



Recession Report

Number 11 September 2009

Recession Report: part 1

Headline statistics

The latest labour market figures cover the period May to July 2009, and show that:

- Unemployment reached 2,470,000 – it seems inevitable that it will pass 2.5 million next month. This month's figure is:
 - 35,000 higher than last month's (which covered the period April – June);
 - 217,000 higher than the February – April quarter and;
 - 743,000 higher than the same quarter last year.
- Unemployment has now risen for 14 successive months; the figures for men and for 18-24 year olds have not recorded a fall since December 2007.
- Women's unemployment reached 945,000 – the highest since Feb – Apr 1994. This is just 3,000 higher than last month's figure but it is too soon to say whether this month's small increase is a sign of a corner being turned – the Feb-Apr figure was just 5,000 higher than the previous quarter but then the next month's figures jumped 38,000.
- Men's unemployment reached 1,526,000 – this is 34,000 higher than last month's figure, 150,000 higher than the February – April quarter and 507,000 higher than the same quarter last year. Men's unemployment is now the highest it has been since May 1996.
- The unemployment rate reached 7.9 per cent. This is up:
 - 0.1 points on the previous month;
 - 0.7 points on the previous quarter;
 - 2.4 points on the same quarter last year.
 - The unemployment rate was last this high in November 1996.
- There were 28,891,000 people in work. This is:
 - 42,000 fewer than in the previous month;
 - 217,000 fewer than in the previous quarter and;
 - 600,000 fewer than the same quarter last year.
- The working age employment rate was 72.5 per cent, down 0.2 percentage points on the previous month, 0.8 on the quarter and 2.1 points on the same period in 2008.

As more and more people who lost their jobs earlier in the recession find themselves still unemployed, so the numbers who are long-term unemployed rise steadily. There are still more people unemployed for under 6 months, but the proportional annual increase is higher for long-

Recession Report

term unemployed people. This can be seen in the following table.

Short and long-term unemployment between Mar-May 2008 and May – July 2009, working age population (aged 16-59/64)

	All	Up to 6 months	All over 6 months
Level, Mar-May 2008	1,604,000	947,000	657,000
Level, May-Jul 2009	2,437,000	1,396,000	1,041,000
Increase	833,000	449,000	384,000
Proportional increase (%)	51.9	47.4	58.4

There are now 558,000 people who have been unemployed for over 12 months and 238,000 who have been unemployed for over 24 months. 173,000 under 25s have been unemployed for more than 12 months; this figure includes at least 55,000 who have been unemployed for more than 24 months.

International comparisons

The TUC has argued that we cannot claim the recession is over until unemployment starts to fall, and that this does not seem likely to happen soon. On the same day as this month's employment figures were released, the OECD published the 2009 edition of the Employment Outlook. This provides very authoritative support for our view, arguing that "the early stages of the economic recovery are likely to be too muted to result in strong job creation". The OECD expects UK unemployment to continue rising for some months and to "remain at a high level" for the whole of next year.

Just as importantly, the Employment Outlook will be embarrassing for commentators and politicians who have claimed that this country has fared far worse than other industrialised democracies. The OECD points out that the UK's increase in unemployment is "nearly

identical to the average rise for the OECD area" and is less marked than in "other countries where the banking and housing sectors also suffered strong reversals, in particular, Spain, Ireland and the United States." The OECD refers explicitly to the Future Jobs Fund as an example of an "encouraging" trend in which OECD governments have "moved more forcefully to reinforce re-employment assistance for job seekers than in earlier recessions."

(For more on the Employment Outlook, see Tim Page's entry on the [Touchstone blog](#))

Out-of work benefits

The Employment Outlook criticises the growth in the proportion of working age people on disability benefits in the UK, but the period they consider – 1990 to 2007 – includes a period before the current government was elected, when people out of work were encouraged to claim Invalidity Benefit to keep the claimant count figures as low as possible.

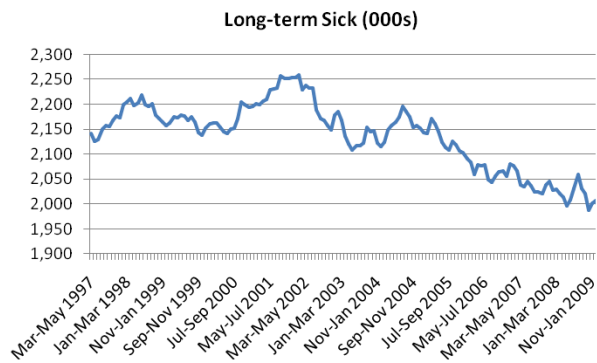
In fact, the criticisms of the Government under this heading are unfair. The Government is sometimes criticised for the numbers on Employment and Support Allowance (what used to be known as Incapacity Benefit), sometimes for the number of people who are economically inactive; both these criticisms rely on mistakes.

It is true that, over the past twelve years, the number of working age people who are classed as 'economically inactive' has risen, from 7,615,000 in March-May 1997, to 7,986 in May – July 2009. This is the result of the huge increase in that period in the number of people who were economically inactive because they were students: the numbers rose steadily, from 1,417,000 in Mar-May 1997, to 2,134,000 in May – July 2009.

The number of people who are economically inactive because they are long-term sick – the

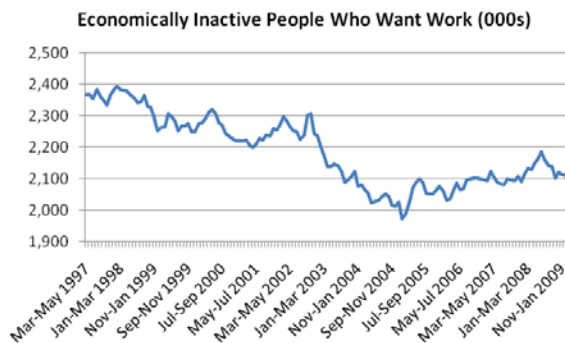
Recession Report

commonest criticism of the government – has actually fallen significantly.



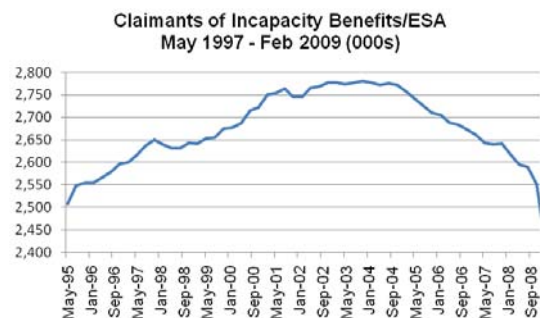
LFS data

In terms of economic performance, the number of economically inactive people is much less important than the number of economically inactive people who want a job. Again, the government has a strong story to tell; although there has been some increase in this figure in recent years, it is still below the level the government inherited in 1997.



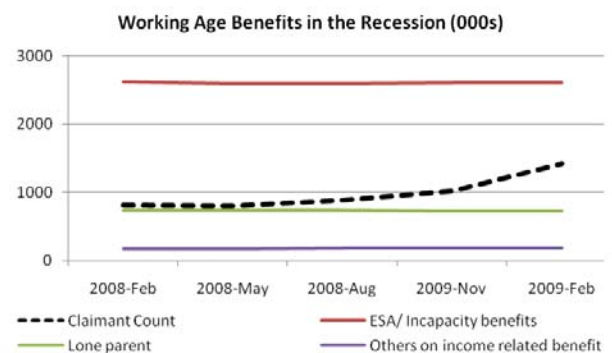
LFS data

The government is frequently criticised for the fact that there are well over two million people of working age claiming benefits for incapacity. In fact, the number of claimants has been falling since it peaked at 2.78m in November 2003, reaching 2,427,820 in February of this year:



LFS data

In the recessions of the 1980s and 1990s, the then governments attempted to hide the true extent of unemployment by encouraging as many people as possible to claim Invalidity Benefit. This created difficulties in later years when governments of both parties needed to reduce the level of long-term worklessness because it is harder to help people back to work from economic inactivity than from unemployment. The government deserves more credit for the fact that it has resisted the temptation to do the same during the current recession. As the chart below shows, the claimant count has risen sharply but there is no sign of workless people being pushed on to other benefits:



LFS data

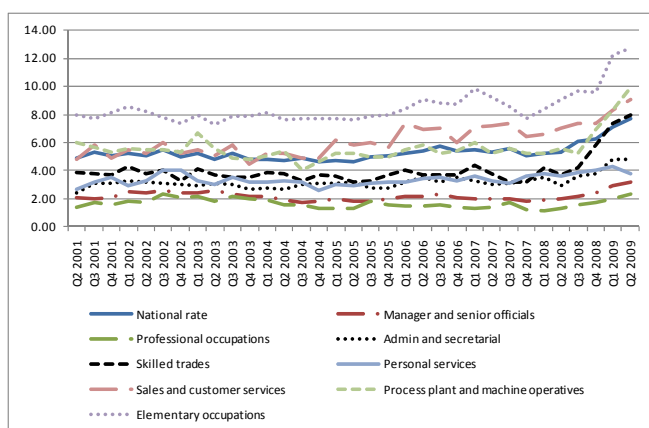
Lower paid workers

Our analysis shows that workers in lower paid occupations are feeling the greatest impact of the recession. During the second quarter of 2009 the ILO unemployment rate for workers in

Recession Report

elementary occupations was 12.7 per cent, and had risen 3.6 percentage points on the year. In contrast the rate for those in professional occupations was 2.3 per cent, and had risen by 1.2 percentage points. This can be seen in the following chart.

ILO unemployment rates by previous occupation, Q2 2001 – Q2 2009



It is also possible to consider unemployed people's previous occupations using Jobseekers Allowance data. Combining total employment by occupation with the total number of people claiming JSA for that occupation¹ gives an approximate measure of the total size of the workforce for each occupational group. It also allows analysis of the proportion of people within each overall occupational group who are claiming JSA.

This analysis shows that some occupations have disproportionately large numbers of claimants relative to the overall size of their occupational workforce. For example, 37 per cent of those who usually work in elementary administrative occupations are currently claiming JSA, as are 30 per cent of those who usually work in elementary process plant occupations and 20 per cent of those who usually work in elementary good storage occupations. In contrast, 1 per cent of those who usually work as financial institution and office managers and legal

professionals are claiming JSA. The ten worst affected occupations can be seen below.

Employment (Labour Force Survey, April – June 2009) and claimant count (July 2009) levels by occupation

Occupation	In work ² (April – June 2009)	Claimant count (July 2009) ³	Proportion of total workforce claiming JSA ⁴
Elementary Administration	215,214	124,930	37%
Elementary Process Plant	206,085	89,190	30%
Elementary Goods Storage	361,168	88,530	20%
Mobile Machine Drivers & Operatives	149,178	27,095	15%
Administrative Occupations: General	637,885	105,775	14%
Building Trades	233,432	33,865	13%
Sales Assistants and Cashiers	1,531,329	202,385	12%
Construction Operatives	142,223	18,530	12%
Assemblers and Routine Operatives	248,389	28,635	10%
Metal Forming and Welding	130,913	12,900	9%

It is not possible to determine whether those occupations with high proportions of unemployed workers are those where workers have a high risk of not being able to *leave* unemployment – in many elementary occupations it may be that the occupations claimants are seeking differ from those they were previously undertaking, and there will be variation in the numbers of vacancies available in each occupation. But the analysis does show that the *risks* of experiencing unemployment are extremely high for workers in some elementary occupational groups.

There is no doubt that those in professional jobs

have also been affected by the recession, and although the incidence of unemployment among many professionals before the recession was low, some groups have experienced some of the largest *proportional* rises in claimant unemployment. For example, architects have seen a 649 per cent increase in claimant unemployment, quantity surveyors a 462 per cent increase and taxation experts a 411 per cent increase. But the actual numbers have been relatively low. Our analysis shows that in total the 25 occupations that have seen the largest *proportional* rises in claimant numbers only account for 5 per cent of the total *number* of new claimants over the year.⁵

Recession Report: part 2

The Adequacy of Benefit Rates

In this section of the *Report* we look at trends in the relative value of benefits for unemployed people over the past thirty years. Today, Jobseeker's Allowance for a single person is worth 10% of average earnings. This is less than in the 1980s and 1990s recessions. Furthermore, UK benefits for unemployed people are low by international standards.

Comparing unemployment benefits with average earnings

There is broad consensus that the benefit system should help unemployed workers in two ways. Jobseeker's Allowance should ameliorate poverty but it should also cushion families from a large drop in incomes.

Workers take on responsibilities that demand a certain level of resources – such as mortgages, loans and regular activities for children and other family members. A sudden drop in income, can leave unemployed people immediately unable to meet these obligations. Benefits for unemployment should shelter people who have just lost their jobs from this experience, at least for an initial period.

The system can only offer this protection if the level of income it guarantees does not become too detached from the norms set by wages and salaries.

The TUC has analysed increases in average earnings and rates of unemployment benefits since 1970 (the first year that average weekly earnings data is available for men and women). This analysis reveals a steady decline in the value of benefits relative to earnings:

- During the 1980s recession, unemployment benefits were worth around one-sixth of average earnings.
- By the time of the early 90s recession, this had fallen to around one-seventh of average earnings.
- In 2008 Jobseeker's Allowance reached one-tenth of average earnings.

This can be seen in the following table.

Date	Weekly out-of-work benefit rate	Weekly Average Earnings	Benefits as proportion of earnings
1970	£5.00	£26.10	19%
1973	£6.75	£36.40	19%
1976	£11.10	£64.20	17%
1979	£15.75	£89.60	18%
1982	£22.50	£136.50	16%
1985	£28.45	£171.00	17%
1988	£32.75	£218.40	15%
1991	£41.40	£284.70	15%
1994	£45.45	£325.70	14%
1997	£49.15	£373.90	13%
2000	£52.20	£426.70	12%
2003	£54.65	£489.20	11%
2006	£57.45	£536.80	11%
2008	£60.50	£576.80	10%

This country's main benefit for unemployed people is Jobseeker's Allowance. The current rate for a single person aged over 25 is £64.30 a week (£50.95 a week if you are aged under 25.)

International comparisons

One objection to these figures would be to point to other benefits unemployed people can claim. When these are taken into account, the proportion of average earnings that benefits represent is higher, but UK benefits remain comparatively low.

The following tables were taken from the Organisation for Economic Co-operation and Development’s “Tax –Benefit calculator” (which can be accessed online⁶). Each table in this report shows the net replacement rate⁷ for a different family type, in 2007.⁸ We have limited our choice to some countries the UK is commonly compared to, and in each case assumed one worker, earning the average wage.

Replacement rates for single person with no children, 2007

Country	Replacement rate
Australia	31.3%
Canada	63.6%
Denmark	61.4%
France	66.5%
Germany	59.4%
Ireland	55.3%
Italy	61.6%
Japan	53.8%
Netherlands	73.1%
UK	40.2%
USA	55.8%

Replacement rates for married couple with no children, 2007

Country	Replacement rate
Australia	27.4%
Canada	66.0%
Denmark	63.0%
France	66.4%
Germany	59.0%
Ireland	73.7%
Italy	63.1%
Japan	52.8%
Netherlands	74.1%
UK	40.2%
USA	56.1%

Replacement rates for single person with two children, 2007

Country	Replacement rate
Australia	52.2%
Canada	75.9%
Denmark	75.9%
France	69.4%
Germany	68.5%
Ireland	64.4%
Italy	72.0%
Japan	53.4%
Netherlands	72.4%
UK	59.3%
USA	53.6%

Replacement rates for married couple with two children, 2007

Country	Replacement rate
Australia	61.1%
Canada	77.2%
Denmark	73.2%
France	68.9%
Germany	71.6%
Ireland	81.6%
Italy	70.0%
Japan	60.4%
Netherlands	70.0%
UK	66.0%
USA	54.9%

The adequacy of benefit levels

Our focus here is on the value of benefits for unemployed people *relative* to income in employment, but there is also a debate about whether benefit levels are adequate to prevent deprivation and ill health. In the 1990s, the then Department for Social Security argued that “the current Income Support rates are not the result of any single calculation or historic set of rules”⁹ and successive governments have refused to adopt objective criteria by which the adequacy of benefit rates could be judged.

Other organisations have attempted to fill this gap. In 2000, a report from researchers at the London School of Hygiene and Tropical

Medicine estimated the cost of a healthy diet, home and other necessities for a healthy, single, working man aged 18 – 30. The minimum cost (in April 1999 prices) was £131.86 a week. At the time, the relevant rates of Income Support and Jobseeker's Allowance were £40.70 for young people and £51.40 for over 25s.¹⁰

Using the official Expenditure and Food Survey, Peter Kenway has compared¹¹ JSA with the amount of money people actually spend. People in the poorest fifth of the population actually spend twice the amount provided for by JSA - over £150 a week.

Average weekly expenditure for a single adult in the poorest fifth of households, 2007

Areas of weekly expenditure	Cost
Food & non-alcoholic drinks	£18.60
Alcoholic drinks, tobacco & narcotics	£6.10
Clothing & footwear	£5.20
Fuel, power and housing related	£39.30
Household goods & services	£8.80
Health	£1.10
Transport	£13.60
Communication	£5.60
Recreation, culture, hotels and restaurants, miscellaneous goods and services and other expenditure	£52.00
<i>Total</i>	<i>£150.30</i>

As he points out, even if we exclude the final line, that standard would require £98 a week.

Kenway also notes that the Government's child poverty target indicates a possible *relative* standard: 60 per cent of median equivalised household income. In 2007/8, this was £158 for a single person with no children¹² – more than twice the level of Jobseeker's Allowance.

Kenway also points out that JSA for a single person is half the equivalent rate for Pension Credit (£130) and two-thirds of Retirement Pension (£95.25).

How did we come to this?

Over the past 30 years, there have been many changes to benefits for unemployed people, nearly all of which have either reduced the amount of benefit paid or the number of people who qualify for it.¹³

The most important explanation for current JSA rates, however, is to be found in policy on uprating (raising benefits to take account of increases in prices and wages).

In the 1970s, benefits like Unemployment Benefit were increased in line with increases in prices or increases in inflation, whichever was higher. Peter Kenway notes that, although there was no official policy before then, over time, UB increases roughly matched increases in earnings.¹⁴

The effect of such a policy is to hold back the growth of inequality. When benefits rise at roughly the same rate as wages, families that rely on benefits for most of their income will remain in roughly the same position vis-à-vis families whose income mostly comes from earnings. But when wages rise faster than benefits, the families living on benefits will fall further and further behind those in employment.

The big change in benefits uprating came in 1980 when a new policy was introduced: only raising benefits in line with increases in prices. In 1982, the government stopped using the Retail Price Index and began using the 'Rossi index',¹⁵ which excludes most housing costs.

Since then, the average wage has grown by about 1.6 per cent a year more than prices; this does not sound like a huge difference but, over time, compound interest has guaranteed a large decline in the relative value of benefits for unemployed people. As Peter Kenway points out, the real value of these benefits is about the same now as it was then, but average consumption has roughly doubled.¹⁶

Conclusion: a call for reform

In 1980, the uprating policy was changed. If benefits for unemployed people had been increased in line with earnings over the last 30 years, JSA for a single person over 25 would not be £64.30; it would be worth over £100 a week.

If the new Government elected in 1997 had reversed this policy and reintroduced uprating in line with earnings JSA would now be worth more than £75 a week – over £10 more.

That is why the TUC is renewing its call for an increase in JSA to at least £75 a week, to provide more of a cushion for the newly unemployed.

Notes

1 When referring to the total number of people claiming JSA for each occupation we have used data for ‘usual occupation’.

2 The data include all employees in full or part-time work or self-employed.

3 The claimant count is disaggregated by the ‘usual’ occupation of claimants.

4 The base for this calculation is the total claimant count + the total number of employees in each occupation.

5 Although there may be higher rates of underclaiming of JSA among professional groups, who may have higher household incomes and be less likely to qualify for income based JSA, this variation will not account for the very large discrepancies in claimant levels between many elementary and professional jobs.

6 At http://www.oecd.org/document/18/0,3343,en_2649_34637_39717906_1_1_1_1,00.html

7 The replacement rate is a family’s net out of work income as a percentage of net in work income.

8 2007 is the most recent year we have results for.

9 DSS (1994) *Response to [OECD] Social Assistance Official Questionnaire*, London: DSS.

10 Morris J N, Donkin A J M, Wonderling D, Wilkinson P and Dowler E A (2000) “A Minimum Income for Healthy Living”, *Journal of Epidemiology and Community Health*, vol. 54, pp885-889.

11 Kenway P (April 2009) *Should Adult Benefit for Unemployment Now Be Raised?* York: JRF. This publication is available to download at: <http://www.jrf.org.uk/sites/files/jrf/benefits-unemployment-poverty.pdf>

12 DWP, *Households Below Average Income 1994/95-2007/08*, DWP, table 2.3, available at <http://research.dwp.gov.uk/asd/hbai/hbai2008/chapters.asp>

13 The most important was the abolition of Unemployment Benefit and its replacement by Jobseeker's Allowance in 1996. There is a very good list of changes in the first appendix of Jones K (2003) *Unemployment Benefits in the United Kingdom*, Seoul: Korea Labor Institute.

14 Kenway P, *ibid.* p 13.

15 This is not an abbreviation; the Minister of State at the time was Sir Hugh Rossi.

16 Kenway, *ibid.*