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Seminar: Employment and unemployment statistics

**The concepts of employment and unemployment
as set out by the 13th ICLS – Is there a need for revision?
Some remarks from a European perspective¹**

Invited paper

1. Introduction

Question about the relevance of statistics refer to the degree to which they meet current and potential user needs. This implies that relevance is always a relative notion which varies depending on the users and on the use for which statistics are needed. When discussing the relevance of the ILO employment and unemployment concepts, this guiding perspective should be followed.

It is statisticians' duty to critically assess their key concepts at regular intervals to see whether they still capture the economic and social reality adequately, i.e. whether they are still relevant. At present, important international standards, that have a close link to labour market statistics, are in the process of revision, most prominently the SNA. Therefore, 26 years after the adoption of the *Resolution concerning statistics of the economically active population, employment, unemployment and underemployment* by the 13th ICLS the invitation to have a fresh look at the standards agreed in 1982 comes at an appropriate time. 26 years are a long time in a world that has been facing substantial changes. The concepts of employment and unemployment are at the very heart of labour market statistics, and the question may be asked whether they are still adequate and can be left unchanged. If not, we should examine if there is a need for a revision or only for a fine-tuning, or even just for targeted supplementary indicators, leaving the present concepts unchanged.

In the European Union (concretely: in the European Statistical System ESS) some of these questions have been addressed. Others are on the agenda for further discussion. In the following, the issues in question and the response given so far are very briefly sketched out, and reference to recent and ongoing work is made. The view taken on several points is based on deliberations within a Task Force on the Quality of the European Labour Force Survey (LFS), in which Eurostat and Member States are reviewing the LFS across all quality dimensions². For this purpose, the relevance of the ILO labour force concept has been discussed. Discussions within Eurostat's Labour Market Statistics Working Group are also

¹ Paper prepared by Eurostat.

² The interim report of the Task Force was presented to the LAMAS (Labour Market Statistics) working group in September 2008. The final report is expected for Summer 2009.

taken into account. The view presented below, however, is not an agreed ESS position as work is still ongoing.

2. The ILO concepts of employment and unemployment as implemented in the EU

While the 1982 resolution provides for clear guidance on the core elements of the concepts of employment and unemployment, some room is given to adapt and operationalize them with a view to the specificities of national/regional labour markets. This is, in particular, the case for unemployment.

To have a common operational definition of unemployment was deemed so important in the EU that the necessary details were incorporated in a specific legal act³. According to Regulation 1897/2000 current availability for work refers to the period up to the end of the second week after the reference week. Active search refers to the four weeks preceding the reference week. A list of steps considered to be active search is also included. Furthermore, the conditions under which lay-offs are counted as unemployed are given.

Regarding employment, precisions were agreed as regards the job attachment of seasonal workers and lay-offs. Unpaid family members not at work are treated as employed only if their period of absence does not exceed 3 months.

3. Elements to analyse when it is considered changing existing concepts

Revising well-established statistical concepts that have been used for a long time is a very serious undertaking. There are costs and side effects, in particular during the changeover to the new standards. However, there may be situations where, on balance, there are sufficient reasons for revision. In the case of the ILO labour force concept, the following, if confirmed, could justify such a revision:

- (i) the structure and functioning of labour markets have significantly changed since the 1980s, and, as a consequence, the relevance of the concepts are reduced;
- (ii) the statistical needs of users have changed substantially since the 1980s;
- (iii) it has turned out that the concepts pose serious measurement problems.

After a general re-assessment of the definitional elements of the key concepts of employment and unemployment, positions on each of these points will be taken in the following. At the same time, the need of further guidance, of refining and supplementing the existing definitions and, beyond that, the desirability of further developing an alternative view on the labour market is addressed.

³ European Commission, Commission Regulation (EC) No 1897/2000.

4. The ILO concepts of employment and unemployment: general assessment of the definitional criteria

4.1. Employment: the link to national accounts

National accounts provide the conceptual standards for the statistical description of the economic system. They provide a consistent analytical framework that shapes perceptions and has found acceptance across the world. Given that labour markets have become ever more integrated into the economic system, there is a strong case for keeping the close connection of labour market statistics to the SNA. This is done in two ways: (i) the link to the SNA production boundary, and (ii) the extensive definition of employment (one-hour criterion). The underlying paradigm is the macro-economic national accounts paradigm which, when it comes to labour, aims at measuring the input to GDP (and the corresponding factor income). Maintaining the direct link with national accounts has the advantage of ensuring overall consistency of two of the most important reporting frameworks (which, at least in theory, facilitates communication considerably), as this way input and output of economic production turn out to be consistent regarding their scope. The one-hour criterion is therefore highly relevant, and indispensable, for national accounts and economists who require a complete coverage of even the smallest input of labour.

It seems that the one-hour criterion also has contributed a lot to improving international comparability of labour market statistics. It is difficult to see how other than this criterion could win the same degree of acceptance across countries. At the same time, consistency with national accounts does not prevent labour market statisticians to develop well targeted supplementary measures or even deviating concepts. Indeed, that remains a challenge.

4.2. Unemployment: Out of work, active search, current availability – maintain or relax the criteria?

The ILO unemployment rate (based on the European interpretation) is the well-established headline figure for European labour markets allowing comparative assessment across the EU and beyond. Having said that, it is obvious that a single figure like the unemployment rate is only a rough summary measure of unused labour supply and cannot capture all relevant aspects of the phenomenon. In particular, the borderline between unemployment and employment and between inactivity and unemployment (i.e. the various degrees of labour market attachment) are of interest.

At this regard, the one hour criterion could be considered too restrictive for a comprehensive measurement of unemployment. However, different hour-thresholds would be more harmful than beneficial. Whereas the one-hour criterion clearly refers to an accepted comprehensive measurement framework, i.e. the SNA, any other threshold would be arbitrary and questionable. In addition, it would unnecessarily break either the link to national accounts or the consistent measurement of employment and unemployment. The EU is examining the options for a more comprehensive picture of unmet labour supply without breaking the link with national accounts by supplementing the existing concept of unemployment with

additional indicators. Supplementary concepts that shed light on the nature of marginal employment are already available in the context of the European Labour Force Survey, for example the distinction between voluntary and involuntary small jobs, and the related extent of under-employment. Others may be explored. But this should be done against the background of specific labour markets. In 2009, within a dedicated Task Force, Eurostat and Member States will study theoretical and practical problems that need to be solved to reach a consensus on common additional indicators for the EU.

The one-hour criterion is not the only reason why the ILO definition of unemployment is not an exhaustive measurement of the underutilization of labour supply. Indeed, the degree of attachment to the labour market stretches on a continuum, whereas the ILO approach only foresees a dichotomised outcome, either attached or not attached, and it is rather restrictive in the sense that only those with a proven strong attachment are counted as unemployed. Nonetheless, persons without work who are not classified as unemployed in the ILO sense can still be potential workers, as the existence of consistent direct flows from inactivity to employment shows. This, by the way, is nothing new. It has been recognized in a number of international discussions over the years.

5. Changes in European labour markets since the early 1980s

Looking at European labour markets, one may single out four characteristics that stand out in comparison to the early 1980s:

- growing importance of marginal employment;
- increasing labour mobility (not only geographical) and dynamics;
- new pathways to retirement;
- higher flexibility.

These changes contribute to making the borderline between employment and unemployment, and between activity and inactivity much less clear-cut for individuals. This impacts on the statistical measures. The growing extent of marginal employment has the effect that the threshold between employment and not-employment (in particular, the one-hour criterion) becomes more important, as slightly different individual choices can lead to significantly different estimates. Being employed according to the ILO definition while intuitively feeling outside the labour market is also more frequent than in the past, as in the case of working students or of retired persons still performing some work. Increasing geographical mobility magnifies problems of allocation of the workforce, due to double counting on the one side or to non-coverage of mobile workers on the other. The static approach of the current framework has limitations when the focus is on movements between but also within labour statuses, and these become more relevant as labour markets become more and more dynamic. Different working arrangements have been introduced over time, offering a variety of features in the employer-employee relations, to better adapt labour input to the quickly changing conditions of labour demand, and to help reconcile work and personal life.

Taken together, that accounts for quite a change. However, in our opinion none of these new features justifies changing the basic concepts of employment and unemployment. They continue to be relevant. There is, however, a need to develop common approaches to adequately capture the new phenomena, in particular the entire range of labour market dynamics (transitions, flows). These efforts can, and should, build upon the existing foundations. The same holds for the work undertaken on issues such as the quality of employment and inclusive labour markets, which both feature high on the agenda of European policy makers.

6. New user needs

The need to focus more on the borderlines between unemployment and employment, and between inactivity and unemployment was already underlined. This can be done pertinently within the existing framework by developing a (limited) set of indicators that could supplement the familiar ILO unemployment rate. The work of the EU Task Force mentioned above is the ESS response to corresponding demands at both EU and country level.

One may, however, consider going a step further and reflect on the need of a different framework, which would complement the existing one by presenting a different view on the labour market.

The ILO framework reflects predominantly what may be called the economic view of the labour market. It is, however, somewhat less appropriate for the purpose of social/behavioural analysis. For this purpose, additional concepts, or even a proper framework would deserve to be developed. One option could be to attach more importance to the main status, i.e. a person's own perception of his/her labour status. People working only a few hours a week, possibly on an occasional basis, would hardly recognize themselves as employed; and people available to start working are to likely feel as unemployed, even if they are not actively seeking employment.

Attempts to better capture the social dimension of the labour market would underline that statisticians are well aware of the dual nature of the labour market as the classical place where the economic and the social spheres overlap.

7. Measurability and need for clarification on border cases

7.1. Measurability

Measurability is a prerequisite for any statistical concept to be fit for purpose. Severe measurement issues may call for a revision, should they emerge. Concerning the ILO concepts of employment and unemployment, the implementation of the one-hour-criterion in a concrete survey can be difficult, as this criterion differs considerably from average respondents' perception of their labour status. Special efforts are needed in order to avoid that the measurement according to the ILO labour force concept is influenced by the own perception of the respondents.

Also questions regarding specific steps taken to find a paid employment as well as the current availability, which are crucial for the measurement of unemployment, might prove problematic, as the robustness of their measurement depends on the questionnaire design and the survey mode. Furthermore, if the issue of registered unemployment is also addressed in the survey, there is some risk of a confusion of unemployment according to the labour force concept and registered unemployment, if both issues are not separated properly in the questionnaire.

Against the background of these possible implementation problems principles for the formulation of questions on the labour status have been laid down for the EU-LFS⁴. These shall ensure that the ILO concepts are accurately measured in a comparable way across countries in the European Statistical System.

Still, their strict application does not prevent inaccurate measurements. A rough estimate of the magnitude of measurement issues can be given by the gap between different statistical sources in theory adopting the same concepts. An exercise conducted within the Task Force on the Quality of the European LFS found that inconsistencies between LFS and national accounts employment estimates can be of relevant size.

In spite of this, measurability issues arise for all statistical concepts. There is no evidence that changes to the ILO employment and unemployment concept might contribute to reducing these issues, letting alone the possibility to completely weed them out. Quite a lot of experience in measuring the ILO concepts has already been accumulated, which can provide wisdom for further refinement of data collection. This expertise would (at least partially) be lost should the core concepts be revised.

7.2. Employment: clarification and guidance on border cases

While the basic concept of employment still goes undisputed, the treatment of a number of specific cases may need to be clarified. Their importance certainly varies between countries/regions. As a consequence, the response given may differ depending on institutional circumstances. Nevertheless, a common view by the ILO Community on the relevant features would be helpful. Four of such cases are listed below:

- The borderline between working life and retirement can be expected to become more blurred through a variety of retirement schemes. An interesting example of such a scheme has been implemented in an EU Member State. The main characteristic is that the contractual working time relating to the n years prior to retirement is performed entirely in the first half of the period while the salary is paid during all n years. In the second half of the period the employee working time is zero. Whether or not and under which conditions the person should be considered as employed during the 'inactive' period deserves clarification.
- In recent years, European governments increasingly condition the payment of benefits to participation in a range of integration activities (e.g. working activities in the public

⁴ Ibid.

interest or special training programs). Is the employment status of these persons unambiguously clear?

- While the classical cases of apprentice are classified as employed there are more and more (unpaid traineeship) schemes that should be treated differently.
- For the SNA, any minor agricultural activity is to be recorded as employment, no matter how big or small it may be. ILO guidelines make a difference by putting the condition that the related production comprises an important contribution to the total consumption of the household. This rule looks simple, but, at least in the framework of the EU-LFS it has turned out to be difficult to implement. Guidance on implementation as well as more general considerations on the appropriateness of including various degrees of subsistence farming would be useful.

8. Conclusions

From a European perspective, the following seems to be the most appropriate way forward:

- as there is no justification to change the current basic concepts of employment and unemployment, they should be maintained, they continue to be fit for purpose;
- a more harmonised approach to supplementary indicators which shed light on the borderlines between employment/unemployment and unemployment/inactivity should be developed. As these indicators should be adapted to the specificities of the labour markets, there must be room for choices;
- more guidance is needed on the comparable measurement of labour market dynamics;
- developing appropriate concepts and a related framework for the social dimension of the labour market may be considered.

In general, more efforts by all producers of official labour market statistics are necessary to provide users with information on the background of the ILO concepts and the purpose which each of the concepts fits.