

CSI 5: Unemployment and Insecurity in the UK Labour Market

Summary

- The history of unemployment in the UK reveals five periods of significant economic turmoil from the 1920s until today, with unemployment reaching its highest level of 15.6% in 1932.
- Even though in historical comparison, the recent crisis did not generate such high overall levels of unemployment, there were particularly vulnerable groups who suffered much more than others. In 2014, over 33% of young people with no qualifications were unemployed. Young members of ethnic minorities such as the combined Pakistani/Bangladeshi group were even exposed to rates of about 40% unemployment.
- The gap between some of the most and least advantaged groups has widened over the recent decades.
- In addition to unemployment, increasing levels of self-employment, part-time work and temporary work might be indicative of workers' current problems in the labour market.

What is the unemployment rate and why is it so important?

The unemployment rate is one of the most important statistics about the performance of the economy and the sources of well-being within a society. If a person is made redundant, this not only entails a significant drop in income but often also has negative effects on health or mental well-being and it can be accompanied by social isolation or social unrest.

Because the unemployment rate is such a central concept, we need to understand how it is constructed. For analytical purposes, we can divide the population into those who are economically active (which includes both those in employment and those unemployed but available and looking for work) and those who are economically inactive, such as people looking after the home or retired people who are not looking for work. Usually, attention is restricted to the working-age population, that is people from the ages of 16 to 64. The unemployment rate is the proportion of the economically-active population who are unemployed. In early 2014 in the UK for instance, about 31.5m people from the age of 16 to 64 were economically active, of whom about 2.2m were unemployed. The unemployment rate thus stood at 6.9%.

How has unemployment developed over the 20th and 21st centuries?

Looking at the history of unemployment in the UK from 1920 onwards enables us to put current unemployment rates into their historical context. Figure 1 shows that from 1920 to 2014 there have been five peaks in unemployment and one long episode of more or less full employment. After World War I, there was a sharp increase in unemployment which can partly be attributed to the difficulty of incorporating returning veterans into work. However, the largest spike in unemployment was observed during the Great Depression, when in 1932 15.6% of the economically-active population was without work. The twenty-five years after World War II

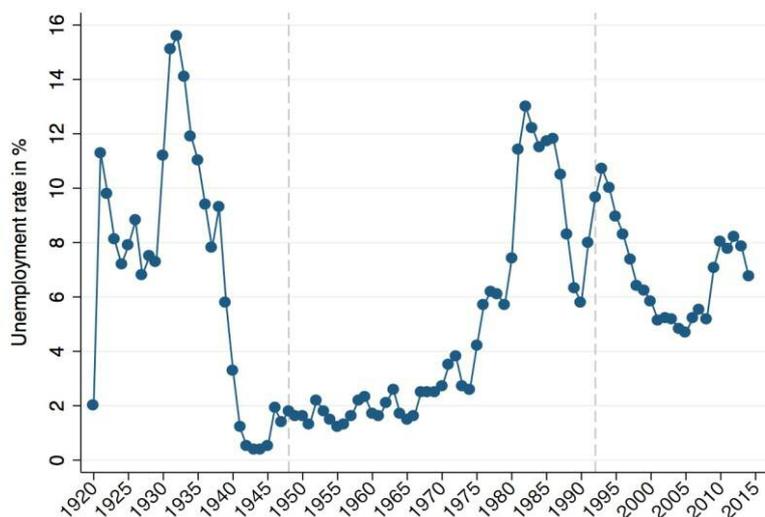
Measurement issues: the unemployment rate

There are two sources for unemployment statistics: administrative counts and representative surveys. The former have existed for the UK since the middle to late 19th century, hence administrative figures reach far back in time and allow us to construct long time series of the unemployment rate. However, a problem that arises with this data is that the coverage of those included and eligible for insurance benefits varied significantly over time, and administrative rules continue to change. In order to cope with this problem, statisticians at the International Labour Organization (ILO) defined in 1982 the unemployed as all persons without work, currently available for work, and seeking work. This definition has been implemented in the main government surveys such as the Labour Force Survey (LFS). All unemployment data, starting from 1992, shown in this briefing note, unless otherwise stated, is drawn from the LFS (spring quarter), and is based on this exact definition. Note that we do not show the margins of error due to the large sample size.

For years prior to 1992, unemployment rates are drawn from administrative sources: we use Feinstein's calculations for the years between 1920 and 1947ⁱⁱⁱ and Denman and McDonald's calculations for the years between 1948 and 1991.^{iv} These data discontinuities are indicated in Figure 1 by vertical dashed lines.

were marked by full or near to full employment where unemployment consistently remained below 3%. This golden age came to an end with declining world-wide economic growth starting in the late 1960s, the 1973 oil price shock, and the subsequent inflation.

Anti-inflationary policies in Britain were accompanied by a further rise in unemployment, which reached its post-war peak of 12.2% in 1983. In the early 1990s, the UK experienced another economic crisis which - even though often forgotten - did not lag much behind the 1980s crisis in terms of unemployment. There followed fifteen years of unbroken economic growth and declining unemployment which were interrupted in the third quarter of 2008 when the UK economy contracted in the aftermath of the financial crisis. The following years showed an upward trend in unemployment increasing until 2012 with a peak of 8.2%.



In interpreting these figures, however, it is important to recognize that there have been major changes in the composition of the economically-active population. In particular there has been a large increase in the proportion of women who are economically-active while the proportion of economically-active men has been declining (See briefing note CSI 9). It is important to recognise these changes when interpreting Figure 1.

Fig. 1: There has been no return to full employment in the UK since the 1960s

Source: See Measurement Issues p. 1

Which groups have been affected most severely by the recent recession? How did these groups perform recently in comparison with the early 1990s crisis?

While public debate on unemployment mostly centres around the overall rate, the experience of different groups in the labour market can diverge in important ways. Men and women for example tend to have different sorts of jobs, to follow different career paths and to have different rates of pay.

The different sorts of jobs which they occupy can affect their risks of unemployment generally or of being laid off in economic hard times in particular.

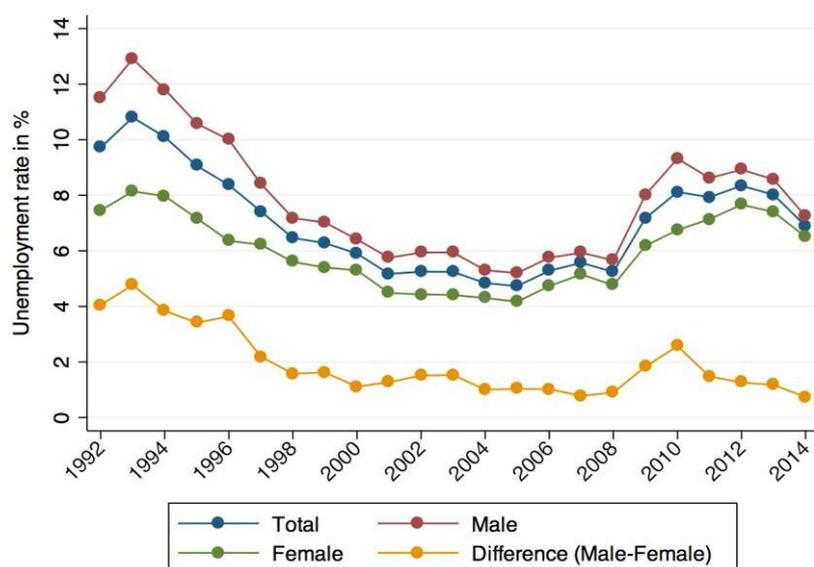


Fig. 2: Men's unemployment rate has been higher than women's, but the gap has been shrinking over time

Source Fig 2 – Fig 6: UK Labour Force Survey

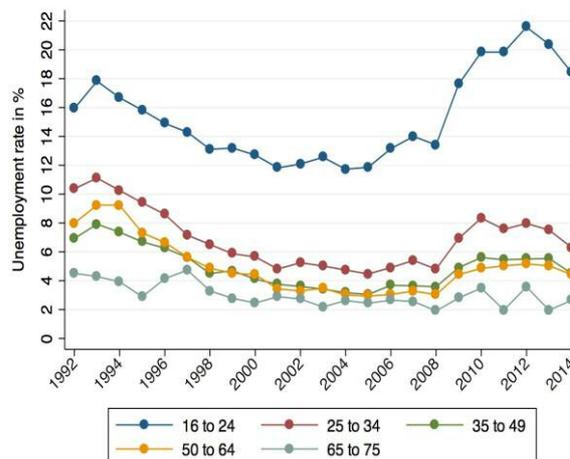
- The gap in unemployment between men and women opened up during the 1990s crisis with men having higher average unemployment rates. Over the period from 1992 to 2014, this gap seems to be gradually closing
- In both the 1990s and post-2008 crises, the gender difference in unemployment widened, men being more affected by the recession than women (although this was not the case in the earlier 1980s crisis).

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How old somebody is also tells us a lot about a person's situation in the labour market. For example young workers have relatively little working experience which makes them less valuable for employers, and they may also have less secure contracts.

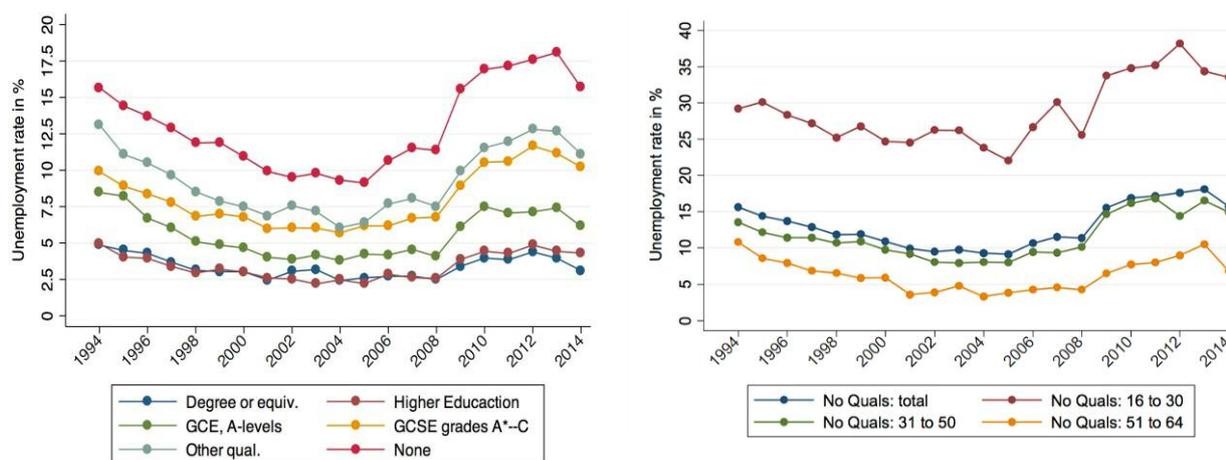
Fig. 3: The young suffered most in the recent recession

- The youngest cohort (age 16 to 24) consistently struggle much more in terms of unemployment than do other age groups. This has been true both in times of crisis and in the period of economic growth.
- Comparing the early 1990s with the recent recession, the gap between the youngest and the oldest age cohorts actually widened from 11.5% in 1992 to 15.8% in 2014, even though the overall unemployment rate was lower in 2014. Some of this increase may be due to an increasing number of students looking for work to help fund their studies.



Education is another important factor which affects the risk of unemployment. Higher educational skills and qualifications are strongly associated with access to better-paid and higher-level jobs, where risks of unemployment are lower. In contrast, the less educated are more likely to work in routine jobs which do not offer much in the way of remuneration or secure employment conditions.

Fig. 4: The young with low education have become increasingly vulnerable



- Both in good and turbulent economic periods, the unemployment rate for those with the highest qualifications (a degree or other forms of higher education) remained mostly under 5%.
- Those who are less educated (for example the group whose highest qualification is GCSE) are significantly more affected by unemployment. However, it is clear that they are still better off than those with no educational certificate at all.
- Over the past twenty years, those without educational qualifications have been significantly more affected by unemployment than any other educational group, and the gaps between educational levels in risks of unemployment have tended to widen.
- For the oldest age group (aged 51 to 64), educational level does not make a great deal of difference to the risks of unemployment. But being both young (16 to 30 years) and without qualifications increases the risk of unemployment greatly, and the disparities have tended to grow over time, with over 30% of young people without qualifications experiencing unemployment in the aftermath of the 2008 recession.

Ethnic minorities often struggle on the labour market for a range of reasons. Some are first-generation migrants who may have foreign qualifications or lack fluency in English, but the second generation also have high risks of unemployment (see briefing note CSI 10). The most vulnerable ethnic groups are the Pakistani/Bangladeshi group and the combined black group (black African, black Caribbean and black British). Their risks of

unemployment were particularly elevated during the 1990s crisis, and remain over twice those of the white and Indian groups. Just as with education, it is the youngest group within the disadvantaged ethnic communities who suffer most from unemployment. In 2014, 42% of those aged 16 to 24 in the black group and 37% of the youngest in the Pakistani/Bangladeshi group were unemployed while this was true for only 17% among young white people.

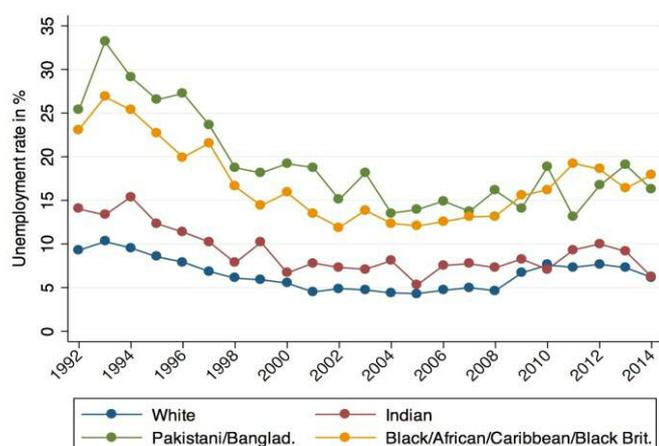


Fig. 5: White and Indian groups have much lower risks of unemployment than the black and Pakistani/Bangladeshi groups

Can workers be in a precarious situation even though they are in work?

Even although unemployment did not climb to historically high levels after the 2008 recession, the unemployment rate on its own might not provide a full account of the current difficulties facing workers in the labour market. There are various possibilities which need to be taken into account: increasingly precarious work, short-term contracts, risky self-employment, and unwanted short-time working.

- In order to find a way out of unemployment, one option is for workers to start their own business. For many this is a highly insecure venture and failures are frequent. Nearly 13% of all employment in 2014 took the form of self-employment (without employees), a large jump since the early 2000s when the comparable figure was below 9 per cent. The expansion of the self-employed sector was due to growth in low-skilled and in professional occupations. The latter partly grew due to public sector outsourcing which was also connected with declining wages.ⁱ
- There is some evidence that temporary work may have increased after the economic crisis.ⁱⁱ
- Another strategy is to work part-time. Figure 6 shows that part-time work is not always wanted. In 2014, nearly a fifth of part-time workers only worked part-time because they could not find a full-time position — a significantly larger fraction than during the 1990s crisis.

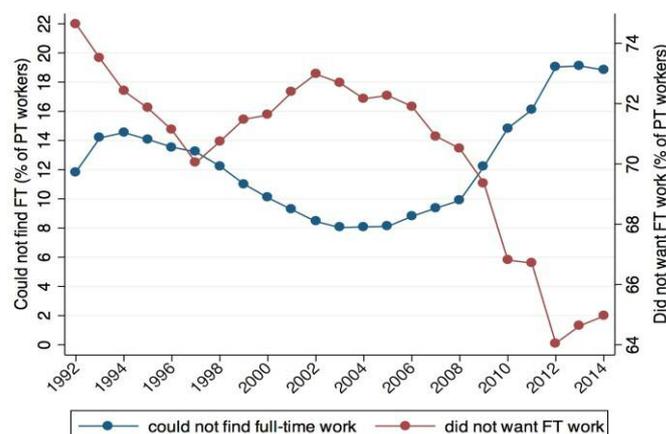


Fig. 6: An increasing proportion is in part-time work because they could not find a full-time position

Author: Felix Busch

Publication date: March 2015

ⁱ A. McKnight, The Coalition's Record on Employment: Policy, Spending and Outcomes 2010-2015. Social Policy in a Cold Climate Working Paper 15. London: CASE, the London School of Economics (2015).

ⁱⁱ V. Gash and H. Inanc, Insecurity and the peripheral workforce, in D. Gallie (ed) Economic Crisis, Quality of Work, & Social Integration, OUP (2013).

ⁱⁱⁱ Feinstein, C. H. (1972): National Income, Expenditure and Output of the United Kingdom 1855—1965. Cambridge: University Press.

^{iv} Denman, J. and P. McDonald (1996): Unemployment statistics from 1881 to the present day. In: Labour Market Trends, 104, 1: 5—18.

