



In Focus

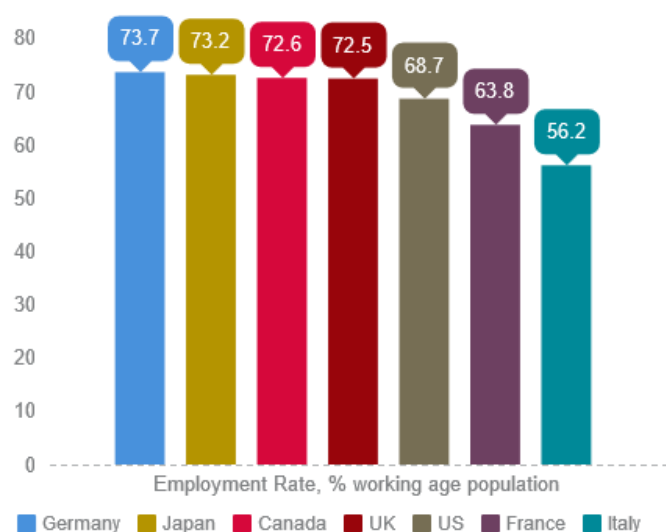
Measuring Full Employment

In his [speech](#) to the Conservative Party conference in October 2014, David Cameron made a commitment that in the next parliament, his party would seek “full employment in Britain”. The [Conservative manifesto](#) for the 2015 election reiterated that: “We have set out the bold aim of achieving full employment, with the highest employment rate of any major economy”. Clause 1 of the Welfare Reform and Work Bill, which is currently in committee stage in the House of Commons, would create a duty for the Secretary of State to report annually to Parliament on the progress made towards full employment. The report would have to set out the measure(s) of full employment used—no particular measure or target is defined in the Bill. There are a number of ways that full employment could be measured, depending on whether one is focusing on the employment rate or the unemployment rate.

The employment rate measures the proportion of the population aged from 16 to 64 who are employed—anyone doing one hour or more a week of paid work is counted as employed for this purpose. The employment rate for the UK returned to pre-recession levels in mid-2014: according to [Office for National Statistics \(ONS\) figures](#), in the period June to August 2014, 73 percent of people aged from 16 to 64 were in employment, a level equal to the pre-downturn peak recorded for early 2008. Since then, the employment rate has risen further: the [latest ONS labour market statistics](#) released in mid-October show that for the three-month period June to August 2015, 73.6 percent of people aged from 16 to 64 were in work. This is the highest rate recorded since comparable records began in 1971.

The chart on the right shows that in the second quarter of 2015—the most recent period for which OECD data is available—the UK’s employment rate was the fourth highest in the G7, very slightly lower than Germany, Japan and Canada, but ahead of the US, France and Italy. According to [World Bank figures](#), 68 percent of China’s working age population was employed in 2013, the most recent year for which data is available. (OECD and World Bank figures define the working age population as those aged 15 to 64, whereas the ONS rates are based on the 16 to 64 age group.)

Employment Rate, G7 countries, 2015 Q2

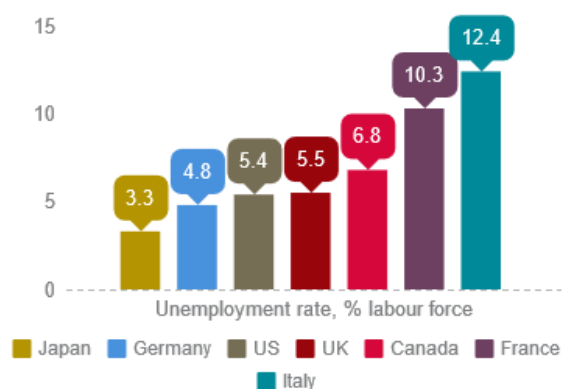


Source: OECD, Employment Rate Indicator, <https://data.oecd.org/chart/4nyh>

'Full employment' could also be measured by looking at the rate of unemployment. According to the [most recent ONS labour market statistics](#), the unemployment rate in the period June to August 2015 was 5.4 percent, a fall of 0.2 percentage points compared to the previous three-month period. This is the lowest unemployment rate seen since March to May 2008, when a rate of 5.2 percent was [recorded by the ONS](#). The ONS [notes](#) that the lowest unemployment rate since comparable records began was 3.4 percent in late 1973–early 1974. The highest rate, 11.9 percent, was recorded in 1984 during the downturn of the early 1980s. The unemployment rate measures the proportion of the labour force who are without a job, have actively sought work (full or part-time) in the last four weeks and are available to start work in the next two weeks; or are out of work, have found a job and are waiting to start it in the next two weeks. It is not identical to the claimant count, which measures the number of people claiming unemployment-related benefits. Whereas the employment rate measures the proportion of the whole population aged 16 to 64 that is employed, the unemployment rate measures the proportion of the labour force that is unemployed; in other words, it does not take account of those who are 'economically inactive'—not in employment and not seeking or available for work.

Economists use a concept called the non-acceleration inflation rate of unemployment (NAIRU) when considering full employment. The NAIRU is an estimate of the lowest possible rate of unemployment that does not have an inflationary effect. It follows from the premise that a zero rate of unemployment could increase the level of inflation, as it could allow employees to demand higher pay, putting pressure on prices. Jonathan Portes, Director of the National Institute of Social and Economic Research (NIESR), [has written](#) that the NAIRU is “an estimate of the level of unemployment you would expect if the economy were stable, with inflation neither rising nor falling”, thus “if the economy were roughly on trend, with inflation stable near the 2 percent target, unemployment should be about at the NAIRU”. In its July 2015 [Economic and Fiscal Outlook](#), the Office for Budget Responsibility (OBR) revised its medium-term estimate of the NAIRU upwards to 5.4 percent, noting that: “Before looking at the policy changes in the Budget, we would have reduced the NAIRU slightly as unemployment was approaching our previous estimate with only early signs of earnings growth picking up. But our estimate of the effect on employment of the Living Wage Premium has slightly more than offset that pre-measures judgement, lifting our medium-term estimate of the NAIRU to 5.4 percent”.

Unemployment Rate, G7 countries, 2015 Q2



Source: OECD, Unemployment Rate Indicator, <https://data.oecd.org/chart/4nBh>

In comparison to the other G7 members, the UK had a higher unemployment rate than Japan, Germany and the US in the second quarter of 2015, and a lower rate than Canada, France and Italy, as shown in the chart on the left.

Other possible measures of full employment are considered in the House of Commons Library’s blog post on [‘Full Employment: What Is It and Can It Happen?’](#), such as: an employment rate above 80 percent; an employment rate of 75 percent for the 20 to 64 age group; and more vacant jobs than unemployed people. According to the House of Commons Library analysis, the UK has achieved full employment by some measures at various points since the 1970s. The most recent period with a number of measures pointing to full employment was the early to mid-2000s.

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