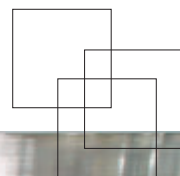




International
Labour
Office

Towards the right to work

**A GUIDEBOOK FOR DESIGNING INNOVATIVE
PUBLIC EMPLOYMENT PROGRAMMES**



Guidance note 1 Analysing unemployment and underemployment

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Guidance note 1

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Guidance note 1

Analysing unemployment and underemployment



Objective

The objective of this note is to provide policy-makers and practitioners with tools to better assess and understand the nature and complexity of the working age population, and unemployment and underemployment in their countries. This is important for the design of a public employment programme (PEP)¹ especially in terms of planning for the desired impact on reducing unemployment and underemployment, required scale and geographical targeting.

Introduction

In order for a public employment programme (PEP) to be effective as a public employment policy, it is important to understand the nature of the labour market in a given country. Based on this, the target group or groups most likely to participate in the programme can be better identified and tailored to their needs. Not all the unemployed and underemployed, including the self-employed, are necessarily likely participants for the proposed programme. Furthermore, neither the unemployed nor the underemployed are homogeneous groups, but typically can be further categorized. In order to assist with this analysis, various categories of unemployment and underemployment are used in this note. The way in which they relate to how the unemployed and underemployed are officially defined is described below. These sub-categories are not official categories and are intended for use in the context of the design of these PEPs.

Labour force, unemployment and PEPs

A country's labour force constitutes all those who are considered employed (including the underemployed) and unemployed. Those who are considered economically inactive are excluded. The ratio of the labour force to the entire working age population is referred to as the labour force participation rate. Table 1 provides a conceptual framework for measuring the employed, underemployed, unemployed and inactive.

¹ M. Lieuw-Kie-Song; K. Philip; M. Tsukamoto; M. Van Imschoot. *Towards the right to work: Innovations in public employment programmes (IPEP)*, ILO Employment Working Paper No. 69 (Geneva, International Labour Organization, 2011).

Of particular relevance for PEPs are those who are part of the working age population, but who are not considered economically active as they are not working and not actively seeking work. The reasons they may not be seeking work may vary, however, some may have tried but given up (discouraged work seekers), some may only be able to work close to home or only be available part-time because of family or household duties. Some of these may well be available for work in a PEP, especially if it offers work close to home at flexible working hours. This effect has been observed on various PEPs and these programmes have caused an increase in the labour participation rate – they 'activated the inactive' by drawing people into work who were previously not considered economically active and, therefore, not counted among the unemployed.

Unemployment occurs in a situation in which there is an excess of job seekers (labour demand) in relation to the actual number of available job offers (labour supply). In developing countries, unemployment is a concept that mainly refers to the formal labour market, which is often smaller than the informal one, sometimes significantly so.

Table 1: Measuring the labour force: a conceptual framework

| Persons who | ... are willing and available for (alternative) work | ... are not willing and not available for (alternative) work |
|--------------------------------------|--|--|
| ... work or have a job | Underemployed | Employed |
| ... do not work or do not have a job | Unemployed | Inactive |

Source: International Labour Organization. 2003. *International training compendium on labour statistics, Module 1 – Statistics of employment, unemployment, underemployment: economically active population* (Geneva, ILO Bureau of Statistics, Policy Integration Department).

While high rates of unemployment may form the rationale for instigating a PEP, the nature of the labour market and unemployment needs to be understood so that the design of the PEP is responsive to the needs of the unemployed.

For the purpose of designing PEPs, three widely used categories of unemployment are useful: Keynesian, and structural and frictional unemployment. Each warrants a somewhat different response. This note also uses the term 'long-term' and 'specific' unemployment. These are not official definitions of unemployment but are useful in discussing the design of PEPs. It is not always easy to categorize unemployment, however, and the aim of this note is to create a framework for analysis that assists in the design of a PEP. This framework is summarized in Table 2.

Table 2: Official definition of unemployment

The standard definition of unemployment is based on three criteria that have to be met simultaneously.

The 'unemployed' comprise all persons within the age limits specified for measuring the economically active population, who during the reference period were:

- (a) 'without work' – were not in paid employment or self-employment as specified by the international definition of employment;
- (b) 'currently available for work' – were available for paid employment or self-employment during the reference period; and
- (c) 'seeking work' – had taken specific steps in a specified recent period to seek paid employment or self-employment.

Source: ILO, 2003.

Keynesian unemployment refers to a situation where the number of job seekers is more than the number of jobs available at a prevailing wage rate. Its cause lies in a lack of effective demand for goods and services. It is sometimes also referred to as *cyclical unemployment* by linking it to business cycles. It is not necessarily short-term in nature (as was observed during the Great Depression of the 1930s, and also the current phase in the USA) and the problem is often addressed by providing different forms of fiscal incentives and stimuli to boost effective demand within the economy and thereby increase employment opportunities. Public employment programmes are widely used in response to cyclical unemployment, as they not only create employment in a downturn, when it is needed most, but also help to boost demand in the process.

Structural unemployment refers to a situation where there is a mismatch between jobs offered and jobs needed, caused by a disparity between skill levels, geographical location, sectoral shifts in the production pattern of a country and other similar structural factors. The most common prescription for structural unemployment is policies and interventions that address the relevant structural constraint, such as skills development, labour mobility and proper dissemination of information in the labour market. Public employment programmes may be designed to contribute to addressing the structural cause of unemployment, but they are generally not in a position to address this constraint on their own. In a situation of structural unemployment, which is primarily skills related, a PEP may be designed to provide income to enable workers to retrain, and so improve their job market prospects. Programmes may also incorporate elements of training or give easier access to training programmes and/or consider using the PEP as a platform for providing work experience during or after training. If the

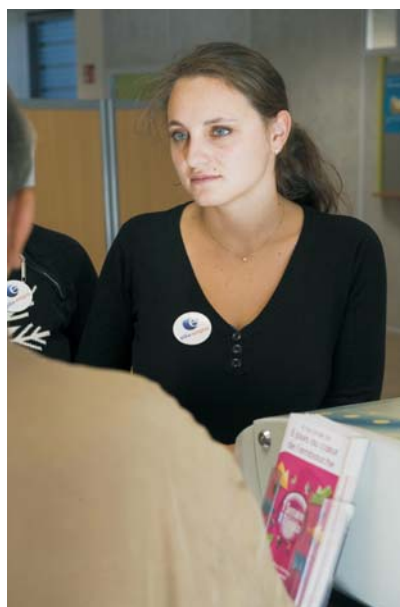
structural constraint is geographical, the PEP may allocate additional resources to encourage job creation and investment in the geographical areas with higher unemployment. The investment may focus on economic infrastructure to maximize the second round benefits of the PEP.

Frictional unemployment is referred to as transitory unemployment. It is also known as 'search unemployment' or 'wait unemployment'. It indicates those unemployed who are transitioning between jobs. Such unemployment is caused largely by an information asymmetry operating in the market. It is the result of a mismatch between labour supply and demand. The reasons for this mismatch can be manifest in relation to skill, location, preference, etc. Frictional unemployment is different from other kinds of unemployment as it is often voluntary in nature. The others are involuntary and require institutional help to overcome the problems. In a situation of frictional unemployment, PEPs are not a commonly used instrument although they may serve as a bridge for people transitioning between jobs. In particular, in circumstances in which unemployment insurance is not available, such an approach may be beneficial.

Long-term unemployment refers to those who are unemployed for a longer period, typically for more than six months. In situations of high long-term unemployment the design of PEPs should also take a long-term view. They may offer long-term employment, even if it is only on a part-time basis. The causes of long-term unemployment vary and can be multiple. Long-term unemployment can have devastating consequences, for those who are unemployed and their families, but also for society as a whole as it often results in social and political instability.

Specific unemployment is used to refer to easily identifiable groups in society that suffer disproportionately from unemployment. Youth and women are perhaps the most common examples of such groups, but they can also consist of specific ethnic or racial groups and 'scheduled castes and tribes', as is the case in India. In some countries, specific geographical areas may suffer from much higher unemployment and may be the primary focus of the PEP. Programmes may have to adopt specific targeting measures to be able to ensure the participation of these groups. In some cases, PEPs can even be designed specifically for these groups.

These categories are not mutually exclusive, as individuals can obviously fall into different categories simultaneously.



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Underemployment and PEPs

In many countries, the problem of underemployment is as severe or even worse than the problem of unemployment. Especially in developing countries, where there is generally a limited social safety net, poor people cannot afford to be unemployed and are, therefore, forced to engage in forms of economic activity that are not very productive and provide very little income. They are often self-employed in the informal economy or in a situation where they move from casual job to casual job, but spend a lot of time in between merely looking for work. Some may be stuck in long-term but precarious or dangerous forms of employment. Although these people are mostly not classified as unemployed, their situation is often as dire as that of the unemployed.

Public employment programmes can also be used to address underemployment but an understanding of the underemployed is required to do so effectively. This is often even more complex and difficult to understand. In terms of analysing the local labour market and the possible participation of workers in the PEP, four types of underemployment can be used to categorize the underemployed.

Table 3 describes two types of underemployment and possible design approaches. The first, 'time-related and seasonal' is similar to what is also referred to as seasonal unemployment. It describes a situation in which workers are only able to obtain work during fairly predictable periods of peak labour demand, but are left without any work outside these periods. This is most common in the agricultural sector, but also occurs in other sectors such as fisheries, tourism and retail. In these situations, the PEP can be designed to provide employment during the times when there is only limited work available. Ideally, they should also be reduced in scale during the times of peak labour demand so as not to compete with these other economic activities. If the work on offer is exploitative and comes with unacceptable working conditions, the PEP may be used to offer workers an alternative, even during peak seasons and so contribute to achieving minimum standards and conditions of work.

The second type, '*time related and casual*' refers to a situation where people are only able to move from a short-term casual job to another short-term casual job and spend a lot of time in between looking for work, often without success. Most of the jobs found are also informal. Substantial time and resources are devoted to looking for work. This type of situation is more prevalent in urban areas, in particular among youth with limited education and work experience. It occurs in a context of 'surplus labour'. In these circumstances, PEPs can offer part-time work to enable people to continue looking and taking up other work, but provide a safety net in case they are not successful in finding other work.

Table 3: Un- and underemployment characteristics and responses

| | Unemployed | | | | |
|---|---|---|--|--|--|
| | Cyclical | Long-term | Structural | Frictional | Specific |
| Description/ key feature | Unemployed due to economic cycles, lack of employment is temporary and picks up when economy recovers | Period of unemployment is long (more than six months), high surplus labour and large number of discouraged work seekers | Skills mismatch, unemployed lack of skills to take up available jobs | People are unemployed for a short period, people switching between jobs (also called transitory or wait unemployment) | Unemployment concentrated in regions, or among definable groups in the labour market |
| Context | Economic slowdowns and recessions where employment shrinks temporarily until economy starts growing again | Conditions with large amounts of surplus labour and insufficient capital formation for the market to create sufficient employment | Rapid changes in technology and skills have become redundant, education and training systems that fail to create a workforce that can meet demand for skilled labour | Periods of unemployment are typically short and associated with the time it takes unemployed to find another job. Unemployment often voluntary | Youth unemployment, high rates of unemployment among women or ethnic groups, specific regions with high unemployment leading to outward migration |
| PEP/ employment guarantee scheme (EGSs) design elements | Rapid provision of work in sufficient scale to stimulate demand | Creation of longer term employment, creation of assets and provision of social services to assist in addressing deficits, increased demand to be matched by budgets | Provision of flexible work to enable workers to enter labour market with current skills levels and afford training programmes. Include training as a work activity | Offers short-term employment allowing people to bridge gap between work | Programmes targeting youth, rural/urban areas, etc. Provision of day care for women during work, flexible and part-time work to complement other activities |
| Complement ary interventions | Unemployment insurance and benefits | Cash transfers to complement income from PEPs and to reach those not able to access PEPs | Training programmes, bursaries, training subsidies, placement programmes, educational reform and enhancement | Placement programmes, improve information availability, unemployment insurance | Wage subsidies for the target group, training, targeted cash transfers, day care to enable women to take up other available work |

Underemployed

| Time-related | | Inadequate employment situations | |
|---|--|---|---|
| Seasonal | Casual | Poor wages/conditions | Low productivity |
| Work only available in specific periods and no work outside those periods | People are employed for a limited time only although they are willing and need to work more | People are working full-time (or more) but for (extremely) low wages and in poor conditions | People are working full time but their productivity is too low to generate sufficient income |
| Agricultural areas with clear peak seasons, areas with tourist seasons, manufacturing and retail employment in some countries | Only casual employment available, much time spent looking for work in between casual work resulting in a low number of days actually worked | Workers paid below minimum wages, exploitation where productivity could warrant higher wages, work in informal and formal sectors with no adherence to labour laws | Often 'self-employed' in the informal sector, subsistence agriculture, fishing, etc., but at very low productivity |
| Provision of work during low seasons, provision of assets and services to assist with minimizing seasonal variations | Programmes that create short-term work to increase overall availability of work Programmes that provide regular and predictable work, work during 'off-hours' (evenings, Saturdays) | Programmes with minimum wages above prevailing (unacceptably low) wages Large scale to offer real alternative, creation of assets and provision of services to enable other activities | Programmes that offer (part-time) work at minimum wages and focus on addressing causes of low productivity (natural resources rehabilitation, irrigation) |
| Cash transfers to complement income (particularly child support) | Cash transfers to complement income (particularly child support), placement programmes to minimize costs of looking for work | Legislated and enforced minimum wages and employment conditions | Cash transfers to complement income, improved access to capital and training to increase productivity |



Box 1: Current international definitions for underemployment

The current international guidelines provide general conceptual definitions and operational definitions for the measurement of:

- (a) time-related underemployment
- (b) particular types of inadequate employment situations.

Both concepts reflect an under-utilization of the worker's capacities (thus well-being). Both are defined in relation to an alternative work situation in which the person is willing and available to engage.

Time-related underemployment relates to persons who are willing and able to work beyond the total hours worked in all the jobs they hold during the reference period and who work, during this period, fewer total hours in all their jobs than a selected threshold.

There are three criteria in the definition of time-related underemployment:

- (a) willingness to work additional hours
- (b) availability to work additional hours
- (c) having worked less than a threshold relating to working time.

The international guidelines identify three types of inadequate employment situations for which countries may wish to calculate separate indicators:

- (a) skill-related inadequate employment, which includes people who are willing or seeking to change their current work situation to use their current occupational skills more fully, and are available to do so;
- (b) income-related inadequate employment, which includes persons who are willing or seeking to change their current work situation to increase their income by increasing the levels of work organization or productivity, by improving tools and equipment, training or infrastructure, and are available to do so;
- (c) inadequate employment related to excessive hours, which includes persons who are willing or seeking to change their current work situation to work less hours with a corresponding reduction of income.

Source: International Labour Organization. 2003. International training compendium on labour statistics, Module 1 – Statistics of employment, unemployment, underemployment: economically active population (Geneva, ILO Bureau of Statistics, Policy Integration Department).


In terms of those who are underemployed under 'inadequate employment situations', the table also describes two types. The first referred to as 'poor wages/conditions' refers to situations in which people are employed full-time, often long-term, but at very or extremely low wages and poor working conditions, and without formal contract arrangements. In many developing countries, such working conditions result in situations where people work full-time (often for excessive hours), but remain below the poverty line. They are part of 'the working poor'. In many cases, this type of employment situation does not conform to labour legislation and minimum wages, in particular, are ignored (a worker's productivity may often warrant higher wages, but there is usually no mechanism for demanding higher wages). Programmes may be designed to offer a better alternative to this type of work, but only if it offers longer-term employment.

The other inadequate employment situation referred to is 'low-productivity' jobs and is more common with self-employed workers. In this situation, workers' productivity is extremely low, mostly due to external factors: farming on infertile or degraded land, fishing in areas with depleted fish stocks, etc. Again, in many cases, people work very hard for long hours, but are not able to increase productivity. In these situations, PEPs can provide supplementary income and, at the same time, the work activities can focus on investments that may be able to raise productivity in the long run.



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Sources of labour market information





In most countries, regular labour force surveys and households surveys form the main data sources for understanding the labour market situation. It is important, however, to understand the definitions used in these surveys. Generally in these surveys, if people worked for at least one hour in the past week they are considered employed. Under this definition, many people who are underemployed are, therefore, classified as employed. One way of better understanding the situation is to further analyse the data from the surveys and information of poor workers' income and job productivity. Through this analysis, it is usually possible to disaggregate data to get an understanding of how unemployment and underemployment differs by gender, age groups and skill level, and how it is distributed across regions of the country.

Analysis of how household income is distributed may be helpful to better understand the nature of those who work (e.g. involuntary part-time work, self-employed in the informal economy).

Because these surveys are carried out periodically, it is also possible to analyse consecutive sets of data to understand how the situation has changed over time. Also, if surveys are held more than once a year, some trends in the seasonal variation of employment in some sectors (most importantly agriculture) may be revealed. In addition to these sources of existing data, it may be possible to do some surveys in specific areas (e.g. sectors) to get a clearer understanding of the functioning of the labour market.

Finally focus interviews and focus group discussion can also provide valuable insights into the situation of the unemployed and underemployed, which are difficult to obtain from other sources. They can be particularly valuable when designing and reviewing how PEPs should structure the employment offered in order to be most responsive to its target group(s): part-time, full time, certain times of the year, certain days of the week, on-demand, etc.

Further reading

-  International Labour Organization. 2003. *International training compendium on labour statistics, Module 1 – Statistics of employment, unemployment, underemployment: economically active population* (Geneva, ILO Bureau of Statistics, Policy Integration Department).
-  Lieuw-Kie-Song, M.; Philip K.; Tsukamoto, M.; Van Imschoot, M. 2011. *Towards the right to work: Innovations in public employment programmes (IPEP)*, ILO Employment Working Paper No. 69 (Geneva, International Labour Organization).



Checklist

ANALYSING UNEMPLOYMENT AND UNDEREMPLOYMENT

Questions to keep in mind and to answer before undertaking a PEP



What are the key assumptions?

Assess the global environment

Universal Declaration of Human Rights (1948) and the "right to work"

Summit on the Millennium Development Goal (MDG) (2010) on "Pursuing job-intensive, sustained, inclusive and equitable economic growth and sustainable development to promote full and productive employment and decent work for all"

World Summit on Social Development (1995) on "poverty reduction, employment creation and social inclusion"

World Summit on Social Development (2005) on "making the goals of full and productive employment and decent work for all a central objective of national and international policies and national development strategies, including for poverty reduction"

Developments around the Global Jobs Pact

Global trade and employment trends

New developments around the G20, WB, IMF, ILO on employment

Assess the domestic environment

Has the government ratified ILO Convention 122 (1964) on the Promotion of Full Employment?

Has the government ratified ILO Convention 102 (1952) on Social Security Minimum Standards (income security)

Has the government ratified the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) (1979)?

What is driving the need for a Public Employment Programme (PEP)?

Relationship between interest rates, inflation and unemployment

ANALYSING UNEMPLOYMENT AND UNDEREMPLOYMENT**Questions to keep in mind and to answer before undertaking a PEP****Assess the role of employment and social protection, and support to national government laws, policy, priorities and strategies**

Poverty Reduction Strategy (PRS)

Highly-indebted Poor Country (HIPC) debt relief process

National Employment Policy (NEP)

Decent Work Country Programmes (DWCP)

Has there been a Jobs Pact in your country?

Have there been any rights-based laws enacted in your country? (e.g. Right to Information Act, Right to Education Act, or guarantee schemes)?

Has your country adopted a Social Protection Floor (SPF)

Policy alignment between ministries, federal, national and local government

Level of financial decentralization

Inter-ministerial agencies

Assess trade-offs and opportunity costs in increasing fiscal space

Fiscal diamond

Reprioritization and more efficient use of national budget

Alignment with other government and donor-funded programmes

Are there other employment, social protection, or infrastructure programmes focusing on employment creation?





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