Unemployment and the Labour Market
II

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Lecture Outline

Part 1: How do we read and understand labour market statistics and indicators?
Part 2: Theoretical Concepts
Part 3: General Overview of the Irish Labour Market
Part 4: Gender and the Labour Market
Part 5: Brief Comment on Policy Issues

Part 1

How do we read and understand labour market statistics and indicators?
Basic Definitions

- The basic definition of employment used by the International Labour Organisation refers to "all persons of a specified age, who during a specified period:
  1. Performed some work for a wage or salary in cash or in kind.
  2. Had a formal attachment to a job but were temporarily not at work during the reference period.
  3. Performed some work for profit or family gain in cash or in kind.
  4. Were in an enterprise (e.g., farm enterprises) but were temporarily not at work during the reference period.
- This corresponds to the employed and self-employed.

Basic Definitions

- The unemployed are all individuals without work of a specified age (not in employment or self-employment) during the reference period who:
  1. Were available for work during the specified period.
  2. Were actively seeking work during that period, i.e., they had taken specific steps seeking work in the previous 4 weeks (usually).
- It should be noted that this is differs, in the Irish case, to reported numbers on the live register, which include part-time claimants among others entitled to these payments.
- The Labour Force is the sum of the employed and unemployed.
Other Related Definitions

- The Labour Force Participation Rate refers to that portion of the working age population that actively engage in the labour market (as defined earlier). Usually, this is measured between the ages of 15 and 64, but the choice of metric is flexible. This is measured as a percentage.

- The Inactivity Rate is that portion of the working age population that are not in the labour force.

- The Employment Rate similarly is that portion of the working age population that are employed.

Other Definitions

- The Job Vacancy rate is an indicator that reflects unmet labour demand as well as potential mismatches in skills and availability on either side of the labour market.

- This is useful as a metric gauging economic performance as well as structural features of the economy/labour market.

- This statistic simply measures the number of job vacancies (overall or in a particular sector/industry) as a percentage of jobs filled and job vacancies.

- Higher percentages tend to correspond to "tighter" labour markets.

Job Vacancy Rate
Job Vacancy Rates by Sector

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<td>Manufacturing</td>
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<td>Wholesale trade and retail</td>
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Why Do These Statistics Matter?

- While the unemployment rate is the most commonly used indicator of labour market health, labour force participation and employment rates tend to be far more reflective of overall macroeconomic performance.
- They more accurately reflect an economy's ability to create jobs and provide a more holistic picture of economic performance.
- As we'll see later, this is a long-standing issue for Ireland.
- These measures aren't without their problems as they don't account for the quality of this employment.

Digging Deeper...

- What other measures can we use to get a sense of the “true” state of the labour market?
- Broader unemployment measures exist to account for issues such as worker discouragement, potential additional labour force and underemployment.
- The “Basic” unemployment measure can also be described in terms of:
  1. Long-term unemployment
  2. Structural unemployment
  3. Cyclical unemployment
  4. Frictional unemployment
Broader Measures of Unemployment

- Broader measures of unemployment can capture individuals who otherwise may fall out of standard unemployment statistics. A non-exhaustive list includes:
  1. Discouraged workers
  2. Want a job but unavailable to work
  3. Available but not seeking
  4. Employed on a part-time basis but would prefer full-time employment

- These statistics can be helpful if falls in unemployment really reflect reductions in the labour force or the take-up of jobs that don’t reflect an individual’s willingness to work.

Source: Central Statistics Office QNHS
Part 2

Theoretical Concepts

Cyclical Unemployment

- Cyclical, deficient-demand, or Keynesian unemployment, occurs when there is not enough aggregate demand in the economy to provide jobs for everyone who wants to work.

- Keynesian economics emphasizes the cyclical nature of unemployment and recommends government interventions in the economy to reduce unemployment during recessions.

- This theory focuses on recurrent shocks that suddenly reduce aggregate demand for goods and services and thus reduce demand for workers.

- Demand for most goods and services falls, less production is needed and consequently fewer workers are needed, wages are sticky and do not fall to meet the equilibrium level, and mass unemployment results.

Frictional Unemployment

- Frictional unemployment is the time period between jobs when a worker is searching for, or transitioning from one job to another.

- Frictional unemployment is always present in an economy, so the level of involuntary unemployment is properly the unemployment rate minus the rate of frictional unemployment.

- Frictional unemployment exists because both jobs and workers are heterogeneous, and a mismatch can result between the characteristics of supply and demand.

- Workers as well as employers accept a certain level of imperfection, risk or compromise, but usually not right away; they will invest some time and effort to find a better match. This is in fact beneficial to the economy since it results in a better allocation of resources.
Long-Term Unemployment

- This is normally defined, for instance in European Union statistics, as unemployment lasting for longer than one year. It is an important indicator of social exclusion.
- Long-Term Unemployment is associated with mental and material stress.
- Long-Term Unemployment can cause long term economic damage.
- Macroeconomic "scarring" can arise as an individual’s earnings are affected over the long term. Long-Term Unemployment may be self perpetuating.
- Macroeconomic "scarring" occurs as potential output is reduced as skills degrade, for example, reducing productivity. This can also lead to a longer-term increase in the "structural unemployment rate".

Source: Central Statistics Office QNHS

Structural Unemployment

- Mainly relates to structural problems in the economy and inefficiencies inherent in labour markets, including a mismatch between the supply and demand of labourers with necessary skill sets.
- Structural arguments emphasize causes and solutions related to disruptive technologies and globalisation.
- Structural unemployment occurs when a labour market is unable to provide jobs for everyone who wants one because there is a mismatch between the skills of the unemployed workers and the skills needed for the available jobs.
- Structural unemployment is hard to separate empirically from frictional unemployment, except to say that it lasts longer.
Structural Unemployment

- However, structural unemployment may also be encouraged to rise by persistent cyclical unemployment: if an economy suffers from long-lasting low aggregate demand.

- This means that they may not fit the job vacancies that are created when the economy recovers. The implication is that sustained high demand may lower structural unemployment. This theory of persistence in structural unemployment has been referred to as an example of path dependence or "hysteresis".

- Much technological unemployment due to the replacement of workers by machines, might be counted as structural unemployment. Alternatively, technological unemployment might refer to the way in which steady increases in labour productivity means that fewer workers are needed to produce the same level of output every year.

Full-Employment

- The concept of structural unemployment relates to economic notions of full-employment.

- In contrast to popular conceptions of the term, economists generally define "full-employment" as consistent with non-zero rates of unemployment.

- Full-employment, in this context, refers to an absence of cyclical unemployment. Structural (unemployment and frictional) employment still exist in this state.

- Full-employment is often said to be consistent with the Non-Accelerating Inflation Rate of Unemployment (NAIRU). This refers to a rate of unemployment at which inflation does not increase, as wage claims do not place upward pressure on the price level.

Part 3
General Overview of the Irish Labour Market
Unemployment over time

Source: Eurostat Labour Force Survey

Unemployment over time

Source: Eurostat Labour Force Survey

Unemployment over time

- We see that Ireland is a relatively poor performer in unemployment terms until the early 90s at which point unemployment fell dramatically.

- By the early 2000's Irish unemployment was below that of Sweden and the Euro-area and, at times, the US and UK.

- Ireland however was disproportionately impacted by the global financial crisis relative to these comparators.

- While unemployment has declined substantially and is now less than that of the euro area, it remains above levels observed in the US, UK and Sweden.

- This is a familiar and recognisable story. What is the picture like in overall employment terms?
Employment Rate over time

Source: Eurostat Labour Force Survey
Note: Data relate to Total employment (resident population) as a function of workforce population between 15-64 years.

Employment Rate over time

Source: Eurostat Labour Force Survey
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Employment Rate over time

- Ireland's performance over time is less impressive in terms of total employment rates.
- Irish employment rates (15-64 years) converge on those of the UK and Sweden (but exceed EU-17 averages) between the mid-90's and 2007.
- Overall employment has recovered slightly, but hasn't attained 2007 levels and a substantial gap persists relative to all comparators to 2013.
- Other measures can be used to reflect some downward bias due to participation in education etc. by taking other populations (20-64 years for example) but general story persists.
Part 4

Gender and the Labour Market

Gender Employment Rate - Males

Source: Eurostat Labour Force Survey
Note: Data relates to Total employment (resident population) as a function of working age population between 15-64 years
Gender Differentials in the Employment Rate

- Separation of employment rates by gender reveals separate dynamics up to, and following, the economic crash.

- Much of the rapid employment growth observed over the course of the "Celtic Tiger" reflected the markedly increased incorporation of women into the labour market.

- Male employment also increased but appears far more stable from the early 2000's to the crash. Female employment continued to increase rapidly.

- Males appear to have been harder hit in employment terms by the crash, at least initially. A great deal of this is believed to relate to the difficulties faced by the construction sector (TASC, 2015).
Employment shifts by sector

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<td>Agriculture</td>
<td>264,200</td>
<td>160,190</td>
<td>128,290</td>
<td>-134,010</td>
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<td>Financial and support sector</td>
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<td>-196,490</td>
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<td>105,420</td>
<td>-510</td>
<td>-590</td>
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<tr>
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<tr>
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<td>+18,200</td>
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<td>Health and social work</td>
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<td>108,690</td>
<td>109,090</td>
<td>+2,400</td>
<td>+3,400</td>
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<tr>
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<td>105,300</td>
<td>106,100</td>
<td>+6,800</td>
<td>+800</td>
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<td>Unemployment</td>
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<td>106,500</td>
<td>112,500</td>
<td>+6,000</td>
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<tr>
<td>Total Employees</td>
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<td>5,003,200</td>
<td>4,968,120</td>
<td>-7,560</td>
<td>-35,080</td>
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Gender Differentials in the Employment Rate

- At least part of the observed gap between total employment rates in Ireland and those of selected comparators over time can be accounted for by comparatively low rates of employment among women.
- In 2015, the employment rate for men in Ireland between 15 and 64 years of age was 68.6%. The rate for women was 57.6%.
- The Swedish male employment rate was 77% in 2015, while the female rate was 74%. For the UK, this was 77.6% vs 67.5% and in the Euro-17 area, this was 69.7% and 59.4%.
- While this gap was somewhat narrower immediately preceding the crisis - both relative to high male employment and comparator female employment rates - it persists throughout the observed period.

Part 5
Brief Comment on Policy Issues
Why Might this Be?

- The degree to which states subsidize childcare is seen to be a major contributor (NERI, 2016). Childcare costs in Ireland are relatively high and under-supported (Rastorgina and Versashotyagina, 2015).
- Other comparator states have much more substantive supports to encourage female participation.
- Policy within the UK shifted from the 1990's to tax and expenditure supports for working parents. Save Starz etc. (National Women’s Council 2005)
- Sweden is known to provide substantive supports to parents. Parent's pay a maximum of 20% of childcare costs (National Women’s Council 2005).

Other Policy Issues

- A number of other issues exists in the Irish labour market including the prevalence of low pay and “hidden unemployment”. These issues impact different groups in unique ways.
- The quality as well as quantity of new jobs created should be a focus for public policy.
- For example, while employment rates in the UK remain high relative to many comparators, earnings have fallen substantially.
- Active labour market policy including retaining may be required to ameliorate this as well as possible demand side intervention on the part of the state or “off-books” vehicle (NERI, 2016).

Other Policy Issues

- Historical employment participation patterns are also believed to have arisen due to the nature of development in Ireland.
- Irish domestic enterprises remain the largest employer in the state, but are concentrated in low value added industries.
- Investment is focused in industries with lower wages and lower employment growth prospects.
- This feature of the Irish economy will be investigated in a long-term work project at NERI looking at Enterprise in Ireland.