

PRIME MINISTER

UNEMPLOYMENT

During Cabinet ^{yesterday} ~~today~~ you mentioned the apparent paradox of employment and unemployment increasing at the same time. The following note sets out a short analysis of how this has happened. Essentially the number of unemployed people depends upon three variables:

- (i) the number of jobs
- (ii) the population of working age
- (iii) the activity rate, i.e. the proportion of the population of working age in the labour force.

Since 1979 the number of jobs, i.e. the employed labour force, has gone down by 1,400,000. The population of working age has gone up by nearly 900,000; the activity rate has however declined by about 1% giving an increase in the labour force of about 350,000. This has produced a total increase in unemployment of 1,700,000 of which just over 75% is due to a reduction in the number of jobs and just under 25% due to an increase in the labour force.

This overall movement between 1979 and 1984 masks three separate phases:

- (i) between 1979 and 1981 the activity rate remained roughly constant. Accordingly the level of unemployment more or less equalled the fall in the number of jobs added to the increase in the population of working age;

- (ii) in 1982 and 1983, the activity rate fell by about ½% in each year. In each year this had the effect of more than offsetting the increase in the working population so that the labour force itself fell. As a result the increase in the level of unemployment was less than the fall in the number of jobs;
- (iii) in 1984 the number of jobs has increased (by about 200,000). At the same time, however, the population of working age has increased by about 150,000 and, moreover, the activity rate has increased once again. The net result was an increase in the labour force of 200,000, thereby cancelling out the increase in the number of jobs, leaving unemployment at more or less the same level.

I understand that the changes in the activity rates since 1979 are largely based on whether there have been more older men leaving the labour force than women entering it. Without the fall in the activity rate of about 1% since 1979, unemployment would have increased by more, since the sum of the reduction in the number of jobs and the increase in the working population since then is about 2.2 million. Equally, however, the marginal increase in the activity rate over the last year has prevented the increase in the number of jobs being turned into a reduction in unemployment. It may be that as the economic climate improved, a higher proportion of the population of working age were tempted back into the jobs market. If this is so, it emphasises yet again just how difficult it is to reduce unemployment at a time when the overall population of working age is increasing.

This is, as I have said, a brief analysis without the benefit of a more rigorous statistical approach. We have, however, asked the Department of Employment to provide such an analysis.



5 October 1984

DSGACJ