An alternative approach to unemployment [1]

Written by **Whig** [2] | Thursday 23 February 2012

Last week?s joblessness figures were hardly encouraging. The Chartered Institute of Personnel and Development predicts [3] a gloomy forecast for employment prospects, forecasting unemployment to reach 2.85 million by the end of 2012. Their Labour Market Outlook makes for very miserable reading for those seeking jobs. Similarly, research from the TUC suggests [4] that ?unemployment? may be at around 6 million if those in temporary work or underemployed are taken into account. The TUC has applied the US U1-U6 system of measuring unemployment.

Of course, we should take the TUC?s research with a good pinch of salt. The TUC has taken the broadest possible measure of unemployment, naturally, as it wishes to criticise government policy. The TUC does not give a great deal of detail about the source data it used ? it simply states that they are derived from the ONS, so it is not easy to critique its methodology, aside from the general criticisms that must be attached to the US system. These figures do not allow for revealed preference; individuals may state that they are willing to work full time but actually may not to do so if a full-time job were available. If nothing else, the TUC?s presentation is misleading as the US figures expressly contain six different types of ?unemployment?, so to pick one (U6) and present it as definitive is disingenuous in itself.

These caveats notwithstanding, unemployment is clearly high and rising by most measures and there is a considerable level of underemployment within the economy. The TUC?s answer is, of course, government ?stimulus? and job creation schemes. Regardless of the fiscal impact of further government stimulus, it is unlikely that it will be successful. We have a huge fiscal stimulus already in place and pre-existing job schemes have repeatedly failed ? the underperformance of the government?s Work Programme is merely the latest in a long line.

What comes across far more strikingly from these figures is the very high level of structural unemployment in the UK, prior to 2009, something that the TUC entirely fails to mention because it does not fit its picture of ?demand deficiency?. In April 2005, firmly within the boom years, official unemployment (U3) stood at 1,437,000 (roughly 4.5% of the active labour force) and the broad figure (U6) at 4,184,000 (13.5%). Why then, in the midst of an unprecedented boom and with an acknowledged shortage of skilled labour, was there so many unemployed and discouraged workers in the economy and did the markets fail to clear?

Unemployment is a complex phenomenon but it is clear that a great deal of the UK?s unemployment is unrelated to demand and is, in fact, a result of structural factors. The solution to this sort of unemployment

is supply-side reform, of a far more radical sort than the present government is proposing: eliminating ? or at least ?regionalising? - the minimum wage, reducing employment regulation, lowering and flattening taxes on income and employment and eliminating high marginal tax rates caused by the tax and benefits system. It is also clear that the state education system is utterly failing to equip many young people with the skills that the job market requires. Obviously, many of these reforms are long-term and would require much effort on behalf of the government in the face of entrenched interest-group opposition. However, the present government is not only missing much low-hanging fruit or taking little action but is actually creating further supply-side problems.

In terms of the discouraged and temporarily employed, the TUC fails to recognise that the prevalence of this is the result of government-created barriers to permanent employment. Temporary employment is not, in most cases, advantageous for employers. The means to re-engage workers and encourage permanent and full-time employment is to de-regulate and eliminate the disincentives for employers to hire workers, not to apply the same restrictions to temporary employment which will merely serve to drive such employees out of work altogether.

Generally speaking, the Coalition government has tended towards the TUC?s approach ? stimulus and work programmes ? far more than it has to supply-side reform. This is profoundly disappointing, especially given the clear evidence that much of the UK?s unemployment is structural and bears little relation to the cyclical environment.

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