

Employment and Unemployment

Key definitions

Unemployment is the number of people who are **able** and **willing** to work but **cannot** find a job. Someone is unemployed if they are not working, are **actively** seeking work, and are **economically** active (part of the labour force). For example in Jan 2026 the unemployment rate is 5.1% . This is the highest level of unemployment seen in the UK since early 2021.

Economic **inactivity** refers to people who are **not** in the labour force because they are not **looking** for work. This can include **students**, **early retirees**, and some carers.

Measuring unemployment in the UK

Labour Force Survey (ILO measure)

The Labour Force Survey is a survey-based measure using International Labour Organisation (ILO) criteria. In the UK, it is sent to a random sample of around 60,000 households each quarter.

To be classed as unemployed under the ILO measure, people usually must be **available** to start work soon and have **actively** looked for work **recently**.

Strengths:

- Good for international comparisons because it uses **consistent** criteria globally.

Limitations:

- It is based on a sample, so results can be affected by sampling error.

Claimant count

The claimant count measures the number of people claiming **unemployment-related benefits** (historically **Jobseeker's Allowance**, and related out-of-work benefits). For example in Jan 2026 there are 1.68 million .

Strengths:

- Uses actual benefit claims rather than survey estimates.

Limitations:

- Some unemployed people do **not** claim (e.g. due to stigma or ineligibility), so it can understate true unemployment.
- There are often stricter requirements to be counted, such as meeting job-search conditions.

Unemployment vs underemployment

Underemployment

A weakness of unemployment data is that it can miss spare capacity in the labour market because it does not fully capture underemployment. For example Underemployment rate in the UK as of Jan 2026 is 3.9% (Measured by the 1.33 million workers currently relying on a second job to make ends meet.)

Underemployment includes:

- Working part-time but **wanting** more hours.
- Working in a job **below** your skill level (for example, a qualified architect in a lower-skill role).

Underemployment often rises when:

- The economy is weak, pushing people into part-time or temporary work.
- Workers' skills do not match the jobs available, creating structural issues.

Labour market rates and what they actually mean

Labour force

The labour force includes people who are employed and people who are unemployed but actively seeking work. These are the economically active.

Core formulae:

- $\text{Employment rate} = \text{number employed} / \text{labour force}$
- $\text{Unemployment rate} = \text{number unemployed} / \text{labour force}$

The inactivity rate is measured relative to the working-age population (commonly ages 16–64).

Written by udoecon.com

Why rates can move in surprising ways

A rise in employment does not automatically mean unemployment falls. This depends on what happens to the size of the labour force, flows into and out of inactivity (such as retirement or education), and population changes including migration.

Hidden unemployment can occur if people stop searching for work and move into inactivity. In that case, unemployment can fall even if the labour market has not genuinely improved.

Causes of unemployment

Structural unemployment

Structural unemployment happens when there is a mismatch between workers' skills and the jobs available. This can be long-lasting because the economy may change faster than workers can retrain or relocate. For example this was seen in the UK Coal industry.

Common drivers include:

- Technological change replacing certain roles e.g self scan machines replacing supermarket workers .
- Globalisation or offshoring reducing demand for some domestic jobs e.g UK Mining industry
- Deindustrialisation, where manufacturing declines and services grow.

It can persist due to:

- **Occupational immobility**, where workers lack the skills needed for new jobs.
- **Geographical immobility**, where people cannot or will not move to areas with more jobs.

Cyclical (demand-deficient) unemployment

Cyclical unemployment is caused by a fall in aggregate demand (AD), usually in a slowdown or recession. When demand in the economy falls, firms reduce output and may need fewer workers.

Mechanism:

- Lower AD leads to lower real GDP, so firms cut labour demand.

- Demand for labour is derived demand, meaning it depends on demand for the goods and services being produced.

Frictional unemployment

Frictional unemployment is short-term unemployment as people move between jobs. For example, someone may leave a job to find a better match.

Some frictional unemployment is normal and can be a sign of a flexible labour market where workers can search for roles that better fit their skills.

Seasonal unemployment

Seasonal unemployment happens when demand falls in seasonal industries. This reduces labour demand in the off-season, such as in tourism-related jobs outside peak months. For example The agriculture sector requires roughly 80,000 additional workers specifically for the summer harvest months or firms like Amazon and Royal Mail typically hire over 20,000 temporary staff in October to handle the Christmas "peak" period

Real wage unemployment

Real wage unemployment occurs when the real wage is above the free-market equilibrium wage, creating an excess supply of labour. At that wage, more people want to work than firms want to hire. For example high minimum wage in the UK leads to real wage unemployment

Causes include:

- A minimum wage set above the equilibrium wage.
- Trade unions pushing wages above the market-clearing level.
- Wage stickiness, where wages do not fall easily and firms respond by reducing employment instead.

Migration and the labour market

Immigration grows the "economic pie" because new arrivals aren't just workers. They are consumers who increase demand for food, housing, and services, forcing businesses to hire more staff. They often act as **complements**. For instance, migrant nurses in the **NHS** fill essential gaps that allow hospitals to function, which actually secures the jobs of local administrative and support staff. While "substitute" workers with identical skills can increase competition for specific roles, the overall effect is usually positive because more people create more economic activity.

The significance of skills

Skills matter because they affect employability and productivity. If workers have the skills firms need, labour demand is higher and unemployment tends to be lower.

Policies and strategies include:

- Government or firms funding retraining to reduce structural unemployment.
- Avoiding over-specialisation, which can increase risk if demand for a narrow skill falls.

Effects of unemployment

Workers

Unemployment reduces income, although some may receive welfare support. It can also create social and psychological costs, such as stress and stigma.

Long periods without work can lead to skills loss, making it harder to return to employment later (hysteresis).

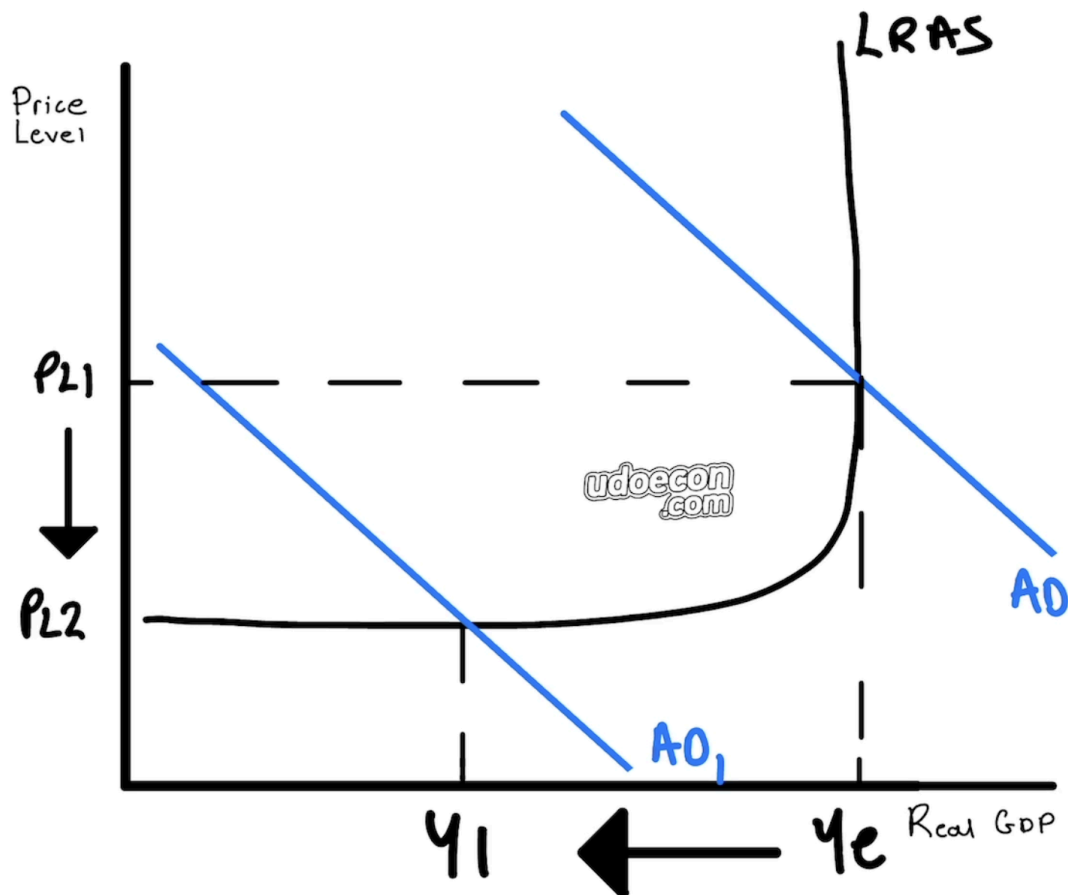
Firms

Higher unemployment can make hiring easier because there are more applicants per vacancy. It can also increase employer bargaining power, which may reduce wage growth.

Consumers and the wider economy

Lower incomes reduce consumption, which can reduce aggregate demand (from AD to AD1) and real GDP (from Y_e to Y_1). With weaker demand, inflationary pressure may fall (PL1 to

PL2), which can benefit consumers through slower price rises.



Government

Unemployment reduces tax revenue, such as income tax and National Insurance contributions. It can also increase government spending on welfare and training schemes.

This can widen the budget deficit and increase national debt and thus debt repayment costs.

Society

Unemployment can increase social problems, such as crime and family stress. It also means the economy may operate below potential output, wasting labour resources.

Policies to reduce unemployment

Reducing cyclical unemployment

Expansionary monetary policy, such as lower interest rates, can increase aggregate demand. Expansionary fiscal policy, such as higher government spending or lower taxes, can also increase aggregate demand.

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Reducing structural unemployment

Structural unemployment is tackled mainly through supply-side policies. Retraining and education can reduce occupational immobility by helping workers gain the skills needed for available jobs.