National Institute of Economic and Social Research

Press Release

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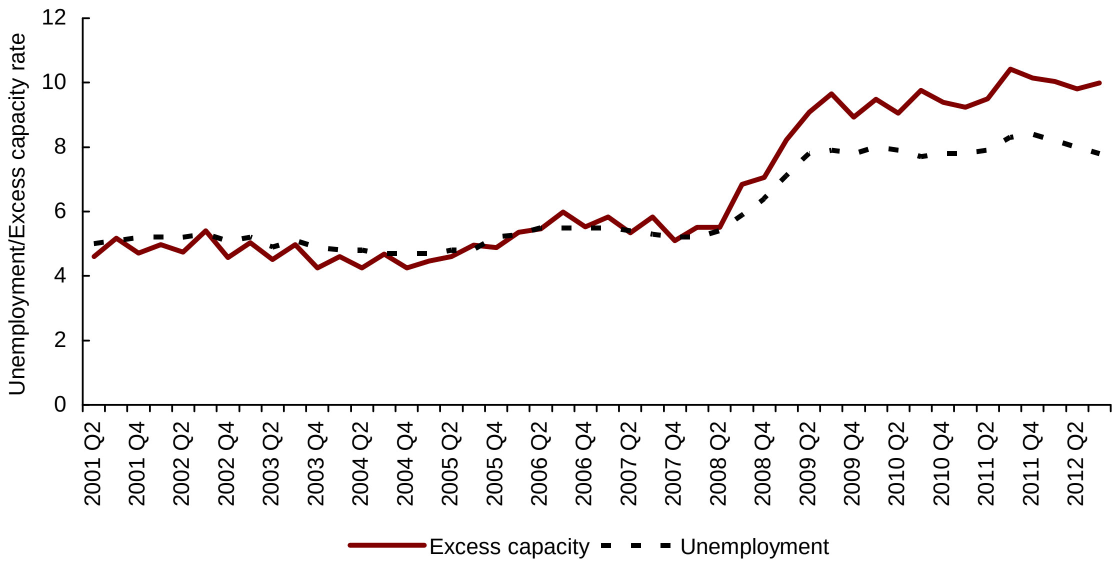
Underemployment in the UK

In a new paper published today in the latest issue of the *National Institute Economic Review*, economists David Bell and David Blanchflower of the University of Stirling and Dartmouth College introduce a new measure of labour market slack. The conventional measure of the difference between supply and demand in the labour market is the unemployment rate. But it does not capture a phenomenon which has become increasingly important during the current recession - underemployment.

Workers are underemployed when they are willing to supply more hours of work than their employers are prepared to offer. The number of workers willing to supply extra hours can be measured using the UK Labour Force Survey, which also asks underemployed workers how many extra hours they would be willing to work at the same pay rate. Expressing the number willing to supply extra hours as a share of the workforce gives an estimate of the *underemployment* rate. This rate has risen from 6.2 per cent of the UK workforce in 2008 to 9.9 per cent in 2012 (see figure 1). Over the same period, the unemployment rate rose from 5.8 per cent to 8 per cent.

Figure 1. UK unemployment and underemployment index, 2001–12 (per cent)



Underemployment is particularly concentrated among the young, where unemployment rates are close to 20 per cent. In 2012, 30 per cent of those aged 16 to 24 that did have jobs wished to work longer hours. This means that the labour market for the young is even more difficult than the raw unemployment rates imply. Even if there was an upturn in demand, employers would likely extend the hours of existing workers before taking the risk of hiring new young employees.

Ethnic minorities also have high rates of underemployment, particularly those that describe themselves as Black or Black British.

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The main driver of the demand for increased hours is likely to be falling real wages. Total hours worked in the economy have increased since the beginning of the recession. But a combination of slow-growing wages and price inflation averaging above 3 per cent since 2008 has led to a reduction in the real value of take-home pay.

Bell and Blanchflower’s innovation is to produce a new index which combines both unemployment and underemployment. It expresses the additional hours that the unemployed and underemployed are willing to provide as a share of total workforce hours. It also accounts for overemployment. Some workers, particularly those aged over 50, want to work shorter hours and are willing to accept less pay.

When the extra hours that the underemployed desire equals the reductions in hours sought by the overemployed the Bell-Blanchflower index simply reproduces the unemployment rate. This was broadly the case from 2001 to 2007. But as increasing numbers of workers say they want more hours and fewer would like to reduce their hours, this new index rises above the unemployment rate. For 2012, the index stood at 9.9 per cent, well above the unemployment rate of 8 per cent.

This new measure helps us to understand the true level of excess capacity in the UK labour market and the difficulties face by particular groups within this market. It is also clearly relevant to the debate about the size of the UK output gap. It supports the view that even a substantial increase in aggregate demand is unlikely to exert significant upward pressure on real wages.

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Notes:

The underemployment paper is published in the *National Institute Economic Review*, no. 224, May 2013. This issue was edited by NIESR Principal Research Fellows Dawn Holland and Simon Kirby.

For full copies of the underemployment papers, please contact the NIESR Press Office:
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