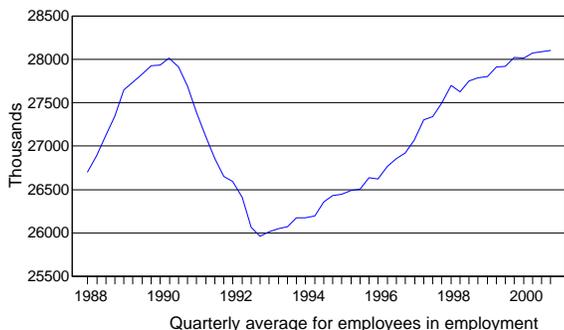


The discussion forum continues to expand with other 1665 posts on 390 topics and nearly 700 active members of the forum. It's a great way to share your opinions and seek help

Record employment but a rise in unemployment

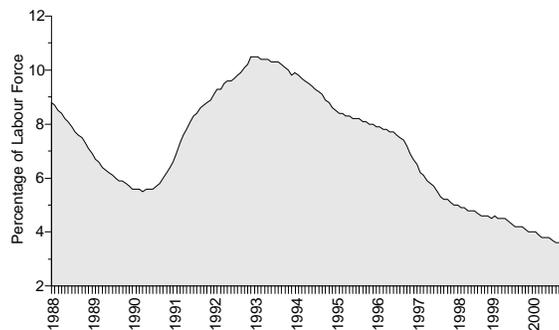
RECORD EMPLOYMENT IN THE UK ECONOMY



The three months covering July-September saw the British economy achieve a record level of employment. During this period, the total number of employees in work surged by 69,000 to 27,999,000—or 74.7% of the population of working age. The ILO measure of unemployment dipped by 36,000 in the same three month spell. The rate of unemployment edged down to 5.4%.

Over the last year, employment has expanded by 303,000. The cyclical strength of the economy provides the main reason for this increase in employment. More people in work adds to total household income and provides a cushion for the growth of real consumer demand.

CLAIMANT COUNT UNEMPLOYMENT SINCE 1988



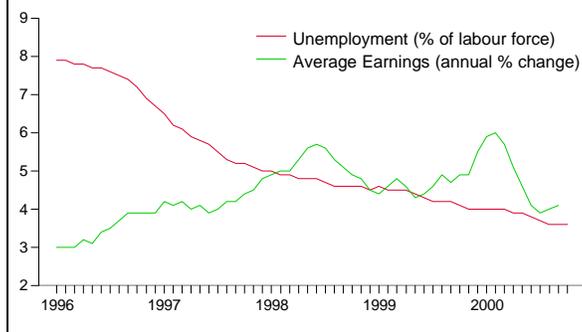
The claimant count unemployment figure rose for the first time in two years. Data for October showed a 3,500 increase in the number of people claiming the Jobseeker's Allowance—although the overall unemployment rate remained constant at 3.6%.

Statisticians at the Office for National Statistics claimed that this surprise rise in unemployment was probably a statistical blip reflecting a higher than expected rise in the number of new benefit claimants. The underlying trend remains downward—although the pace of decline in unemployment may now be slowing.

Slower earnings growth will come as welcome news to the MPC

Basic pay and earnings for people in work continue to grow at a slower rate than at the same time last year. This moderation in the rate of wage inflation will be welcome news for the Monetary Policy Committee. It suggests that inflationary pressure coming from the labour market is slowing down. Taken together with continued evidence of a slowdown in the housing market—it adds weight to the case that base interest rates may have peaked. Although it may be some months before the MPC feels the time is right to cut rates.

EARNINGS SLOW DOWN - A RELIEF FOR THE BOE



Labour Market Focus

This month brought news that employment in the UK economy had jumped to a record high. This is testimony to the success of the UK labour market in creating new jobs in large numbers and in improving its performance in matching workers to those jobs. There are still significant problems in the labour market—not least continued high levels of structural unemployment among older male workers. And also a trend towards lower labour market participation among people of working age.

Employment up—but Participation down?

How can the decline in labour market participation (defined here as the percentage of the population of working age not in work or actively seeking work) be explained when there is a record employment total?

Some of the answer can be found in the middle chart on this page. Since 1980 there has been a steady and sustained rise in the UK population of working age—with the total growing from 33.6 million in 1980 to just under 37 million today.

There are also other factors behind the decline in participation rates:

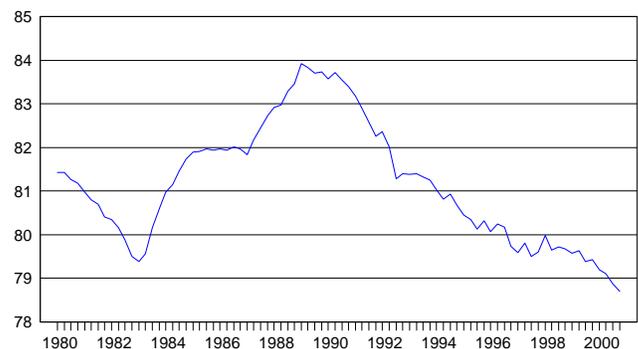
- A trend towards early retirement particularly among males aged over 50.
- Increasing employment levels among workers aged above the statutory retirement age—not least in the retail sector looking to expand its part-time labour force
- A rapid expansion of numbers in further and higher education—leading to growing numbers of younger workers aged 16+ opting to delay their entry into the labour market and seeking instead to build up their human capital

The Labour Force Survey asks people classified as economically inactive their reasons for not seeking a job. The latest survey evidence finds that

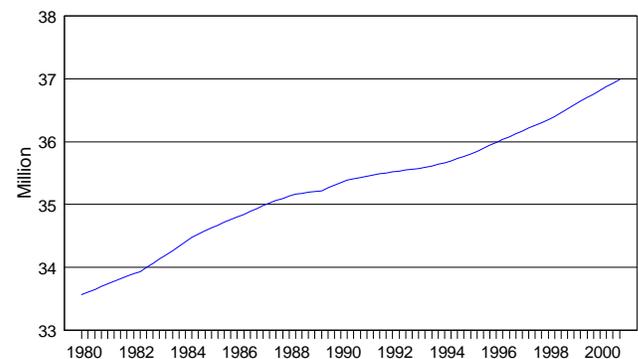
- Only around 50,000 people are *discouraged workers*—people who have been out of work for a lengthy period and have lost the motivation to continue their active job search.
- 737,000 people were inactive because of long-term sickness
- Over 630,000 claimed that family requirements (including the need to look after children and elderly relatives) blocked their search for a job.
- 256,000 were students

Participation Rates in the Labour Market

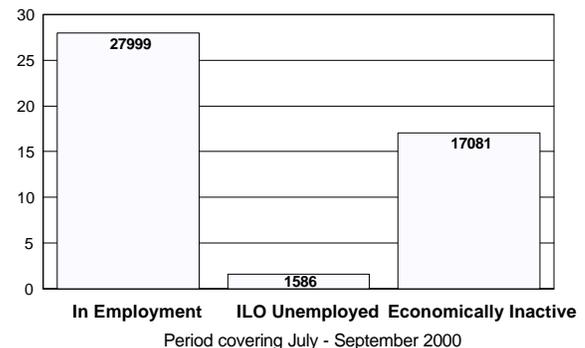
UK LABOUR FORCE PARTICIPATION RATE



UK POPULATION OF WORKING AGE



LABOUR FORCE SURVEY SUMMARY



KEY POINTS

- Participation rates have fallen
- Many workers have opted for early retirement but can often reappear in the employment data
- Nearly 18 million are economically inactive
- The economy needs to create new jobs to absorb an expanding workforce

A summary of the UK system of income tax including the latest tax rates and allowances for people on different incomes

Income Taxes

Income taxes are **direct taxes** deducted at source from people in work under the PAYE system (pay as you earn). For millions of people classified as self employed or who have second sources of earned income, the Inland Revenue operates a system of self-assessment in the payment of income tax.

Income tax is designed to be a **progressive tax**—where the marginal rate of tax rises as gross income increases. There are three main income tax rates; the starting rate (currently 10%), the basic rate (22%) and the higher rate (40%) for people with an annual taxable income of over £28,400.

A progressive tax means that the **average rate of tax** rises with income. Households at the bottom end of the income scale pay little or none of their gross earnings in income tax, whereas people earning in excess of £50,000 per year pay 27% of this in income tax, rising to 33% for those with a gross income in excess of £100,000 per year.

Income tax is part of the process by which the gap between original and final incomes of households is reduced. However the **progressivity** of the tax system has been eroded over the last 15-20 years with large cuts both in the top and basic rates of tax together with a general switch towards indirect taxes.

The **booming economy** has led to a sharp rise in total tax receipts coming into the Treasury in the last few years. **Self assessment** has added greatly to total tax revenues—but the underlying picture is of nearly 28 million people in work many of whom are enjoying pay rises in excess of inflation and who are able to boost their gross earnings through overtime and other payments. Naturally this leads to rising tax revenues.

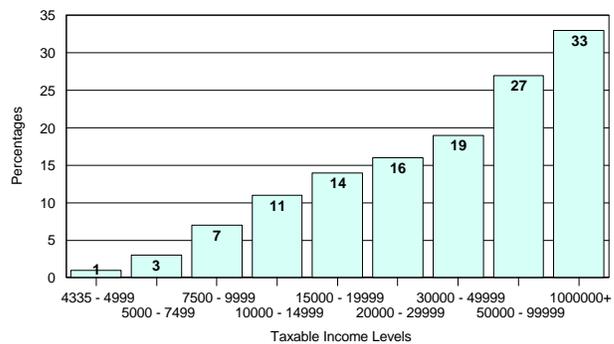
Despite the tax cuts of recent years, the average % of gross income paid in income tax has started to rise again in the last few years. Several million people with second incomes are now paying substantially more in tax because of self assessment—a permanent rise in tax revenue for the Government?

Revision: The Income Tax System

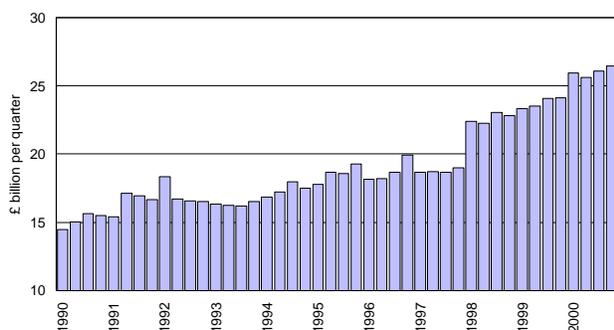
Personal tax allowance:	£4,385 p.a.
Married couple's allowance:	Not Available
Lower marginal rate	10%
Basic marginal rate	22%
Higher marginal rate	40%
Lower-rate limit	£1,520 p.a.
Basic-rate limit	£28,400 p.a.

Year	Lower rate (%)	Basic rate (%)	Higher rate (%)	Lower rate limit (£ p.a.)	Basic rate limit (£ p.a.)
1990-91	—	25	40	—	20,700
1991-92	—	25	40	—	23,700
1992-93	20	25	40	2,000	23,700
1993-94	20	25	40	2,500	23,700
1994-95	20	25	40	3,000	23,700
1995-96	20	25	40	3,200	24,300
1996-97	20	24	40	3,900	25,500
1997-98	20	23	40	4,100	26,100
1998-99	20	23	40	4,300	27,100
1999-00	10	23	40	1,500	28,000
2000-01	10	22	40	1,520	28,400

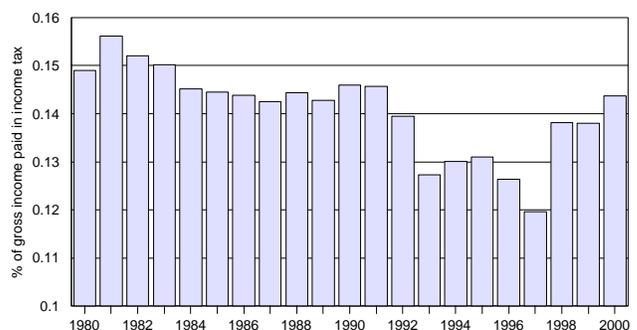
AVERAGE RATES OF INCOME TAX PAYABLE 1998-99



INCOME TAX PAID BY PERSONS

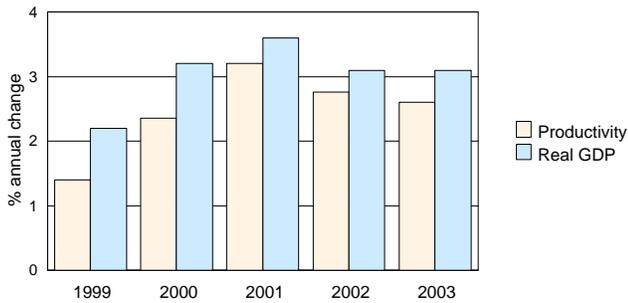


INCOME TAX - AVERAGE RATES



Productivity set to sustain growth

PRODUCTIVITY SET TO SUSTAIN UK ECONOMIC GROWTH



Source: National Institute Economic Review, October 2000

National Output and Productivity

1995=100	Real GDP	GDP Per worker	Manufacturing Productivity
1996	102.5	101.5	99.1
1997	105.9	103.0	99.9
1998	109.1	104.4	99.8
1999	111.5	105.9	103.3
2000	115.0	108.4	107.2

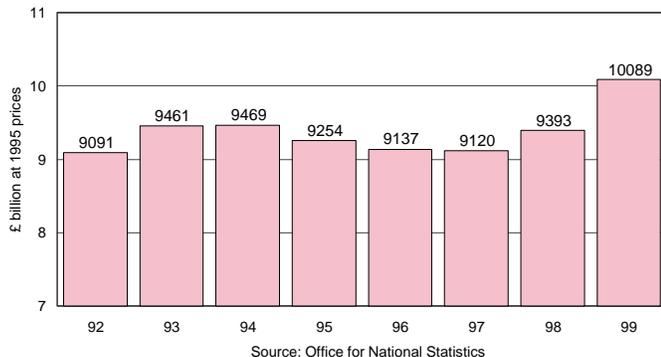
The National Institute is forecasting a welcome rise in UK productivity growth—adding to the economy's supply-side capacity

Gordon Brown cannot make a public speech these days without mentioning the challenge of raising productivity in the British economy to levels comparable to those in leading Western European and North American economies.

The productivity gap will not close in the medium term—there are too many structural reasons why for example labour productivity in the UK has not kept pace with efficiency improvements in other countries.

However the latest research from the National Institute offers hope that productivity growth will accelerate over the next two years—great news for those hoping that the eight years of sustained non-inflationary growth can be expanded to encompass a full decade. The beneficial impact of higher capital spending on new technology, and the stimulus to productivity improvements brought about by the high pound are two reasons why productivity growth is likely to pick up this year and next.

R&D SPENDING BY UK BUSINESSES



Source: Office for National Statistics

RESEARCH AND DEVELOPMENT SPENDING

1999 saw a 7% increase in the real value of research and development spending by UK businesses. This amounted to 1.3% of GDP

22% of total R&D was undertaken by the pharmaceuticals industry (including medical chemicals) and a further 11% was spent by businesses in the aerospace sector. 10% of R&D was accounted for by the motor vehicle industry whilst **new economy** sectors also benefited—including 8% of R&D in the radio, television and communication equipment sector.

RECOMMENDED WEB SITES

The Pharmaceutical Industry in Figures
www.efpia.org/6_publ/default.htm

PriceWaterhouseCoopers
www.pwcglobal.com/

PWC—Fiscal Facts Briefings
www.pwcglobal.com/uk/eng/ins-sol/publ/

Tutor2u Economics www.tutor2u.net
 Tutor2u Economics is a resource for students and teachers. There are hundreds of pages of revision notes, links and a Discussion Forum. Visit the site and improve your grades

NEXT WEEK'S ECONOMICS BRIEFING

Travel Trends for the UK economy

Revision Briefing on the Economic Cycle

Marks and Spencer in Crisis

Weekly Briefing

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