

## [The reality behind the employment figures](#) [1]

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Economists are finding it hard to understand why Britain's labour market is so buoyant. At a time when output seems resolutely flat, the number of people in work is growing and the number of people unemployed is falling. This week the Office for National Statistics (ONS) reported that in the last quarter of 2012, a record number of people were in employment in Britain, a rise of 154,000 on the quarter before. Some two-thirds of these jobs have gone to British-born workers ? the record employment numbers do not simply reflect a wave of immigrants making work for themselves. And fewer people are looking for work but unable to get it: the number of people on unemployment fell by 12,500 in the last quarter, far ahead of economists' expectations.

Of course, mainstream economists have been wrong-footed throughout the financial crisis and our continuing economic malaise. When the Queen visited the London School of Economics last year and asked "Why did no-one see this coming?", they all stared at their shoes.

That's what you get for having the wrong model ? looking at (and trying to manipulate) statistical aggregates is to mix up apples and pears, chalk and cheese. You need to look at what is happening at the micro-level ? the things that actually influence people's economic decisions.

So why are firms still hiring when output seems so flat? (1) For a start, good micro-focused economists never trust their macro-colleagues' figures. As Richard Jeffrey, Chief Economist at Cazenove Capital has said, it may be that output is a lot stronger than the figures suggest. That wouldn't be surprising, as the shape of production changes constantly, and the statisticians struggle to keep up with it. (2) Wages are now much lower in real terms than they were at the start of this episode in 2007-08. Firms that are bumping along can simply afford more workers than they could back then. (3) Firms are sitting on cash rather than risking the purchase of expensive new equipment that might become a white elephant if things do not turn up. In other words they could be substituting human labour for mechanisation. (4) Very low interest rates are propping up firms that really should go bust, given the post-boom realities. But they are still there, and hiring.

So if you look at what actually motivates people, and not just the broad numbers, you might well get a much better picture of what is going on.

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