

International Labour Office

Proposal ‘Development of an indicator of labour underutilisation as a supplement to the unemployment rate’

Justification

In developing countries, unemployment (as defined by the 13th ICLS ¹) tends to be low, in particular, lower than in many industrialised countries. However, low unemployment in developing countries cannot be taken as an indicator of the economic well-being of the countries, or as an indicator that people’s aspirations for work are largely met. It simply means that the concept of unemployment, as defined by the 13th ICLS, is of limited relevance in describing the employment situation in developing countries. In these countries, most people cannot afford to be unemployed for any long period of time, because there are no unemployment insurance or other social protection schemes from which they can claim benefits, and because their families are too poor to support them. Moreover, in many cases the expectations, which people out of work have concerning job opportunities, are not sufficiently high to make them seek work actively, or conditions are such that the conventional means of seeking work are of limited relevance or that there is simply no labour market. In such situations, most people are ready to take any job that is available, or to create their own employment (mainly in the informal sector). Thus, in terms of a labour market model the excess supply of labour gets absorbed through a decrease in earnings, rather than an increase in the number of unemployed persons or in productivity. Most of the persons, who cannot find or create any job, join the ranks of the economically inactive rather than of the unemployed.

If the ILO wanted to suggest a modification of the current international statistical definition of unemployment, chances for approval by the ICLS would be low for the time being. This is because by now the definition is being used by virtually all countries in the world and, as a result, internationally comparable statistics of unemployment exist. In addition, many countries have long time-series of data based on the definition. The industrial countries, in particular, are unlikely to agree to any major change of the definition. In any case, no single measure such as the unemployment rate would be able to capture the complexity of labour markets, and it would be unfair to criticise the unemployment rate for not being what it was never meant to be: a comprehensive measure of labour underutilisation.

¹ This definition is often referred to as the ‘ILO definition of unemployment’, because the ICLS is convened by the ILO and its resolutions are submitted to the ILO Governing Body for endorsement.

Methodological approach

The present proposal seeks to develop an indicator of labour underutilisation as a supplement to the unemployment rate. Policy makers, journalists, advocacy groups and the public at large are likely to prefer a composite indicator of total labour underutilisation to a range of supplementary indicators, in which each indicator would refer to a single, specific aspect of labour underutilisation. Nevertheless, for deeper analysis and research purposes it will be important that the composite indicator can be broken down in its various components.

In addition to the unemployed, the new indicator should factor in various groups of persons, who are not included among the unemployed (standard definition) because they are classified as employed or as not economically active in labour force statistics. In this connection, it is recalled that the standard definition of unemployment adopted by the 13th ICLS only includes persons who are (i) without work, (ii) available for work, and (iii) actively seeking work. A person is considered to be ‘without work’, if (s)he was not employed at all during the reference period. The criterion defines unemployment as a situation of total lack of work (zero hours of work). As the definitions of employment and unemployment complement each other, the criterion of ‘without work’ in the definition of unemployment leads to employment being defined as work for at least one hour during the reference period.

Among *employed* persons, the following groups may be considered for inclusion in a measure of labour underutilisation:

- Persons in time-related underemployment as defined by the 16th ICLS. Time-related underemployment refers to a situation of partial lack of work. The inclusion in a measure of labour underutilisation of persons in time-related underemployment would thus eliminate the effect, which the criterion of ‘without work’ has on the number of unemployed persons (i.e. persons in total lack of work). Taking into account the number of additional hours available for work, the measure of time-related underemployment can be made more useful in converting the number of persons in time-related underemployment to full-time equivalents.
- Persons with low hourly pay, who may be defined as persons earning less than half of the median hourly pay for employees. Low hourly pay is deemed to reflect low labour productivity.
- Among the above, as a sub-group of special concern: Persons working long hours and still earning little. Persons working long hours may be defined as persons whose usual hours of work in all jobs exceed 48 hours per week.
- Persons whose skills are underutilised, who may be defined as persons whose educational level (ISCED) exceeds the skill level required by their current job (ISCO).
- Persons holding more than one job for economic reasons.
- Involuntary part-year workers or, as an approximation, persons with non-permanent jobs of a duration of less than 12 months.
- Persons seeking another or an additional job for economic reasons.

It should be noted (i) that data may not always be available to identify all of these groups, and (ii) that persons may belong to more than one of the groups. For these reasons, Box 1 below presents a possible definition of mutually exclusive groups based on classificatory variables, which are likely to be available in the labour force surveys of a large number of countries.

Box 1

Groups of the employed population by labour utilisation

Groups marked by an asterisk (*) are considered to represent underutilised labour, either because they do not work the number of hours that they are willing and available to work, and/or because the remuneration that they receive per hour is low or very low, and/or because their skills are higher than those required by their current jobs.

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| 1.* | Persons in time-related underemployment (16 th ICLS) |
| 2. | Persons not in time related underemployment |
| 2.1 | Voluntary part-time workers (< 40 hours per week) |
| 2.1.1* | Skills: underutilised |
| 2.1.2 | Skills: not underutilised |
| 2.2 | Full-time workers (40-48 hours per week) |
| 2.2.1* | Monthly earnings: low (less than half of the median earnings of employees) |
| 2.2.2 | Monthly earnings: not low |
| 2.2.2.1* | Skills: underutilised |
| 2.2.2.2 | Skills: not underutilised |
| 2.3 | Persons working long hours (> 48 hours per week) |
| 2.3.1* | Monthly earnings: low (less than half of the median earnings of employees) |
| 2.3.2 | Monthly earnings: not low |
| 2.3.2.1* | Skills: underutilised |
| 2.3.2.2 | Skills: not underutilised |

In respect of *economically inactive* persons, the measure of labour underutilisation aims at including groups of persons, who are involuntarily inactive or have a strong attachment to the labour market. To identify them, a classification of economically inactive persons

needs to be developed. An example of such a classification is given in Box 2 below. On the basis of an analysis of data for a representative sample of countries, a decision will have to be made as to which groups or subgroups of economically inactive persons should be included in the indicator 'labour underutilisation'. As a minimum, persons in subgroup 1.1 (which includes the so-called 'discouraged workers') should be included, and, as a maximum, persons in groups 1-3 (i.e. all inactive persons who want to work).

Either the labour force (enlarged by the number of economically inactive persons included in the measure of labour underutilisation) or the population of working age (e.g. 15 years and older) should be used as dominator for the new indicator.

Box 2

Groups of the economically inactive population by degree of labour market attachment

As the serial number of the groups below increases, the labour market attachment of the persons belonging to these groups decreases, i.e. persons in Group 1 can be considered to have the strongest labour market attachment and persons in Group 4 the lowest. Note that persons in Subgroup 1.1 would be included among the unemployed if the seeking work criterion were *partially* relaxed, while all persons in Group 1 would be included among the unemployed if the seeking work criterion were *completely* relaxed.

1. Persons wanting work and available for work, but not seeking work

1.1 Economic reason for not seeking work

1.1.1 Discouraged workers

1.1.2 Persons with another economic reason

1.2 Other reason for not seeking work

1.2.1 With recent previous work experience

1.2.1.1 Stopped working for economic reason

1.2.1.2 Stopped working for other reason

1.2.2 Without recent previous work experience

2. Persons seeking work but not available for work

2.1 Main activity before starting to seek work: employment

2.2 Main activity before starting to seek work: other than employment

2.2.1 With recent previous work experience

2.2.1.1 Stopped working for economic reason

2.2.1.2 Stopped working for other reason

2.2.2 Without recent previous work experience

3. Persons wanting work, but neither seeking work nor available for work

3.1 Economic reason for not seeking work

3.2 Other reason for not seeking work

3.2.1 With recent previous work experience

3.2.1.1 Stopped working for economic reason

3.2.1.2 Stopped working for other reason

3.2.2 Without recent previous work experience

4. Persons not wanting to work