Unemployment rate

Introduction

The unemployment rate is probably the best-known labour market measure and certainly one of the most widely quoted by media in many countries. The unemployment rate is a useful measure of the underutilization of the labour supply. It reflects the inability of an economy to generate employment for those persons who want to work but are not doing so, even though they are available for employment and actively seeking work. It is thus seen as an indicator of the efficiency and effectiveness of an economy to absorb its labour force and of the performance of the labour market.

Given its usefulness in conveying valuable information on a country's labour market situation and the fact that it is widely recognized as a headline labour market indicator, it was included as one of the indicators proposed to measure progress towards the achievement of the Sustainable Development Goals (SDG), under Goal 8 (Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all).[1]

ILOSTAT contains statistics from national sources on unemployment rates by sex and age, rural/urban areas, disability status and education. ILOSTAT also includes ILO estimates of unemployment rates by sex and age, which contain both nationally reported and imputed data, and where all estimates are national, meaning there are no geographic limitations in coverage[2].

Concepts and definitions

The unemployment rate is calculated by expressing the number of unemployed persons as a percentage of the total number of persons in the labour force. The labour force (formerly known as the economically active population) is the sum of the number of persons employed and the number of persons unemployed.[3] Thus, the measurement of the unemployment rate requires the measurement of both employment and unemployment.

The unemployed comprise all persons of working age who were: a) without work during the reference period, i.e. were not in paid employment or self-employment; b) currently available for work, i.e. were available for paid employment or self-employment during the reference period; and c) seeking work, i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment. Future starters, that is, persons who did not look for work but have a future labour market stake (made arrangements for a future job start) are also counted as unemployed, as well as participants in skills training or retraining schemes within employment promotion programmes, who on that basis, were "not in employment", not "currently available" and did not "seek employment" because they had a job offer to start within a short subsequent period generally not greater than three months and persons "not in employment" who carried out activities to migrate abroad in order to work for pay or profit but who were still waiting for the opportunity to leave.

In many national contexts there may be persons not currently in the labour market who want to work but do not actively "seek" work because they view job opportunities as limited, or because they have restricted labour mobility, or face discrimination, or structural, social or cultural barriers. The exclusion of people who want to work but are not seeking work (in the past often called the "hidden

---

[1] Proposed SDG indicator 8.5.2 refers to the unemployment rate by sex, age and persons with disabilities. For the official list of proposed SDG indicators, see: http://unstats.un.org/sdgs/indicators/indicators-list/

[2] For further information on the methodology used to produce harmonized estimates, see Bourmpoula, V., Kapsos, S. and Pasteels, J.M.: "ILO labour force estimates and projections: 1990-2050 (2015 edition)" (ILO, Geneva, 2015). http://www.ilo.org/ilostat-files/Documents/LFEP%20Methodology%202015.pdf

[3] Resolution concerning statistics of work, employment and labour underutilization, adopted by the 19th International Conference of Labour Statisticians, Geneva, October 2013; http://www.ilo.org/global/statistics-and- databases/standards- and-guidelines/resolutions-adopted- by-international-conferences-of-labour- statisticians/WCMS_230304/lang-- en/index.htm

unemployed" or the "unemployed according to the relaxed definition" which also included persons formerly known as "discouraged workers") is a criterion that will affect the count of both women and men although women may have a higher probability of being excluded from the count of unemployed because they suffer more from social barriers overall that impede them from meeting this criterion. Another factor leading to exclusion from the unemployment count concerns the criterion that workers be available for work during a given (short) reference period. A short availability period tends to exclude those who would need to make personal arrangements before starting work, such as for care of children or elderly relatives or other household affairs, even if they are "available for work" soon after the short reference period. As women are often responsible for household affairs and care, they are a significant part of this group and would therefore not be included in measured unemployment.

With a view to overcoming these limitations of the concept of unemployment, and in order to acknowledge the two population groups mentioned above (persons without work but either not available or not actively seeking work), the 19th ICLS resolution introduced the concept of the "potential labour force". This potential labour force comprises "unavailable jobseekers", defined as persons who sought employment even though they were not available, but would become available in the near future, and "available potential jobseekers", defined as persons who did not seek employment but wanted it and were available. Thus, persons without work formerly included in the "relaxed definition" of unemployment are now comprised in the potential labour force. The 19th ICLS resolution also identifies a particular group within the available potential jobseekers, the "discouraged jobseekers", made up of those persons available for work but who did not seek employment for labour market-related reasons (such as the past failure to find a suitable job or the lack of experience). [4]

Employment comprises all persons of working age who during a specified brief period, such as one week or one day, were in the following categories: a) paid employment (whether at work or with a job but not at work); or b) self-employment (whether at work or with an enterprise but not at work).

The working- age population is the population above the legal working age, but for statistical purposes it comprises all persons above a specified minimum age threshold for which an inquiry on economic activity is made. To favour international comparability, the working-age population is often defined as all persons aged 15 and older, but this may vary from country to country based on national laws and practices (some countries also apply an upper age limit).

Method of computation

The unemployment rate is calculated as follows:

$$UR(\%) = \frac{\text{Persons unemployed}}{\text{Labour force}} \times 100$$

$$UR(\%) = \frac{\text{Persons unemployed}}{\text{Persons employed + persons unemployed}} \times 100$$

Recommended sources

Labour force surveys are typically the preferred source of information for determining the unemployment rate. Such surveys can be designed to cover virtually the entire non- institutional population of a given country and they generally provide an opportunity for the simultaneous measurement of the employed, the unemployed and persons outside the labour force in a coherent

[4] For more details on the potential labour force and the changes to the definition in unemployment, please refer to the ILO, "Report III - Report of the Conference", 19th International Conference of Labour Statisticians, Geneva, 2– 11 October 2013; http://www.ilo.org/stat/Publications/WCMS_234124/lang--en/index.htm.

framework.

Other types of household surveys and population censuses could also be used as sources of data to derive unemployment rates. The information obtained from such sources may however be less reliable since they do not typically allow for detailed probing on the labour market and job search activities of the respondents.

Administrative records such as employment office records and social insurance statistics can also serve as sources of unemployment statistics. However, the statistics derived from these administrative records refer to a different unemployment concept: "registered unemployment". Although statistics on registered unemployment might be useful, they are in no way comparable to the unemployment statistics derived from household surveys following the three-criteria definition (persons not employed, available for work and looking for work). A national count of either unemployed persons or work applicants that are registered at employment offices is likely to be only a limited subset of the total number of persons seeking and available for work, especially in countries where the system of employment offices is not extensive. This may be because of eligibility requirements that exclude those who have never worked or have not worked recently, or to other discriminatory impediments that preclude going to register. Also, administrative records can sometimes overstate registered unemployment because of double-counting, failure to remove people from the registers when they are no longer looking for a job, or because it allows inclusion of persons who have done some work.

For purposes of data comparability, the tables on unemployment and unemployment rates presented in ILOSTAT contain only statistics from household surveys or population censuses. Statistics referring to the concept of registered unemployment are presented separately in ILOSTAT.

Interpretation and use of the indicator

The overall unemployment rate for a country is a widely used measure of its unutilized labour supply. If employment is taken as the desired situation for people in the the labour force (formerly known as economically active population), unemployment becomes the undesirable situation. Still, some short-term unemployment can be necessary for ensuring adjustment to economic fluctuations. Unemployment rates by specific groups, defined by age, sex, occupation or industry, are also useful in identifying groups of workers and sectors most vulnerable to joblessness.

While the unemployment rate may be considered the most informative labour market indicator reflecting the general performance of the labour market and the economy as a whole, it should not be interpreted as a measure of economic hardship or of well-being. When based on the internationally recommended standards, the unemployment rate simply reflects the proportion of the labour force that does not have a job but is available and actively looking for work. It says nothing about the economic resources of unemployed workers or their family members. Its use should, therefore, be limited to serving as a measurement of the utilization of labour and an indication of the failure to find work. Other measures, including income-related indicators, would be needed to evaluate economic hardship.

An additional criticism of the aggregate unemployment measure is that it masks information on the composition of the jobless population and therefore misses out on the particularities of the education level, ethnic origin, socio-economic background, work experience, etc. of the unemployed. Moreover, the unemployment rate says nothing about the type of unemployment – whether it is cyclical and short-term or structural and long-term – which is a critical issue for policy-makers in the development of their policy responses, especially given that structural unemployment cannot be addressed by boosting market demand only.

Paradoxically, low unemployment rates may well disguise substantial poverty, as high unemployment rates can occur in countries with significant economic development and low incidence of poverty. In countries without a safety net of unemployment insurance and welfare benefits, many individuals, despite strong family solidarity, simply cannot afford to be unemployed. Instead, they must eke out a living as best they can, often in the informal economy or in informal work arrangements. In countries with well-developed social protection schemes or when savings or other means of support are available, workers can better afford to take the time to find more desirable jobs. Therefore, the problem in many developing countries is not so much unemployment but rather the lack of decent and productive work, which results in various forms of labour underutilization (i.e. underemployment, low

income, and low productivity).[5]

A useful purpose served by the unemployment rate in a country, when available on at least an annual basis, is the tracking of business cycles. When the rate is high, the country may be in recession (or worse), economic conditions may be bad, or the country somehow unable to provide jobs for the available workers. The goal, then, is to introduce policies and measures to bring the incidence of unemployment down to a more acceptable level. What that level is, or should be, has often been the source of considerable discussion, as many consider that there is a point below which an unemployment rate cannot fall without the occurrence of intense inflationary pressures. Because of this supposed trade-off, the unemployment rate is closely tracked over time.

The usual policy goal of governments, employers and trade unions is to have a rate that is as low as possible yet also consistent with other economic and social policy objectives, such as low inflation and a sustainable balance-of-payments situation. When using the unemployment rate as a gauge for tracking cyclical developments, we are interested in looking at changes in the measure over time. In that context, the precise definition of unemployment used (whether a country-specific definition or one based on the internationally recommended standards) does not matter nearly as much – so long as it remains unchanged – as the fact that the statistics are collected and disseminated with regularity, so that measures of change are available for study.

Internationally, the unemployment rate is frequently used to compare how labour markets in specific countries differ from one another or how different regions of the world contrast in this regard. Unemployment rates may also be used to address issues of gender differences in labour force behaviour and outcomes. The unemployment rate has often been higher for women than for men. Possible explanations are numerous but difficult to quantify; women are more likely than men to exit and re-enter the labour force for family- related reasons; and there is a general "crowding" of women into fewer occupations than men so that women may find fewer opportunities for employment. Other gender inequalities outside the labour market, for example in access to education and training, also negatively affect how women fare in finding jobs.

Limitations

Even though in most developed countries the unemployment rate continues to prove its usefulness as an important indicator of labour market performance, and specifically, as a key measure of labour underutilization, in many developing countries, however, the significance and meaning of the unemployment rate could be questioned. In the absence of unemployment insurance systems or social safety nets, persons of working age must avoid unemployment, resorting to engaging in some form of economic activity, however insignificant or inadequate. Thus, in this context, other measures should supplement the unemployment rate to comprehensively assess labour underutilization, such as time-related underemployment and potential labour force indicators.

Regarding the international comparability of unemployment rates, there are a host of reasons why the statistics may not be comparable between countries. Where the information is based on household surveys or population censuses, differences in the questionnaires can lead to different statistics − even allowing for full adherence to ILO guidelines. In other words, differences in the measurement tool can affect the comparability of labour force results across countries. Also, national statistical offices, even when basing themselves on the ILO conceptual guidelines, may not follow the strictest measurement of employment and unemployment. They may differ in their choices concerning the conceptual basis for estimating unemployment, as in specific instances where the guidelines prior to the 19th ICLS resolution used to allow for a relaxed definition, thereby causing the labour force estimates (the base

---

[5] Readers interested in the broader topic of labour underutilization should refer to ILO, "Beyond unemployment: Measurement of other forms of labour underutilization", Room Document 13, 18th International Conference of Labour Statisticians, Working group on Labour underutilization, Geneva, 24 November – 5 December 2008; http://www.ilo.org/global/statistics-and- databases/meetings-and-events/international-conference- of-labour-statisticians/WCMS_100652/lang--en/index.htm or ILO, "Report and proposed resolution of the committee on work statistics", 19th International Conference of Labour Statisticians, Committee on Work Statistics, Geneva, 2 November – 11 November 2013; http://www.ilo.org/global/statistics-and- databases/meetings-and-events/international-conference- of-labour-statisticians/19/WCMS_223719/lang-- en/index.htm

for the unemployment rate) to differ. They may also choose to derive the unemployment rate from the civilian labour force rather than the total labour force. There may also be variations in the operational criteria used to define individuals' job search activities (methods of job search included, reference period used, etc.).

Statistics for any given year can also differ depending on the number of observations − monthly, quarterly, once or twice a year, and so on. Among other things, a considerable degree of seasonality can influence the results when the full year is not covered.

The geographic coverage of the survey used as a source of unemployment data also has an impact on the comparability of the resulting statistics. A less than national coverage – urban areas, city, regional – has obvious limitations to comparability to the extent that coverage is not representative of the country as a whole. Unemployment in urban areas may tend to be higher than total unemployment because of the exclusion of the rural areas where workers are likely to work, although they may be underemployed or unpaid family workers, rather than seek work in a non-existent or small formal sector.