Living Standards During Previous Recessions

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Motivation

- Recessions defined by falls in GDP and rises in unemployment
- What about the effect on net household incomes?
- Are some groups affected more than others?
- What happens to measures of poverty and inequality
- Could the current recession be different?
What might we expect?

- **Recessions lower earnings growth and increase unemployment**
  - So would expect larger effects on working age individuals?

- **What effect on poverty?**
  - It depends…
  - Higher numbers of low-income households
  - But a lower relative poverty threshold

- **What effect on inequality?**
  - Again, it depends…
  - Do the rich and poor see equally large falls in their incomes?
Falls in net household incomes during recessions

Weak growth before recession

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Average incomes across family types

- Couple Pensioners
- Single Pensioners
- Couples with children
- Couples without children
- Singles without children
- Lone Parents

Interruption by recessions for others

Steady growth for pensioners and lone parents

Sources: ONS/FRS/FES
Notes: Median Income for individual family types
Across incomes by age left education

Rise or stabilise

Fall or stabilise

16 or less
17-20
21 or over

Sources: ONS/FRS/FES
Notes: Median Income for individual schooling groups

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No single trend during recessions
Income Inequality (Percentile Comparisons)

- No one trend in top-middle gap
- Bottom catches up with middle

Sources: ONS/FRS/FES

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Falls in overall relative poverty during past recessions

- Not accounted for by rise in child poverty
- Or working-age adults with no children

Proportion in relative poverty

Sources: ONS/FRS/FES
Notes: Poverty threshold defined using 60% of contemporary median (BHC)
BUT, Big falls in pensioner poverty

Proportion in relative pc

At a lower base now
Still highly cyclical?

Sources: ONS/FRS/FES
Notes: Poverty threshold defined using 60% of contemporary median (BHC)
Poverty during previous recessions

• Falls in relative poverty during previous recessions
  – Driven by big falls in relative pensioner poverty

• But, relative poverty line falls in real-terms during recessions

• Define new indicator of poverty at the start of each recession
  – Individuals are in poverty if they have less than 60% of median income in first year of a recession
  – Update with inflation, NOT average incomes
  – Refer to this as a measure of “absolute poverty”
Little change in these overall measures of absolute poverty during past recessions
Rises in absolute child poverty

Sources: ONS/FRS/FES

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Rise amongst working-age adults without children

Years since start of recession

Percentage in absolute

- 1970s
- 1980s
- 1990s

Sources: ONS/FRS/FES

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Falls in absolute pensioner poverty

Years since start of recession

Percentage in absolute

1970s
1980s
1990s

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What about the current recession?

- Some have suggested this is a “middle-class” or “white-collar” recession
- But, largest rises in unemployment have been concentrated amongst:
  - Low-skilled professions
  - Workers with lower levels of education
  - And, younger workers
Increases in unemployment by occupation

Change in number of benefit claimants March-08 to March-09, as % of all workers in occupation in Q2 2008

- Elementary occupations
- Process, plant & machine operatives
- Sales & customer service
- Personal service
- Skilled trades
- Administrative & secretarial
- Associate professional & technical
- Professional
- Managers & senior officials

Source: ONS
Increases in unemployment by education group

- Graduates
- Non graduates
- No qualifications

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Increases in unemployment by age-group

© Institute for Fiscal Studies  Source: ONS
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- What about out-of-work benefit rates?
- Benefit rates for working-age adults without children have declined relative to average incomes
  - Could feel a bigger impact this time round
Out of work benefit rates over time for selected family types

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Source: FRS, benefit tables
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- Larger impact on top incomes?
  - Started in financial sector
  - Top incomes and stock market performance have moved together in the past
Summary of past recessions

- **Average incomes fall during previous recessions**
  - Mainly for those with higher dependence on labour market
  - Pensioners and lone parents seem less affected
  - Bigger effects on those with less schooling

- **No one rule for income inequality**
  - Some evidence of bottom catching up with middle

- **Falls in relative poverty, driven by fall in pensioner poverty**

- **No change in indicators of absolute poverty**
  - BUT, up amongst children, down amongst pensioners
What about this time round?

- Biggest rises in unemployment amongst low skilled occupations, less educated and young workers
  - Same as before

- Relatively ungenerous out of work benefits for working-age adults without dependent children

- Potentially large impact on top incomes