

Economics

The Methodology of Defining the Status of *Employed* and *Unemployed* Needs Essential Perfection

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ABSTRACT. In the time of global economics new challenges appear. A lot of economic aspects and definitions change their forms and contents respectively. New approaches to the interpretations of the status of *employed* and *unemployed* must be worked out and uniformed considering international standards. © 2011 Bull. Georg. Natl. Acad. Sci.

Key words: *economically active population, economically inactive population, employee, partially employed person, unemployed, employment rate, unemployment rate, labour force.*

Correct interpretation of definitions of *employed* and *unemployed* is important for scientific reasons. I mean not only formulations, but also the content of each formulation. The more uniform the formulation is the more understandable contribution according to the international scale of each author is. The indicators evaluated on its basis will be mutually comparable. However, misunderstandings which still exist both in economic literature and the activity of Systems of National Accounts (SNA) can be easily corrected.

In the paper I would like to offer my ideas on the adequateness of the content of some definitions that are widely used in economic science, such as *economically active population, economically inactive population, employed, partially employed person, employment rate, unemployed, unemployment rate, labour force, etc.*

By recommendation of the International Labour Organization (ILO) “Economically active are persons aged 15 and more, who are engaged in economic activity, and persons, who are unemployed” [1: 41]. Below I shall separately interpret the terms *employed* and *unemployed*. For now I consider their substantial aspects. I mean, primarily, definition of *age limit*, or specification of the lower

and upper limits of working age (more precisely, full working age).

In my opinion, the lower limit age 15 years adopted in many countries (in some places 16) [2: 582] needs some correction. As adolescents are not fully formed yet for labour activity, hard physical loading can affect their health. In addition, young people aged 15-17 years attend school (with some exceptions) and have no time to work. They are partly, i.e. not fully employable. Labour legislation does not prohibit their work, if a teenager is engaged in family duties, but if he/she does not work, he/she should not be assigned to the unemployed category, and this should not be considered a negative index of the State. For these reasons it would be expedient to define the lower age limit of full employability age at 18 years.

As for the upper limit, its open-endedness, in my opinion, is unjustified. I do not mean that retired persons must not work at all and this category of population must be excluded from the labour force contingent. Such reasoning would certainly be going against the stream. I want to underline the position that a jobless retiree must not be considered a typical unemployed as is the case in many normal (economically developed) countries of the world.

Why? Firstly, because a retiree is not such perfect working force as a person of working age of the same qualification, and secondly, he/she did his/her civil duty and has earned the right to rest and a livelihood. Such a pension is implied which in size does not fall short of the living minimum but is well comparable with a rational consumer basket. Neither does this condition prohibit the pensioner from working in the limits of his capacity to work, especially if he is a creative personality and is engaged in mental work.

The explanation by the Statistical National Service of Georgia to the effect that an upper age limit of the economically active population is not set because of the fairly high economic activity of retirees sounds unconvincingly. The main thing is to explain why, for example, in Georgia, unlike developed European countries, economic activity of retirees is so high. The essence of the “secret” should be sought in the granting of a pension that is much lower than the subsistence level. This is why employed persons await retirement impatiently in highly developed countries, while aged citizens of Georgia and other countries with hard economic conditions take this fact as a tragedy.

Stable economic development of a country and creation of a stable resource base in the wake of an improved pension system will put everything right and will make problem of employment of retirees less topical. This, in turn, will promote making correct conclusions on the functioning of labour (workforce) market.

Thus, one of my important conclusions is that when we speak of forming and employing economically active population the discussion should be limited to population of full working age. At the same time only that part of population should be considered under the term *economically active*, which works or is willing to work, seeks work and is ready to start working. Another part, which does not satisfy these conditions, is considered to be economically inactive population [3: 55].

The definition “economically inactive population” may be used as one of the additional indicators calculated with respect to the total number of population. I mean population under working age (children under 18), population over working age (usually 65 years - retirees) and population, which is of working age but is unemployed.

Taking these aspects into consideration, I offer the following definition for economically inactive population: the number of economically inactive population is equal to the discrepancy between the sum of a number of popula-

tion under working age, population over working age, working age population and the number of economically active populations. In each country this is a considerable part of population that is largely dependent upon the employed economically active population.

According to the recommendation of the ILO a person aged 15 years and above is considered to be employed if he/she was engaged in economic business at least one hour in the last week under study [4: 7]. This recommendation, in my opinion, has many flaws. First, a person working only an hour during a whole week cannot be considered to be employed. Resorting to such methodology, almost nobody will remain unemployed, especially in rural areas, and it will be impossible to draw a real picture; second, nothing is said here about remuneration for the work done. A person makes a contract with an employer and starts to work because he must provide for himself and his family. Payment for work done per hour of even \$50 would not satisfy family requirements; third, in this concrete case it is not necessary to note the age of employees because the above said concerns employees of all ages.

Considering the above remarks, I offer the following formulation of the essence of the definition “working person” (hired employee): A person is employed if, on the basis of a contract with the employer he/she is engaged in economic business at least for two weeks per month and receives remuneration not less than living wage established in the country.

It would be reasonable to call persons, who are engaged in economic business less than for two weeks per month, and their income is less than subsistence wage, part time workers.

According to the methodology of calculation established in practice the employment rate is calculated as follows:

$$\text{Employment rate} = \frac{\text{number of employed people}}{\text{people aged 15 and over}} \cdot 100\%$$

This definition contains many errors. In my opinion, the employment rate must be correctly formulated as follows:

$$\text{Employment rate} = \frac{\text{number of full working age employees}}{\text{number of economically active population of the same age}} \cdot 100\%.$$

As for ratio of total number of employees to the number of employable population, this term may be used as an additional indicator.

According to the ILO strict criterion a person aged 15 and above is unemployed if during a reference week he/she is not busy with economic activity, seeks work and is willing to work. According to relaxed criterion by the same Organization, a person aged 15 and above is unemployed if during a reference week he is out of work, does not seek a job because he has no more hope to find it, but if he finds it he is ready to work [3: 7].

In the first place, in the existing methodology, instead of “person aged 15 and older” a term “capable of working age person” should be stated. There full employability is implied. If this principle is not followed, from the standpoint of providing workplaces, the boundary between able-bodied age- and retirement age persons will be effaced and we will not obtain a correct idea on real situation on the labour market of the country; secondly, I think the discontinuance of registration of unemployed persons revealed according to relaxed criterion by the SNA by individual countries (including Georgia) on the ground that they are not active in seeking work is unjustified. We must remember that their passiveness is due to their frustrated hope of finding work and not by unwillingness to work.

Taking into consideration the above-mentioned and a number of other aspects, my understanding of the definition of *unemployed* is this: unemployed is an able-bodied person of full age who, owing to circumstances over which he has no control during the last reference week is not engaged in economic activity; has the capacity to work and is ready to start work and, as a rule, is registered at the labour exchange (by the State job placement service). If such service does not exist in the State, to register the number of unemployed, as a temporary measure, the method

of selective for study of household economies can be used as is the case in Georgia (and not only in Georgia).

In economic literature we come across nonuniform understanding of the unemployment rate, i.e. wrong and imprecise along with correct and valid concepts. For example, in one work published recently in Georgia we read that unemployment rate is the specific share of unemployed working age population in total number of working age population [5: 362].

As is known, all persons out of work are unemployed but not all of the unemployed are out of work. Certainly, I mean participation in public work. Therefore, both terms in the above excerpt, i.e. the numerator and the denominator, need to be adjusted. In my opinion, right version of the above definition is the following:

$$\text{Unemployment rate} = \frac{\text{number of full working age unemployed}}{\text{number of economically active population of the same age}} 100\%.$$

The substance of *labour force* is also interpreted differently in the literature. In my opinion, this term is not limited only to economically active population of working age but also to that part of full age and above aged working population that are already employed (including partially employed persons) or wish and is ready to work.

Considering these points, I offer such a rough formulation of *labour force*: Labour resources - that is sum-total of economically active working age population, including also that part of population under and above working age, which is more or less employed or is capable and wishes to work and is ready to begin work.

ეკონომიკა

“დასაქმებულისა” და “უმუშევრის” სტატუსის განსაზღვრის მეთოდოლოგია არსებით სრულყოფას საჭიროებს

ლ. ჩიქავა

აკადემიის წევრი, თბილისის სახელმწიფო უნივერსიტეტი; საქართველოს ტექნიკური უნივერსიტეტი, თბილისი

ტერმინების სწორად დადგენას არსებითი მნიშვნელობა აქვს მეცნიერულად გამართული მსჯელობისათვის. ვგულისხმობთ არა მარტო ფორმულირებებს, არამედ (და განსაკუთრებით) იმას, თუ რა შინაარსი დევს თითოეულ მათგანში. რაც უფრო არაორაზროვანი და საერთაშორისო მასშტაბით უნიფიცირებულია ეს უკანასკნელი, მით უფრო გასაგებია თითოეული ავტორის (ფრანგი იქნება ის თუ ქართველი) მსჯელობის შინაარსი, ხოლო მის საფუძველზე გათვლილი მაჩვენებლები – ურთიერთშესადარისი. არადა, ეკონომიკურ ლიტერატურასა და სტატისტიკური აღრიცხვის პრაქტიკაში დეფინიციების – “დაქირავებით დასაქმებულისა” და “უმუშევრის” სხვადასხვანაირი ინტერპრეტაცია გვხვდება. მათი შინაარსობრივი დატვირთვის ავტორისეული ფორმულირება ასეთია:

დაქირავებით დასაქმებულია პირი, რომელიც დამქირავებელთან კონტრაქტით ეკონომიკურ საქმიანობას ეწევა კვირაში არა ნაკლებ 20 საათის განმავლობაში და ღებულობს საარსებო მინიმუმზე არანაკლებ ხელფასს; უმუშევარი კი არის სრული შრომისუნარიანი ასაკის პირი, რომელიც მუშაობის სურვილისა და უნარის ფლობის მიუხედავად, მისგან დამოუკიდებელი მიზეზების გამო, არ ეწევა ეკონომიკურ საქმიანობას ან მუშაობს კვირაში 20 საათზე ნაკლები ხნის განმავლობაში და ღებულობს საარსებო მინიმუმზე ნაკლებ ხელფასს.

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