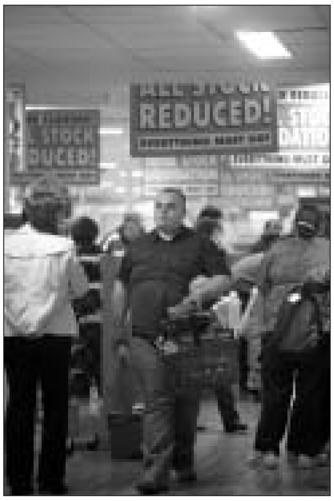
Recession: a major threat to tackling poverty

How will the current downturn in the labour market affect poverty? Adrian Sinfield **looks back at previous recessions and asks what can be learnt in order to prevent a similar rise in poverty to that seen in the 1980s.**



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Unemployment and poverty

Above all, it must be recognised that increasing unemployment is a major impediment to reducing poverty. Once said, this is obvious, but explicit recognition is all the more necessary, given that current policies against poverty are over-reliant on a 'work-first' approach. In fact, recession is a double setback because it means the loss of one of the most effective ways of preventing poverty from happening in the first place – high employment. It also reduces the chances of those who have got back to work staying in work, let alone moving into better paid and more secure positions – all the less likely if the past practice of 'last in, first out' is as pervasive this time.

'Loss of employment is the single most significant cause of entry to poverty.'[1] For unemployed families, the risk of poverty has long been greater. In recent years, 70 per cent of 'all non-working' families are poor, compared with 26 per cent of 'part-working' and 5 per cent of 'all-working' families. Not surprisingly, therefore, increased unemployment in past recessions has been the major cause of increased poverty. Study after study, independent and official, confirmed this in retrospect, so preventing it must be built into anti-poverty strategies now.

It is equally important that we acknowledge that the link between unemployment and poverty is by no means inevitable. Some countries, such as Denmark, had similar rates of unemployment in the 1980s but managed to keep poverty very much lower, mainly because of more generous income support. In the UK, by contrast, benefits for those out of work have long been less generous than for other groups because of fears about their disincentive effect. In the recessions of the 1980s and 1990s many changes to unemployment benefits further reduced support and increased policing and constraints. The introduction of jobseeker's allowance (JSA) in 1996 cut support again, and the duration of JSA based on national insurance contributions was reduced from one year to six months, leaving the extent of UK support well behind our European neighbours. The social security cutbacks of the 1980s totalled more than 1 per cent of GDP and further depressed demand, adding to the problem of unemployment.

Increasing JSA, therefore, would not only help to reduce poverty but also unemployment by helping maintain spending and so stimulating demand. Yet this has not been given the attention it should. Today, weekly JSA is only £60.50 – barely 13 per cent of average full-time earnings. For years it has only been raised in line with prices, not with pay. To bring it back to the same level relative to earnings as it was in 1979 would require an increase of more than four-fifths to over £110.

Some increases to child benefit and elements of means-tested support, plus the development of tax credits, will help families with children, but not enough to keep them out of poverty. In addition, we do not know how quickly and effectively HM Revenue and Customs will respond to the increasing unemployment and the need to increase child tax credit with the loss of working tax credit.

The unequal impact of increased unemployment

Better benefits are particularly important during a recession because those most liable to unemployment at any time tend to be among the least secure in the labour market and so already vulnerable to poverty: the youngest and the oldest in the labour force, those in many minority groups, those with a disability, and generally those with the least skills and living in the most depressed areas.

At the start of the 1980s recession, some spoke of it as a 'great leveller' (like death), but the evidence did not support this. The risk of unemployment increased faster for lower paid workers than for the better-off and more secure: the risk for men in unskilled and semi-skilled work was four times greater than for men in non-manual jobs, compared with three times higher in the previous decade. The different risk among ethnic groups was also marked. The unemployment rate for men from minority ethnic groups was more than twice the rate for 'White' men. Black African, Pakistani and Bangladeshi men and women had much higher rates.

Of course, there will be changes this time. If cutbacks continue in retail and service sectors where women are likely to be working, they will suffer particularly – and, anyway, they now form a larger proportion of the whole workforce and so will have a larger share of job losses. Last time, female joblessness was dismissed by many as a lesser problem, if that. But its impact included poverty for lone parents and for those who needed two wages to keep their household out of poverty. These problems are likely to be even greater this time, especially given the increasing level of debt and, in particular, housing costs.

The much publicised job losses of a major redundancy rarely take account of the knock-on effects, which often affect those with generally lower resources. When the high-paid professionals moved out of Lehman Brothers at Canary Wharf, there were many cleaners and other support workers whose low-paid, contract jobs also disappeared. Local shops and services will have cut overtime or part-time second jobs, which enable many to balance family budgets, and so on. Similarly, the little noticed practice of 'natural wastage', where firms just 'allow' workers to retire without replacement, reduces job openings for school leavers and others.

In the 1980s, recognition of the sharp rise in poverty was impeded by a government stressing 'workers pricing themselves out of jobs' and the disincentive effect of benefits as causes of continuing unemployment, despite the lack of evidence.[2] Media and ministerial encouragement of 'Costa del Dole' myths obscured the many cuts to benefits and support. Few knew that someone had to have been employed for two years in the same job (longer than average for unskilled jobs) to get any statutory redundancy pay, with a low maximum amount even after twenty years (still under £10,000 today). Private payments were by no means as common as generally assumed.

The focus on big pay-offs also encouraged the belief that people remained out of work because of 'a psychology of unemployment'. They went, it was argued, through a number of stages – a 'cycle of adjustment' to being out of work. The initial shock of job loss was followed by an active and optimistic search for work, then increasing anxiety, stress and pessimism, until eventually the unemployed fatalistically adapted to being out of work. (A variation presented job loss as a form of 'bereavement' and needing treatment as such.)

How well, if at all, this fitted their experience, people made redundant after many years in the same job only constituted a very small proportion of those remaining out of work. Many more who were paid off had not been in that work long: many with few skills had never had much security, even at times of higher employment. There were also those entering the labour force from education and those re-entering, such as mothers with young children, people from hospital or prison, and many others.

The cycle thesis also neglected the fact that the level and trends in economic activity significantly affect the chances of re-employment and, consequently, the attitudes and behaviour of both those out of work and potential employers. High unemployment in an area reflected the industrial structure and the lack of jobs rather than the intensity of job search.

The link between poverty and unemployment is strengthened by the fact that workers in low-paid and marginal jobs not only have a greater risk of unemployment, but also less opportunity to build up savings and less chance of much, if any, redundancy pay. The availability and adequacy of social security benefits is therefore all the more important to them, especially when unemployment is prolonged.

The risk [of unemployment] for men in unskilled and semi-skilled work was four times greater

Recent 'welfare to work' reforms have stressed the responsibilities needed from those out of work, played down the inadequacies of poverty-level benefits and largely ignored problems of job supply for those wanting work. Government strategies now need to recognise that the poverty resulting from unemployment can itself prolong that unemployment. Evidence for this is based on a large European panel study that analysed labour market experience over time and across countries and concluded:

> *There is a vicious cycle of disadvantage, whereby people can be progressively marginalised from the employment structure. But the central factor underlying this process is poverty. Unemployment heightens the risk of people falling into poverty, and poverty in turn makes it more difficult for people to return to work.*[3]

This then is one more reason to raise the benefits needed to prevent poverty and avoid making the problem of unemployment itself even worse.

'The workless tend to be viewed as worthless'

The long-term unemployed

So far, the economy has shown little sign of recovery and many predict a continuing decline – it may be some years after the upturn before jobs start to increase again. Those most recently unemployed are more likely to get back to work, and so the proportion long out of work rises further amid talk of a 'jobless recovery'. Over the 1980s, the average number of people claiming benefit and out of work for a year or longer was nearly one million, reaching a peak of 1.3 million in 1987, over 40 per cent of the 'claimant' unemployed, at least four years after the economic upturn. During the much lower unemployment of the 1950s an average of just 34,000 were long out of work (12 per cent of the then 'registered' unemployed). This difference encouraged claims of changes in the willingness to work, but the higher long-term unemployment was a lagged function of the overall level of unemployment, as David Webster showed with analyses of trends over half a century.[4]

Case studies and longitudinal studies over time provide very little evidence of unemployed people settling down and adjusting to prolonged unemployment, but they do find a 'scarring effect'.[5] The longer people are out of work, the more problems are likely to build up. The vivid metaphor of the Pilgrim Trust some seventy years ago is still particularly appropriate:

> *The unemployed 'are not simply units of employability who can, through the medium of the dole, be put into cold storage and taken out again immediately they are needed. While they are in cold storage, things are liable to happen to them'.*[6]

The disadvantages of long-term unemployment and poverty make it more difficult to get back to work, and this is compounded by employers' responses, especially as the balance of power in the labour market shifts. Particularly with a surplus of labour, they – and Jobcentre Plus and private employment agencies – tend to fall back on length of time out of work to choose between applicants. Those longest out of work are dismissed as 'hard to employ', if not 'unemployable': 'the workless tend to be viewed as worthless'.[7]

Short-term and recurrent unemployment

Even a brief spell out of work is very likely to hurt, as Michael White's longitudinal analyses of the experience of unemployment over time have shown.[8] The short-term unemployed do not know that they will be back in work soon: all sorts of career and family decisions have to be put on hold while out of work. In addition, most go back to lower wages and one spell out of work increases the chance of further periods.

Many made redundant need good advice on benefits and money problems – and this was only slowly recognised in the past. Many people had not been out of work for many years and were unaware of what benefits were available and how to obtain them. In the 1980s some even volunteered for redundancy believing tabloid and other stories of an affluent life on the dole – and were shocked by the actual level of benefits.

As JSA has since fallen even further relative to wages, financial commitments (not just mortgages) entered into when in secure employment can become crippling on benefits alone. Skilled advice is then invaluable. Some firms in the 1980s thought they were helping by arranging for bank staff to advise those being made redundant on how best they could use their pay-offs, but bank staff then had very little understanding of either the intricacies and problems of benefits or the lives of their customers. Welfare rights and other skilled advisers found themselves having to pick up debt problems that might easily have been avoided – a need likely to be even greater this time.

Recurrent unemployment has never received a fraction of the policy, statistical and research attention given to prolonged unemployment. Yet for at least the last decade, nearly half of the men and a third of the women claiming JSA as unemployed have had a previous spell out of work less than six months beforehand. Low pay and often poor working conditions tend to go with this insecurity. With the downturn, periods between jobs become longer, especially as vulnerability to poor health increases with poverty and age. Many among the long-term unemployed have had only a few short jobs in previous years so that their resources are already much reduced.

The wider impact of increased unemployment

A society with unemployment rising and remaining high for many years is qualitatively different from one that provides adequate opportunities for all who want work. First, a recession affects many more people than those currently out of work, reducing the resources of those who have lost their second jobs or had their hours cut and forcing many older workers into poverty in 'early retirement'. Particularly vulnerable are those people whose resources and ability to participate in society are already reduced, increasing their risk of poverty.[9] In addition, anxieties about insecurity, even before redundancies are actually made, affect the health of workers and members of their families.

Second, sustained high employment is not only an important end in itself, but is needed to achieve other social goals. Equal opportunity objectives are impeded by fewer job openings. Many community re-integration and rehabilitation services depend on high employment for success in helping people back to a 'normal' life in 'the community' after a crisis, whether it be due to some physical injury, an illness, a breakdown or a period in prison. Unemployment may not cause the initial problem, but inhibits its solution and can worsen it.

Third, the costs of increased unemployment take up scarce resources. Lost revenue from income tax and national insurance contributions, and indirect taxes when those out of work have to cut back on spending, can exceed higher spending on benefits, more than doubling the cost to the exchequer of increased unemployment. So resources needed to tackle problems linked to increasing unemployment, such as homelessness, become even harder to obtain. In addition, of course, there are wider economic costs in terms of lost productivity and social costs in terms of the impact direct and indirect on people's lives.

Strategies to reduce the threat to poverty

First and foremost, there is the urgent need to reverse the rising levels of unemployment for they will increase poverty, not reduce it as the Government is committed to doing for child poverty. Measures to stimulate demand overall and to protect more vulnerable groups and areas are both needed. Without the first, special schemes are less likely to succeed.

Second, there is the equally urgent need to break the link between poverty and unemployment by increasing the basic benefit for those out of work – to reduce the extent of poverty, and the damage it causes now and in the long term, and also to help maintain demand. A revival of benefits for those reduced to short-time working would also ease pressures and prevent further run-down.

Third, both the quantity and quality of support for jobseekers in Jobcentre Plus and elsewhere need to be expanded. More attention needs to be given to ensuring that the quality of work available is improved to reduce the problems caused by low pay and poor quality work, already higher in the UK than among our European neighbours.

Fourth, greater investment in welfare rights, money advice and related support is very important. Help for those with heavy commitments, including mortgages, caught by reduced incomes will prevent greater problems not only for them and their families, but more generally. Ensuring higher take-up of entitlements, especially where the recession hits hardest, helps to reduce its impact on individuals, families and the wider community. ■

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