

Case study about underemployment

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Underemployment exists when employed persons have not attained their full employment level in the sense of the Employment Policy Convention adopted by the International Labour Conference in 1964.

According to this Convention, full employment ensures that (i) there is work for all persons who are willing to work and look for work; (ii) that such work is as productive as possible; and (iii) that they have the freedom to choose the employment and that each workers has all the possibilities to acquire the necessary skills to get the employment that most suits them and to use in this employment such skills and other qualifications that they possess.

The situations which do not fulfill objective (i) refer to unemployment, and those that do not satisfy objectives (ii) or (iii) refer mainly to underemployment. Most economists instinctively dismiss the term underemployment when they first encounter it. The conventional wisdom is that someone is working, seeking work, or voluntarily out of the labor force. If they do not like their job or the number of hours worked per week, they will pursue opportunities until they find a better fit.

However, a bit of reflection suggests that the concept of underemployment is quite relevant and important. While people have wide and continuous preferences for hours worked per day or week, most jobs available still require thirty-five to forty hours per week spread over five days. Thus, given this fixed hours constraint, most people are either underemployed or over employed. Consider the so-called trailing spouse where one spouse finds a very satisfying job in a place where there is no market for the special skills of their partner.

Others find that they would have to relocate or commute long distances to attain a job that matched their training and abilities, but they value certain lifestyle patterns . In both of these examples, the person's underemployment is voluntary. They could relocate and receive a wage commensurate with their human capital. Nevertheless, so long as they choose to live in a labor market that is too thin or sparse to provide them appropriate employment opportunity, they are underemployed and the local labor market has excess capacity.