

Press Release

Recession hitting low-skilled, younger workers hardest

Predictions that this would be a predominantly ‘middle class’ or ‘white collar’ recession, because of the plight of the financial sector, have not yet been borne out in reality, according to a new study by IFS researchers. Low-skilled, low-educated and young workers are seeing a bigger deterioration in their job prospects than skilled and educated ones, just as in previous recessions.

Using a variety of data sources, the IFS report examines how previous recessions have hit different groups in society, and traces the path of living standards, poverty and inequality during previous economic downturns. The authors then use the latest available data regarding the current recession to highlight particular areas for concern over the coming months.

A sharp rise in unemployment may have a bigger impact on the relative living standards of those losing their jobs this time round compared with previous recessions, because out-of-work benefit entitlements have been falling relative to average incomes for the past twenty years. This is particularly true for working-age individuals without children. For example, out-of-work benefits for single adults under 25 are now worth only 40% of the poverty line (after housing costs have been deducted), compared with 55% just before the start of the last recession in the early 1990s. Although they are entitled to more, there have been equally large declines for single adults over 25 and couples.

Meanwhile, even though the job prospects of high earners are not being hit disproportionately to date, their incomes are likely to fall or stagnate for the next few years. People at the top of the income distribution receive more of their income from savings and investments than those lower down, and a significant fraction work in the financial sector. This makes top incomes particularly sensitive to the performance of financial markets.

The study also documents trends in living standards, poverty and inequality during previous recessions. It shows that:

- Average household incomes fell in real-terms during previous recessions, with falls continuing after the

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recession ended as unemployment continued to rise. Family types more dependent on wages and salaries (such as working-age adults without children and couples with children) have been more affected by downturns than those dependent on fixed incomes or state benefits (such as pensioners and lone parents). The incomes of the less educated have also fallen most in previous recessions.

- Inequality fell during the recession of the mid-1970s, rose during that of the early 1980s and was more or less unchanged during the early 1990s recession. However, incomes in the middle of the income distribution fell by more than those at the bottom in all these recessions.
- In principle, a recession can push relative poverty either higher or lower. Rises in unemployment will increase the number of low income households. However, falls in average incomes will lower poverty thresholds defined relative to average income, such as the 60% of median income definition used for the current government's child poverty targets.
- In practice, relative poverty across the whole population has fallen in recent recessions, driven by big falls in pensioner poverty. Pensioners are much less likely to be affected by rising levels of unemployment or lower earnings growth than people of working age. However, absolute poverty (i.e. defined against a poverty threshold that does not decline with average incomes, but is just updated with inflation) has risen, particularly for families with children.

Luke Sibieta, a senior research economist at the Institute for Fiscal Studies, said: "Although those on high-incomes will feel the pinch from the current recession, the low-skilled, less-educated and younger adults are likely to be hardest hit, as in the past. Unfortunately, these individuals are probably least well-placed to cope with such an impact. Working-age adults without children are likely to fare particularly badly, compared with previous recessions, since their out-of-work benefits are far less generous than they were during previous downturns."

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Notes to Editors:

1. For copies of the report or other queries, contact:
Emma Hyman or Bonnie Brimstone at IFS: 020 7291 4800, emma_h@ifs.org.uk,
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2. “Living standards during previous recessions” will be launched on the morning of Friday 8th May 2008. The briefing will start at 10:30am and is expected to conclude by 12:30pm. Please contact Bonnie Brimstone (020 7291 4800, 07730 667013 or bonnie_b@ifs.org.uk) for details if you would like to register to attend.
3. An accompanying press release analyses today’s Households Below Average Incomes statistics released by the Department for Work and Pensions. Further analysis of the data underlying the official statistics will be available in *Poverty and Inequality in Britain: 2009* by Mike Brewer, Alastair Muriel, David Phillips and Luke Sibieta. This report will also be launched at IFS on 8 May 2009. The briefing will start at 10:30am and is expected to conclude by 12:30pm. If you would like to attend, please contact Bonnie Brimstone (020 7291 4800 or bonnie_b@ifs.org.uk).
4. The authors are very grateful for financial support from the Nuffield Foundation for the project ‘Poverty and Inequality: 2007–2009’. Co-funding from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS is also very gratefully acknowledged.