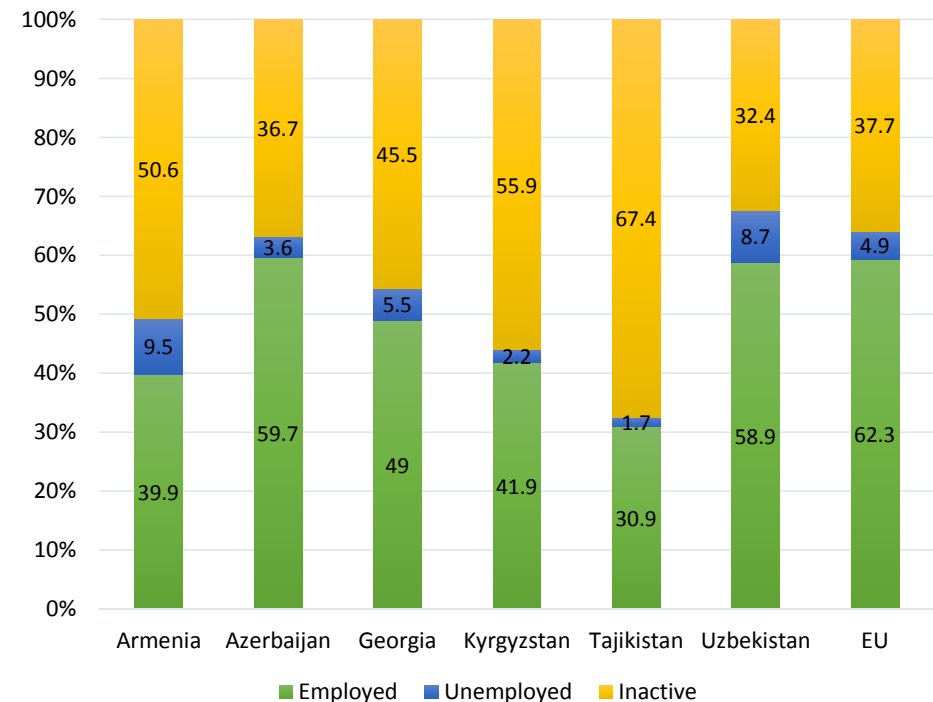


There are far fewer women than men in the labour force in most of the countries

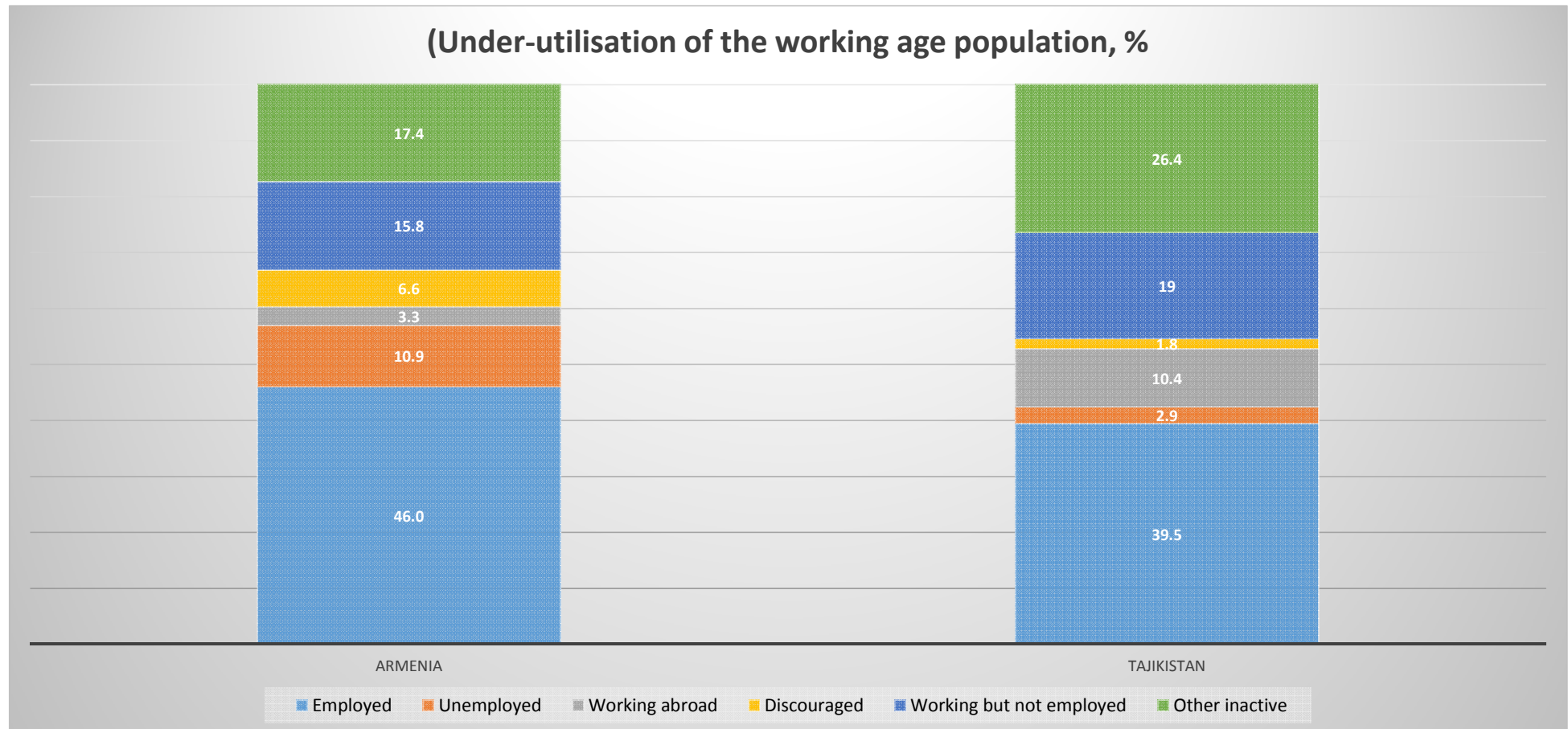
Male participation in the labour force



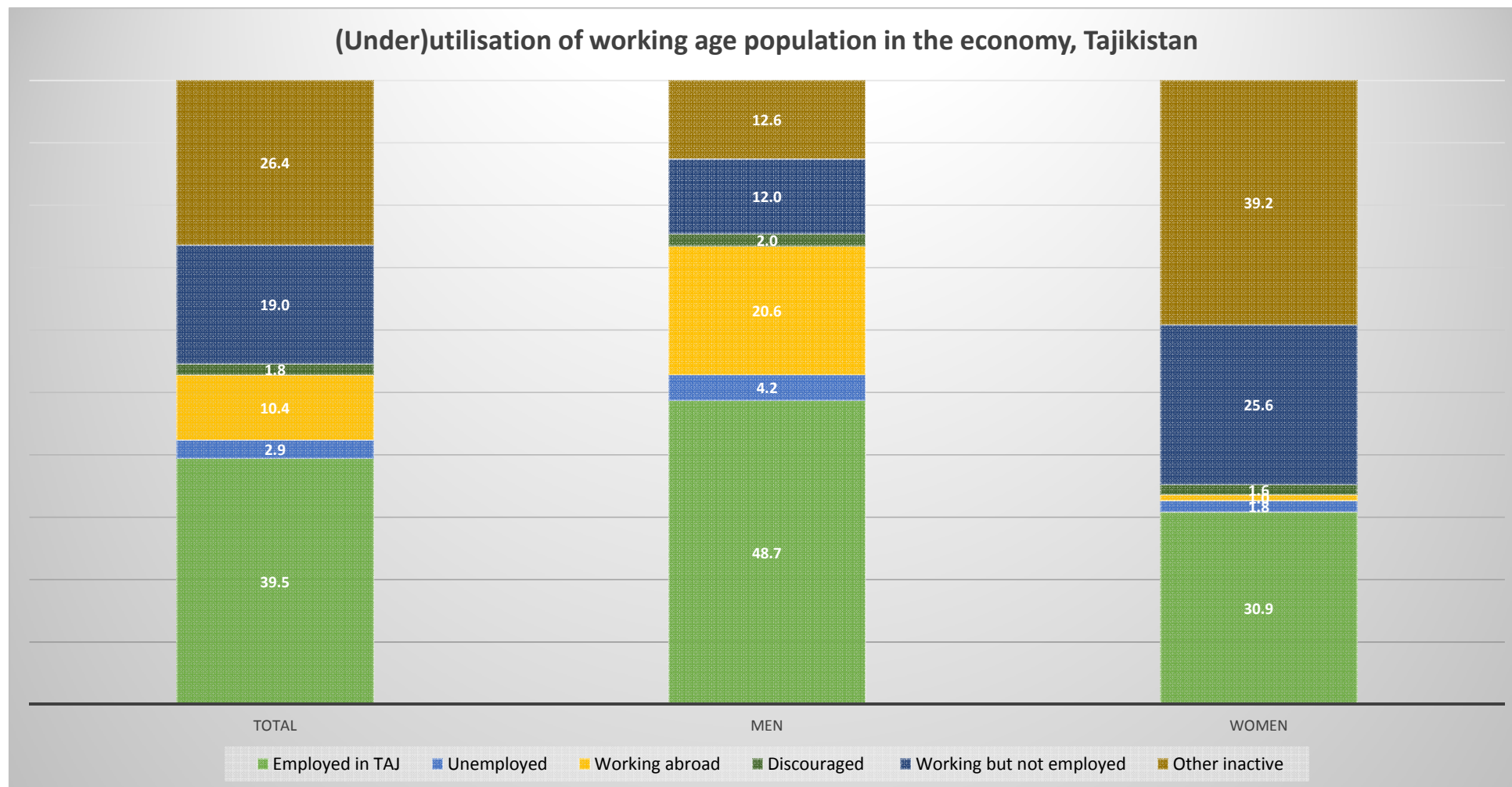
Female participation in the labour force



Under-utilisation of human resources takes different expressions between countries ...



... and between men and women



Some tentative conclusions

- Increases in wages, but also remittances, have reduced poverty.
- Rapid growth of labour productivity made wage increases possible, but at the expense of job creation.
- Still, the human resources remain severely under-utilised. This takes the form of open un-employment and low levels of utilisation of the labour forces, as well as in high inactivity rates.
- There is now a need to shift the structure of economic development from being productivity-based to becoming employment-based.
- Women lack full and productive employment to a far greater extent to men. Achieving equal access to productive employment for women and men is a key challenge

Thank you for your attention

In a late session we will focus on the economy and employment where we ask ourselves how to increase the capacity of the economy to create productive employment