

Recession Report

Number 12 October 2009

Headline statistics

The latest labour market figures cover the period June to August 2009, and show that:

- Unemployment levels remained steady at 2,469,000. This month's figure is:
 - 1,000 less than last month's release¹ (which covered the period May-July);
 - 88,000 more than the March- May quarter and;
 - 677,000 higher than the same quarter last year.
- The unemployment rate was 7.9 per cent. This is:
 - the same as the previous month;
 - 0.3 points more than the previous quarter;
 - 2.1 points more than the same quarter last year.
- The male unemployment rate was 9 per cent (a 2.8 percentage point annual increase), while the female unemployment rate was 6.5 per cent (a 1.4 point annual increase).
- There were 28,952,000 people in work. This is:
 - 61,000 more than in the previous month;
 - 45,000 fewer than in the previous quarter and;

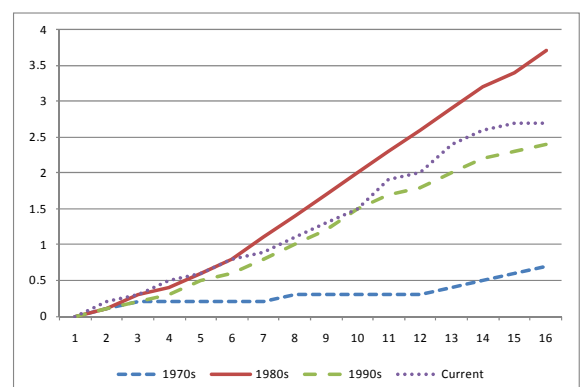
- 467,000 fewer than the same quarter last year.

- The working age employment rate was 72.6 per cent, up 0.1 percentage points on the previous month, down 0.3 points on the quarter and down 1.8 points on the same period in 2008.

Comparing previous recessions

Unemployment is likely to keep rising into 2010, with a strong chance of further sharp rises later this year, as firms begin to make longer-term restructuring decisions. But, compared with previous recent recessions, unemployment and employment are not being affected as badly as we could have expected. The following chart shows monthly percentage point change in unemployment rates during each recent recession, starting from the first month in each recession during which unemployment rose.

Monthly change in unemployment rates during recent recessions

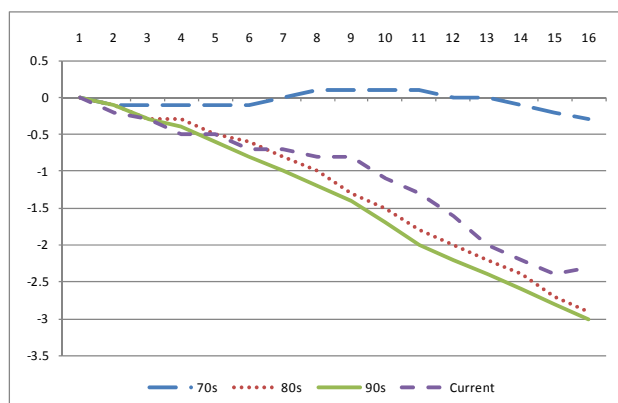


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Starting from the point at which unemployment started to rise in each downturn,² the chart shows that, so far, unemployment accelerated far faster in the 1980s recession than during the current downturn (although GDP has fallen further this time).

Employment is also holding up better than many anticipated, with falls in employment rates so far slower than in the 1990s or the 1980s. This can be seen in the following chart, which shows the speed at which employment rates have changed during each recent recession, starting from the point at which employment started to fall in each downturn.³

Monthly change in employment rates during recent recessions



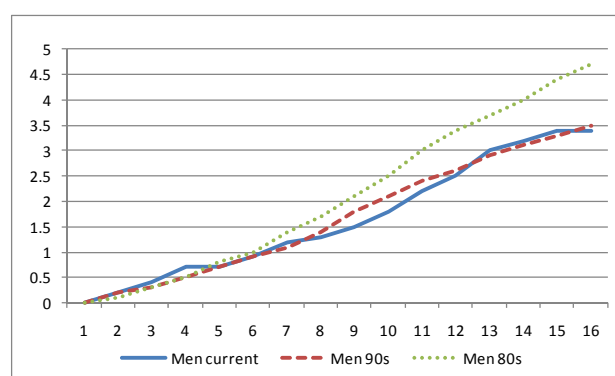
Rising unemployment, and falling employment, are by no means behind us. But it could be that policy decisions taken during this recession will mean that fewer people lose their jobs than could have been the case, particularly given the extent of the fall in GDP.

Gender and previous recessions

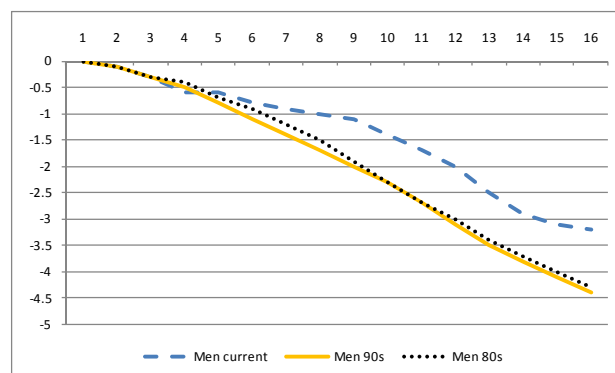
The employment and unemployment effects during this recession so far have been different for women and men: male unemployment rates have increased more quickly than female rates, and, as with all recent downturns, female employment rates have fallen more slowly than male rates.

Compared to previous recessions, male unemployment has risen more slowly than the 1980s downturn, and at a comparable speed to the 1990s. Male employment rates have fallen more slowly this recession than previously. These trends can be seen below (starting points are as per previous charts).

Monthly change in male unemployment rates during recent recessions



Monthly change in male employment rates during recent recessions

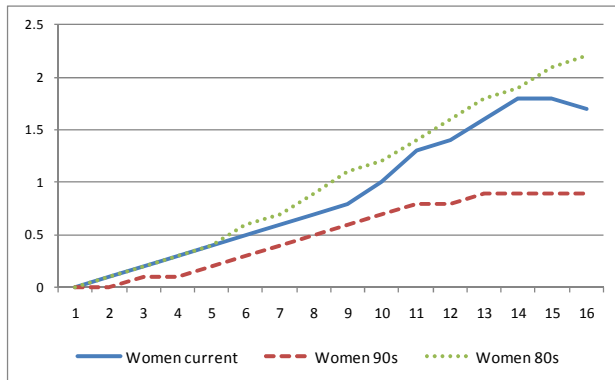


Female workers have been affected somewhat more than in previous downturns. Female unemployment rates have risen faster than in the 1990s, but not as quickly as in the 1980s (although they have recently shown a slight fall, a trend that was not evident at the same stage of either previous downturn). However, in recent months female employment had begun to fall more quickly than the 1980s and the 1990s recession, although during July of this year there was an increase in the female employment rate

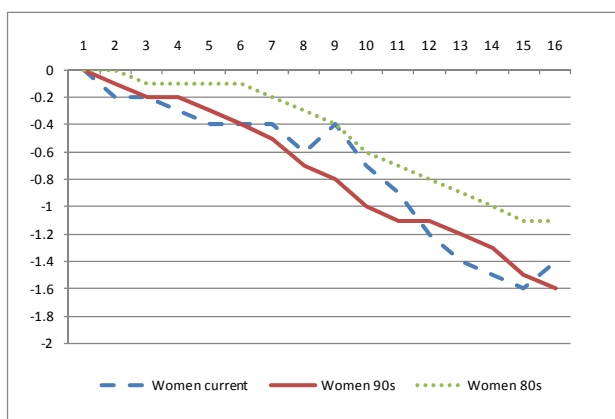
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These trends can be seen below.

Monthly change in female unemployment rates during recent recessions



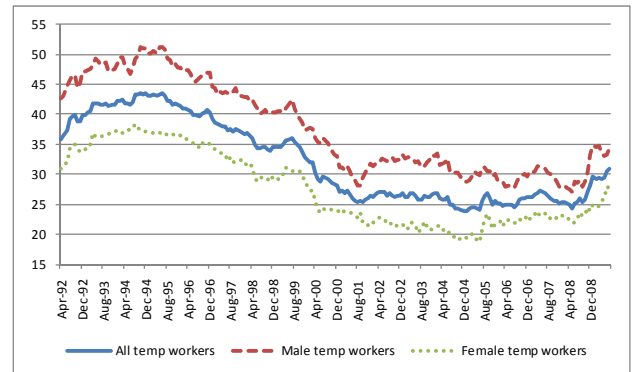
Monthly change in female employment rates during recent recessions



Part-time and temporary work

Although employment levels are not as badly affected as during previous recessions, there is evidence of growing levels of under-employment (it is not possible to see how these trends compare with previous recessions, as data are only available from April 1992). After falling at the start of the recession, the proportion of employees who are in temporary jobs is now 5.7 per cent, the same rate as January 2008. But far more temporary workers are now undertaking temporary jobs because they can't find permanent work than was the case a year ago. This can be seen in the following chart.

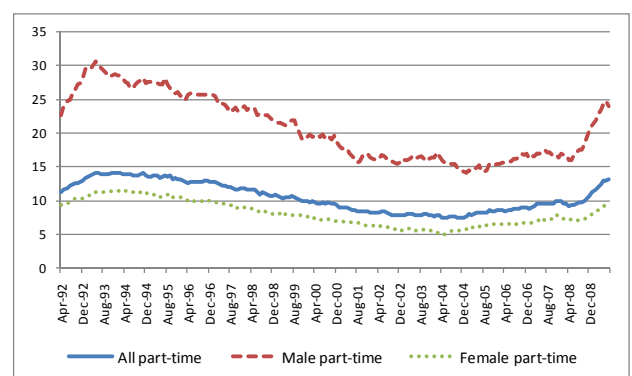
Proportions of temporary workers that could not find permanent jobs, April 1992 – July 2009



The proportions of male and female temporary workers who cannot find permanent jobs are now comparable to rates during early 2000.

Increasing proportions of part-time workers would also rather be in full-time work. The rise has been particularly sharp for men, although proportions of part-time workers who would prefer full-time jobs have not been this high, for either men or women, since 1997. This can be seen in the following chart.

Proportions of part-time workers that could not find full-time jobs, April 1992 – July 2009



In total, 976,000 part-time workers (544,000 women and 436,000 men) would rather be in full-time jobs (over 3 per cent of the employed population).

Recession Report: part 2

Child Poverty and the Recession⁴

It is clear that poverty is going to be one of the battlegrounds in the next general election. The arguments will probably take place at a time when the economy is only just beginning to recover from recession, when unemployment is probably still rising. This *Recession Report* tries to answer some questions that will be increasingly important. What are the implications of the recession for poverty and inequality? What are the implications for people in poverty of the debate about cuts in benefits? Is the recession going to make it harder to end child poverty?

How do recessions affect relative poverty and inequality?

At first sight, the answer to this question is obvious – people lose their jobs or have to work fewer hours during a recession, they are inevitably worse off.

In fact, the picture is more complicated, especially if you want to measure either inequality or ‘relative poverty’ – how people on low incomes are faring compared with the rest of society, usually measured by comparing their incomes with the average.

On the one hand, many of the people who lose their jobs will become relatively poor for the first time, so they will contribute to an increase in the numbers in poverty. Recessions can also be times when Government have less money to spend on the poor, and measures to help disadvantaged groups escape from poverty can be cut or abolished.

On the other hand, recessions can affect different forms of income differently. Most wages, earnings from self-employment and investment income will fall, or increase much more slowly than previously. If Government policy protects tax credits and benefits so that

they continue to be uprated at least in line with inflation the recession will not reduce these forms of income as much. When the poorest people receive most of their income from benefits and tax credits their relative position may well improve. In the UK, benefits and tax credits account for over half the incomes of people at the bottom of the distribution:

Proportion of the gross income of non-retired households with children that came from tax credits and other cash benefits, by decile groups, 2007/8⁵

Decile	Proportion of gross income from tax credits and other cash benefits (%)
Bottom	59
2	49
3	35
4	18
5	15
6	9
7	6
8	5
9	4
Top	2

In these circumstances, a recession can, in principle, reduce the degree of inequality and the number of people in relative poverty. This effect is particularly marked for groups that are further away from the labour market, such as pensioners. The position of families with children is less stark, and the effect of people losing their jobs can also be important, so there are pressures tending to both increase and reduce the number of children in poverty.

Which factor is likely to be more important? In an important study earlier this year,⁶ the Institute for Fiscal Studies looked at the lessons to be learned from the impact of previous recessions on inequality and poverty. The researchers found that there are different effects on different parts of the income distribution. If we look at the whole income distribution, from top to bottom, the level of inequality bears no

clear relationship to recession. But the degree of inequality in the bottom half of the income distribution does seem to fall in recessions.

What happened to overall inequality (that is paying equal attention to inequality at every point in the income distribution) differed in each of the last three recessions:

- In the 1973 – 5 recession, overall inequality as measured by the Gini coefficient⁷ fell (from about 0.26 to a little over 0.24).
- In the 1979 – 81 recession it rose (from about 0.25 to 0.26).
- In the In the 1990-2 recession it remained steady (at 0.34).

Not only did Gini inequality behave differently in the three recessions, it is hard to distinguish the effects of the recession from changes to the top rate of income tax that were taking place at the same time. During the 1970s recession, top rate taxes were rising, which would have reduced inequality in any case; during the 1980s recession, they were being cut, which would have had the opposite effect; during the 1990s recession there were no significant changes to top rate tax.

However, the picture is rather different if we concentrate on the gap between the poor and those on middle incomes. One way of measuring inequality at different parts of the income distribution is to use the ratio of the incomes of different groups. The ratio of incomes in the middle to incomes at the bottom did fall in all three recessions, providing “weak evidence that those on lower incomes (around the 10th percentile) may have caught up with those on middle incomes (around the 50th percentile) during previous recessions.”⁸

The data for relative poverty reflect this effect. Using the current Government’s definition of relative poverty (see the section on child poverty for more detail on this), the IFS study showed

that, in all three recessions, relative poverty was lower at the end of the recession than at the beginning (though by very little in the case of the 1980s recession).

Recessions and absolute poverty

We cannot leave the story there though. Generally speaking, when focusing on poverty policy, we need to pay attention to two aspects of poverty. We need to think first of what is happening to relative poverty, because the inability to participate in the normal life of society is what makes poverty objectionable. But we also need to pay attention to ‘absolute’ poverty – whether people in poverty are becoming absolutely worse off. If we only looked at relative poverty we might succumb to the notion that recessions are ‘good’ for people in poverty.

The IFS researchers constructed an ingenious measure of absolute poverty to test what actually happened in the last three recessions. They set a threshold at 60 per cent of median income in the first year of the recession, and then updated it in line with inflation, not changes in median incomes. They report that the proportion of people who were poor using this definition:⁹

- Did not change much in the 70s recession (remaining at a little under 14 per cent)
- Rose in the 80s recession (from under 14 per cent to around 15 per cent)
- Did not change much in the 90s recession (rising from a little over 22 per cent to a little under 23 per cent).

The change in absolute poverty for children was much more marked:¹⁰

- The proportion of children who were in absolute poverty rose in the 70s recession (from about 12 per cent to about 14 per cent);

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- And in the 80s recession (from about 13 per cent to about 19 per cent);
- And in the 90s recession (from about 28 per cent to about 30 per cent).

Child poverty

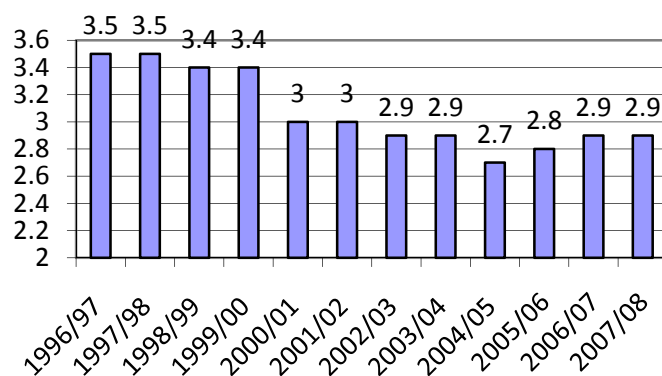
This is an appropriate point to narrow our focus to child poverty. In 1998, the Government set itself the goal of ending child poverty by 2020. This was an unexpected and radical objective, forcing the other main parties to commit themselves to the same target. Trade unions have been particularly enthusiastic about this target, and the TUC has been an active member of the End Child Poverty coalition,¹¹ campaigning to hold the politicians to their promises.

The Government quickly set about showing their commitment to the objective by establishing a timetable with two key milestones: the number of children in poverty should be reduced by a quarter in five years and halved by 2010. The Government uses a definition of poverty that takes into account relative and absolute low incomes and material deprivation. The key element, however, is a relative measure, in which a child is poor if they live in a household with an equivalised income (taking into account its size and composition) below 60 per cent of the median (the midway point in the income distribution), measured before housing costs and housing-related benefits are taken into account.

The baseline year for measuring progress was 1998 – 9, when there were 3.4 million children in poverty using this definition. The targets were therefore for the number of children living in poverty to fall to 2.55 million in 2004-5 and 1.7 m by 2010-11. There has been significant progress, with the number currently 600,000 lower than that inherited by the Government; unfortunately, in the past two years the number

of children in poverty has begun to increase again. This can be seen below.

Number of children in poverty (millions)



The 2004/5 target was missed by less than 200,000, and many people were confident that the 2010 target would still be achieved. One reason for this confidence was the Government's continued investment, with each Budget up to 2008 including new measures to support the achievement of the target. These have included successive real increases in Child Benefit and the child element of Child Tax Credit, an increase in the Working Tax Credit threshold, the disregarding of Child Benefit when calculating entitlement to Housing Benefit and improvements to the means-tested benefits.

A study by the IFS and the University of Essex estimates that the number of children in poverty will fall by a further 600,000, to reach 2.3 million by 2010. This would amount to remarkable progress – over 1 million children taken out of poverty since 1997 – but would still be 600,000 short of the target.¹²

It was increasingly apparent last year that extra investment would be needed to hit the 2010 target and trade unions joined dozens of charities and campaigning groups in the End Child Poverty coalition to campaign for an extra £3 billion investment in benefits and tax credits for children. In the event, the 2009 Budget announced only a small increase in the CTC,

worth just £140 million. It now seems very unlikely that the 2010 target will be achieved and the IFS/Essex study suggests that, unless new policies or extra resources are brought to bear, the number of children in poverty will rise again, reaching 3.1 million by 2020.

In a recent JRF publication, Donald Hirsch has argued¹³ that one likely effect of the recession will be that, over the next few years, a rising proportion of children in poverty will live in workless families. One of the trends of recent years has been that poor children have been less likely to come from workless families and more likely to come from families where at least one adult has a job:

- In 1995/6, 60 per cent of poor children came from workless families;
- By 2006/7 this proportion had fallen to 47 per cent.

Hirsch predicts that, by 2010/11, this trend will have reversed, with 54 per cent of poor children coming from workless families. So long as the value of Child Benefit and Child Tax Credit (both of which can be claimed by low income working families) are maintained, working families should be comparatively well protected. Hirsch points to the prospects of couples where one parent works full time and the other is not in paid work. In 2006/7 one fifth of all such families were in poverty, but by 2010 this is expected to fall to 11 per cent – their relative position will be protected by the fact that a high proportion of their income comes from benefits and tax credits, which, on current policies, will hold their value better than earnings.¹⁴

Children in workless families

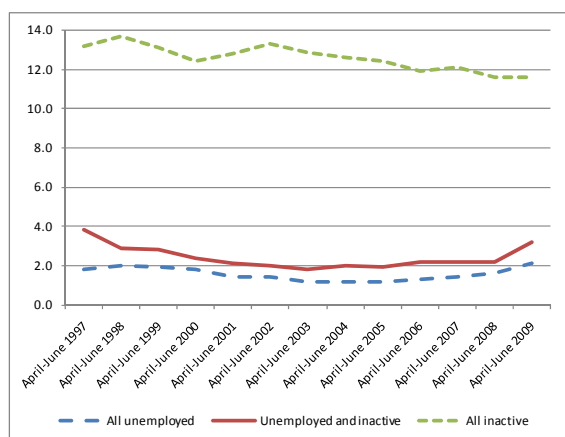
Recently published data¹⁵ from ONS provides detailed evidence on trends in worklessness among families with children. Between April-June this year, 16.9 per cent of all UK working age households were workless and the proportion of children living in workless

working age households was very slightly lower at 16.8 per cent. This data allows us to consider how patterns of worklessness among families with children have changed since the recession started and over time.

Among all children living in workless households, the largest proportion live in homes where all adults are economically inactive (11.6 per cent of all children living in households with working age adults), with far smaller proportions living in households where all adults are unemployed (2.1 per cent of children) or unemployed and inactive (3.2 per cent of children). Since 1997, there has been a reduction in the proportion of children living in households where all adults are economically inactive, and since the recession started there has been little change in this rate.

However, since the downturn began there has been a sharp rise in the proportion of children living in a household where working age adults are both unemployed and inactive, and in the proportion of children living in a household where all adults are unemployed. It is this rise in unemployed households which has led to the proportion of children in workless households increasing from 15.4 per cent in April-June 2008 to 16.8 per cent this year. However, this is still 2 percentage points below the proportions of children that were in this position in April-June 1997. The actual numbers of children living in workless households have also fallen, with 1,934,000 children currently in this position between April –June 2009, 320,000 less than the same period in 1997.

Proportion of children living in working-age households who live in workless households, by status of working age adults, April-June 1997 – April-June 2009



Worklessness by household type

There has been some variation in recent trends by household type, with children in ‘other household’ types¹⁶ having seen the largest recent increases in their chances of living in a workless household (this may be a result of small sample numbers) and children in lone parents households seeing slightly smaller than average increases in the probability of living with a workless parent. The following table shows the proportions of children from different household types living in workless households, and how these proportions have changed since the downturn began.

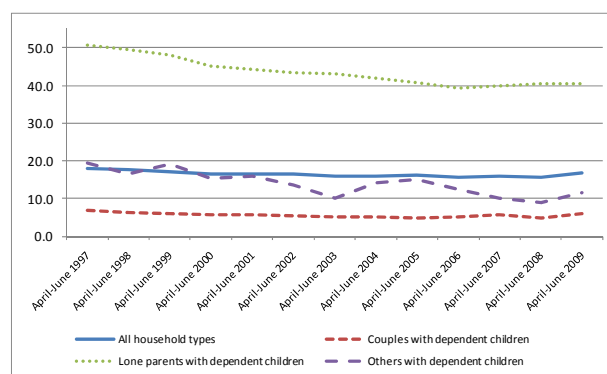
Proportions of children in each household type living in workless households

	April-June 2008	April-June 2009	Change
Couple households	6.3	7.6	1.3
Lone parent	47.6	48.8	1.2
Other household	9.4	11.5	2.1
All households	15.4	16.8	1.4

Unsurprisingly, larger proportions of children in lone parent households live in workless households than for other family types. However, the greatest change in worklessness rates since 1997 has been in the proportion of

lone parent families which are workless, which has fallen from 50.8 per cent in April-June 1997 to 40.4 per cent in April-June 2009.

Workless working-age households by type of household, April-June 1997 – April-June 2009



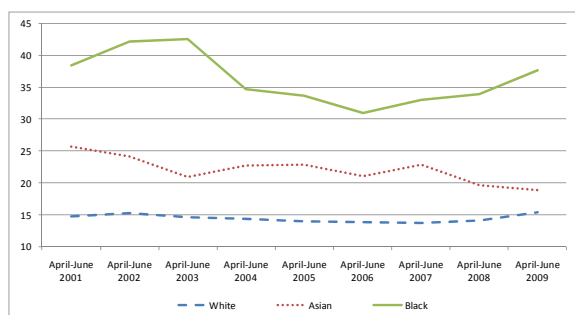
Worklessness and ethnicity

There are concerning ethnic differences in the proportions of children living in workless households. Since the recession started there has been a rise of 1.3 percentage points in the proportion of white children living in workless households, with 15.4 per cent of white children in this position. While this is a significant rise, white children still have a lower chance of living in a workless household than any other ethnic group. The increase in black children’s chances of living in a workless household has been almost three times as fast, with a 3.7 percentage point increase over the year. This appears to be the continuation of a trend that started in 2006. In contrast, since the recession started the proportion of Asian children living in workless households has continued to fall, experiencing an annual reduction of 0.8 percentage points.

Change in the proportions of children from different ethnic groups living in workless households is shown in the following chart.

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Proportion of children from different ethnic groups living in workless households, April-June 2001 – April-June 2009



However, it is also important to recognise that there is wide variation in trends within each ethnic group. For example, since the recession started:

- there has been a 9 percentage point increase in the proportions of children from black African families living in workless households,
- compared to a drop of 5.8 points among black Caribbean groups.

Although Pakistani/Bangladeshi children are much more likely than other Asian children to be living in workless households, there has been little change for this group during the recession, with a fall of 0.1 percentage points from 25.2 per cent to 25.1 per cent. This rate is however far higher than for Indian children, whose chances of living in a workless household are relatively low at 8.6 per cent.

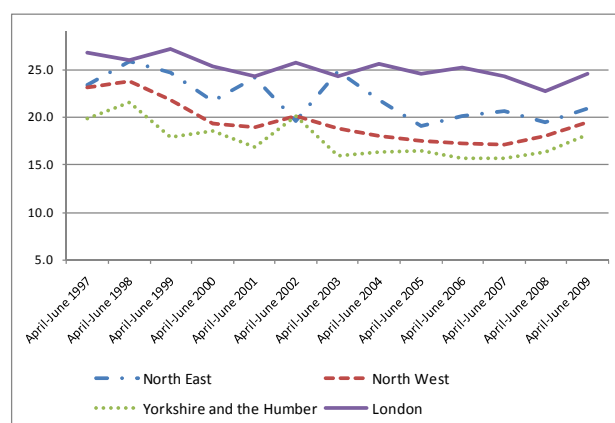
Despite the impacts of the recession, since April-June 2001 the chances of living in a workless household have fallen for children in all ethnic groups, apart from for white and black Caribbean children (with the latter group seeing a rise of 2.6 percentage points in their chances of living in a workless family). This is shown below.

	April-June 2001	April-June 2009	Change
White	14.8	15.4	0.6
Mixed	28.6	27.9	-0.7
Asian	25.7	18.8	-6.9
Indian	10.4	8.6	-1.8
Pakistani Bangladeshi	34.8	25.1	-9.7
Other Asian	27.3	14.8	-12.5
Black	38.4	37.6	-0.8
Black Caribbean	27.4	30	2.6
Black African	50.1	42	-8.1
Other Black	36.8	26.8	-10
Chinese	23.4	13.9	-9.5
Other	39.2	30.4	-8.8

Worklessness and region

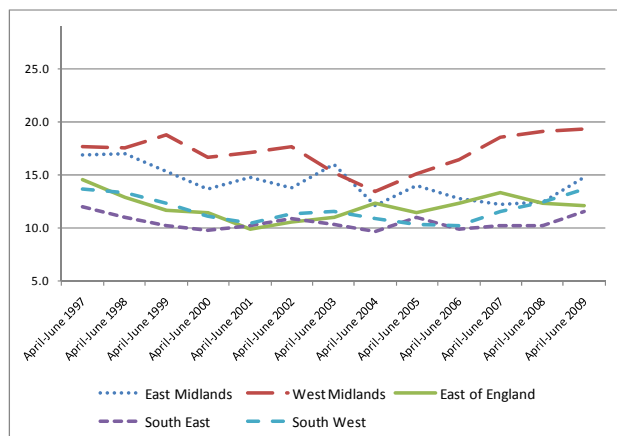
There are also strong regional differences in children's chances of living in workless households. Since 1997, there has only been limited change in the proportion of children in London living in a workless household. The North West has seen a large fall, as has Yorkshire and the Humber, but since 2007 numbers have been increasing in both regions. This is also the case in the West Midlands, Wales and Northern Ireland. Change in the proportions of children living in workless families across the UK regions and nations are shown below.

Children living in workless households by region, April-June 1997 – April-June 2008

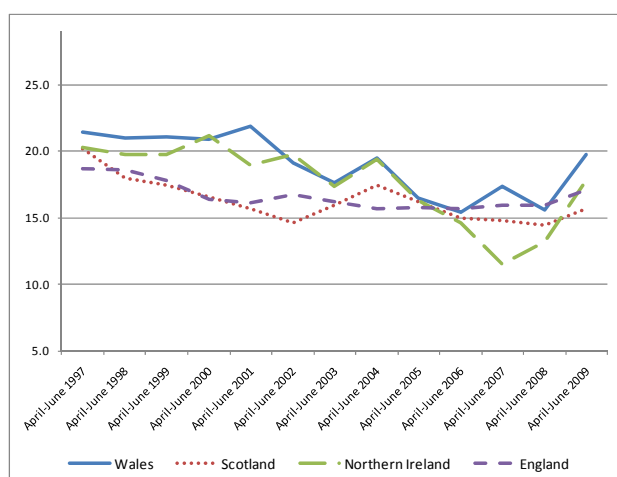


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Children living in workless households by region, April-June 1997 – April-June 2008



Children living in workless households by region, April-June 1997 – April-June 2008



So, as Hirsch predicts, we are starting to see large rises in the proportions of families with children who are workless. The impacts that the recession has on poverty levels among these families will very much depend upon the future direction of Government policy.

The vital importance of benefits

In the policy debate about poverty and inequality, conservative critics of the welfare state sometimes argue that cash benefits have been a failure because we still have these problems, even though benefits have been in existence for over a century. Unfortunately, organisations campaigning for improvements to

the benefit system can sometimes give the appearance of agreeing by concentrating on the problems of a system they wish was more generous, rather than pointing to how much it achieves.

That is why it is important to remind ourselves every now and then that taxes and benefits substantially reduce the amount of poverty we have to deal with and are the most powerful force for equality, just as they always have been. It is true, as critics of the Government point out, that overall inequality has grown since 1997, but it would almost certainly have grown even more without the substantial redistribution carried out by the Government over the past 12 years. As David Phillips pointed out in the 2008 IFS Green Budget, “Labour’s tax and benefit reforms have been strongly progressive, and furthermore have focused resources on two particular groups – lower-income families with children, and pensioners.”¹⁷ Phillips calculated that the tax and benefit reforms between 1997 and 2008 would have raised the incomes of the poorest tenth of the population by 12.4 per cent (£1,300 p.a.) and lowered those of the richest tenth by 5.5 per cent (£4,200 p.a.).¹⁸

In the table below, the first column of figures relates to ‘original income’ – that is before cash benefits and tax credits. The right hand column relates to ‘gross income’ – after benefits and tax credits, but before taxes have been paid. The first row of figures shows the share of total household income of the bottom decile (poorest tenth) of the income distribution, the second shows the share of the richest decile – taxes and benefits significantly increase the share of income taken by the poorest and reduce that taken by the richest. In the final row is the Gini coefficient, showing how taxes and benefits have reduced overall inequality:

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Percentage shares of equivalised original and gross income for first and tenth deciles and Gini coefficients, 2007/8¹⁹

	Original Income	Gross Income
Decile Group		
Bottom	1	3
Top	33	28
Gini Coefficient	.52	.38

This effect is even more marked for families with children. The table below shows the ratio of the income of the top decile to that of the bottom decile for original income, gross income, post-tax income and final income (after the value of publicly provided benefits is taken into account):

Ratio of top decile income to bottom decile income for non-retired households with children, 2007/8²⁰

	Top: bottom ratio
Original income	7.4
Gross income	3.4
Post-tax income	3.8
Final income	1.9

Conclusion

The discussion of the possible impact of the recession on inequality, poverty and child poverty has highlighted the importance of Government policy. The commitment to invest in policies to help parents to move back into employment is vitally important in ensuring that absolute poverty levels do not rise during the downturn.

Even more significant is the stance on uprating benefits and tax credits. We have seen that, a Government commitment to uprating tax credits and benefits at least in line with inflation is vital in determining whether a recession will increase inequality and the amount of relative poverty.²¹ The fact that such a high proportion of the incomes of the poorest depends on benefits and tax credits also means that policy here is central to the impact on absolute poverty. Tax credits

and benefits have played a vital part in reducing child poverty by 600,000 – the Government's substantial increases have stopped inequality rising further than it would have done.

Interestingly, the possible improvement in the fortunes of low income couples with one full time worker and one partner not in employment is particularly likely to depend upon maintaining the value of tax credits. It is unfortunate that Theresa May, the shadow Secretary of State for Work & Pensions has, when questioned, repeatedly refused to guarantee that, under a Conservative Government, benefits, and tax credits would continue to be uprated at least in line with inflation. Indeed, there has been no guarantee that they would not be frozen, or even cut.

At the recent Conservative Party conference, the main benefit commitment was to transfer half a million Employment and Support Allowance claimants onto Jobseeker's Allowance, reducing their incomes by £25 a week. On past evidence, this is a measure likely to increase inequality and poverty rather than reduce it.

Notes

¹ It is important to note that this small fall is well within the margin of error.

² The following start points were selected for each recession: December 1973, January 1980, July 1990 and April 2008.

³ The following start points were as above.

⁴ Unless otherwise indicated, data in this article are taken from the DWP's annual *Households Below Average Incomes* reports, available on the web at http://research.dwp.gov.uk/asd/hbai_arc.asp

⁵ Calculated from *The effects of taxes and benefits on household income, 2007/08*, Andrew Barnard, ONS, 2009, table 21
http://www.statistics.gov.uk/downloads/theme_social/Taxes_benefits_0708.pdf

⁶ *Living Standards During Previous Recessions*, Alastair Muriel and Luke Sibieta, IFS Briefing Note BN85, 2009.

⁷ This is a widely used measure of inequality; the Gini coefficient is a number between 0 and 1, lower numbers mean that inequality is low, high numbers mean that inequality is worse.

⁸ Op cit, p 25.

⁹ Op cit, fig 18.

¹⁰ Ibid, fig 20.

¹¹ Further information about the coalition is available at: <http://www.endchildpoverty.org.uk/>

¹² *Micro-simulating Child Poverty in 2010 and 2020*, Mike Brewer, James Browne, Robert Joyce and Holly Sutherland, IFS, JRF and ESRC, 2009.

¹³ *Ending Child Poverty in a Changing Economy*, Donald Hirsch, JRF, 2009, fig. 2.

¹⁴ Ibid, pp 4 – 5.

¹⁵ ONS (2009) *Work and worklessness among households 2009* Newport: ONS.

¹⁶ Children in these households are likely to be living with their grandparents, or with parents/guardians who are not of working age.

¹⁷ "The impact of tax and benefit reforms to be implemented in April 2008", David Phillips, in R Chote et al (ed.s), *The IFS Green Budget: January 2008*, Commentary no. 104, IFS, 2008, p 288.

¹⁸ Ibid, p 268.

¹⁹ *The Effects of Taxes and Benefits on Household Income, 2007/08*, Andrew Barnard, ONS, 2009, table 2.

²⁰ Calculated from ibid, table 21.

²¹ Tax policy also plays a vital role.