

Factor Immobility

One cause of market failure is the **immobility of factors of production**. There are two main types of factor immobility, **occupational** and **geographical** immobility.

Immobility of labour – a cause of unemployment and market failure



One of the main causes of unemployment is that workers lack the skills required by expanding industries in the economy.

Occupational Immobility

Occupational immobility occurs when there are **barriers to the mobility of factors of production between different sectors of the economy** which leads to these factors remaining unemployed, or being used in ways that are not efficient.

Some capital inputs are occupationally mobile – a computer can be put to use in many different industries. And commercial buildings such as shops and offices can be altered to provide a base for many businesses. However some units of capital are specific to the industry they have been designed for – a printing press or a nuclear power station for example!

People often experience occupational immobility. For example, workers made redundant in the steel industry

or in heavy engineering may find it difficult to find a new job. They may have **specific skills** that are not necessarily needed in growing industries which causes a **mismatch** between the skills on offer from the unemployed and those required by employers looking for workers. This problem is called **structural unemployment**. Clearly this leads to a waste of scarce resources and represents [market failure](#).

Geographical Immobility

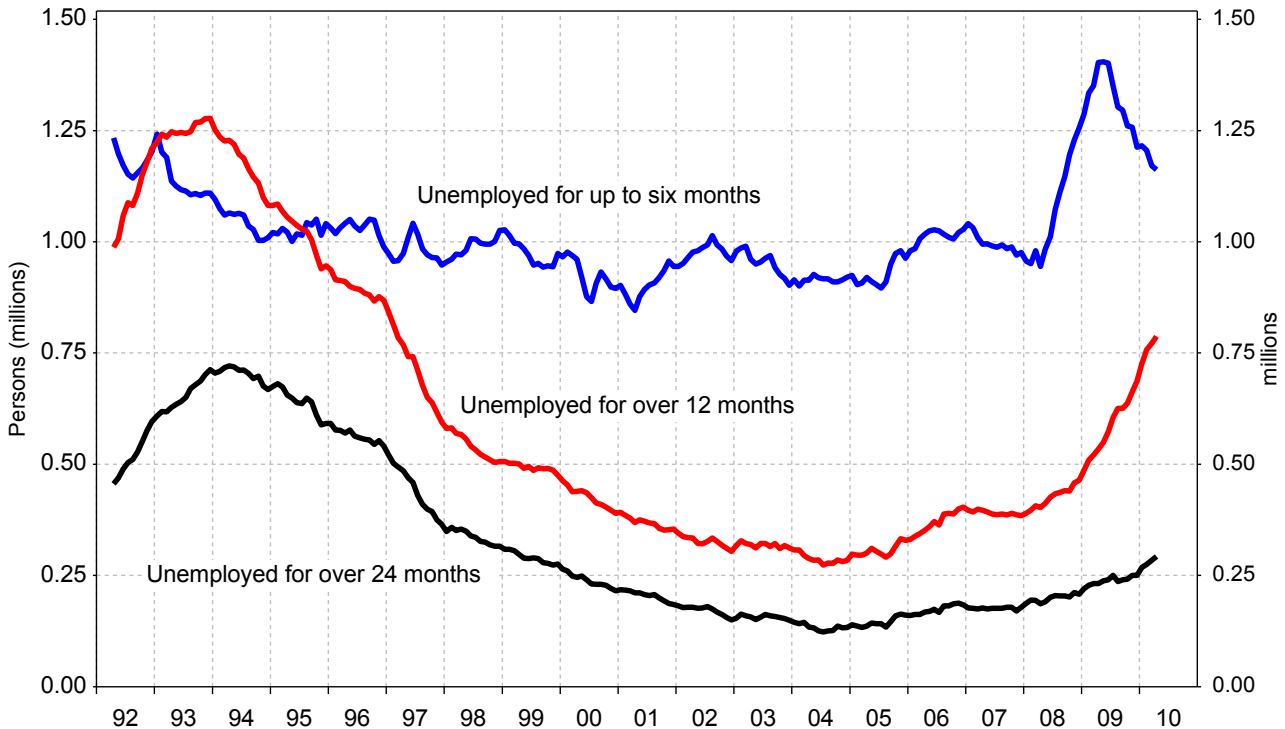
Geographical immobility refers to barriers people moving from one area to another to find work. There are good reasons why geographical immobility might exist:

- Family and social ties.
- The financial costs involved in moving home including the costs of selling a house and removal expenses.
- Huge regional variations in house prices.
- Differences in the general cost of living between regions and also between countries.



UK Unemployment, By Duration

Millions, seasonally adjusted, using Labour Force Survey data



Source: Reuters EcoWin

Policies to Improve the Mobility of Labour

The economic benefits of apprenticeships

Recent studies have shown that investing in an apprentice is often cheaper than recruiting qualified workers from rivals and then having to retrain them in the procedures of their new employer. British Telecom has "calculated a net financial benefit of over £1,300 (\$1,910) per apprentice a year when compared with non-apprentice recruitment. A more recent study by Warwick University for the taskforce's successor, the Apprenticeship Ambassadors Network, found that it cost £28,762 to train an engineering apprentice but the employer's investment was, on average, paid back in less than three years.

Source: Tutor2u Economics Blog, December 2008

To reduce occupational immobility:

- Invest in training schemes for the unemployed to boost their **human capital** to equip them with new skills and skills that can be transferred from one occupation to another.
- Subsidise the provision of vocational training by private sector firms to raise the skills level

To reduce geographical immobility:

- Reforms to the housing market designed to improve the supply and reduce the cost of rented properties and to increase the supply of affordable properties.
- Encourage part-ownership / part-rented housing
- Specific subsidies for people moving into areas where there are shortages of labour – for example teachers and workers in the National Health Services.

