

## Press Release

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# New study reveals effects of 'Great Recession' across OECD countries

The UK recently experienced its worst recession for over sixty years, and large falls in GDP were seen across many other developed countries. As part of a new cross-country study commissioned and supported by the Fondazione Rodolfo De Benedetti, IFS researchers have examined the effects of this recession on UK households. This is one of the first studies to look at the effects of the 'Great Recession' on the distribution of living standards, and to do so in comparative perspective across countries.

The report shows that:

- The fall of 6% in UK GDP from peak to trough during the Great Recession lies somewhere in the middle of the international experience. Countries such as Ireland, Japan and Sweden experienced sharper falls, and countries such as Canada saw smaller falls (or, in the Australian case, no fall at all).
- The employment rate in the UK fell by substantially less than GDP – it was 1.6 percentage points lower in 2009 than 2007. Again, this is somewhere in the middle of the international experience. Over the same period, the employment rate rose in Germany, barely changed in France, and fell by more than 4 percentage points in the US. Falls in employment in the UK were concentrated most on men and the young, a pattern observed in many other countries.
- UK households were relatively insulated from the *immediate* impacts of the Great Recession, as median net household incomes continued to grow slightly between 2007–08 and 2009–10 (the latest household income data available). This is a phenomenon common to other countries (e.g. Sweden, the US, and even Ireland), due in large part to the stabilising role of state welfare systems and (particularly in the UK case) unusually generous increases in financial state support during the recession. Much of this protective effect was concentrated on households in the bottom half of the income distribution.
- However, as governments attempt to repair their public finances, household incomes now look set to be squeezed for a considerable length of time. In the most recent financial year (2010-11), earnings, state benefits and tax credits all fell in real terms in the UK. As part of this study, IFS researchers estimate that this is likely to have led to a fall in median net household income of 3.5%, the largest single-year drop since 1981, returning it to its 2003–04 level.

It thus seems that much of the impact of the Great Recession on UK living standards was not felt until after the economy had stopped contracting, but that the pain was most definitely delayed rather than avoided. Previous IFS research has already shown that the decline in average living standards looks

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set to continue until at least 2013-14. Taken together, this would mean that the UK had experienced one of the worst decades for changes in living standards since at least the Second World War. The Great Recession thus looks set to cast a very long shadow.

Robert Joyce, a Research Economist at IFS and a contributor to the report, said "The current economic downturn began more than 3 years ago, and may seem like old news. But, as in other developed countries, the most severe consequences of the recession on UK living standards have only just begun to be felt, and will continue to be felt for years to come."

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## ENDS

### Notes to Editors:

1. This work was funded by the Fondazione Rodolfo De Benedetti (FRDB) and builds upon work funded by the ESRC Centre for the Microeconomic Analysis of Public Policy (CPP) and the Joseph Rowntree Foundation (JRF). FRDB is a research institute on labour and social policies in Europe, based in Milan.
2. For embargoed copies of this chapter or other queries, contact: Bonnie Brimstone at IFS: 020 7291 4818, [bonnie\\_b@ifs.org.uk](mailto:bonnie_b@ifs.org.uk);
3. This chapter forms part of 'The Effect of the Great Recession on the Household Income Distribution'. For press copies of the full report or for further information please contact the LSE press office at +44 (0)207 955 7060 / +44 (0)7515 190722 or [Pressoffice@lse.ac.uk](mailto:Pressoffice@lse.ac.uk)
4. For comparability with the measures of income used in the other country-specific case studies in the report, the measure of UK household income is equivalised using the square root of household size. This is different from the modified OECD equivalence scale, which is used in official government income statistics in the UK and in other IFS publications that concern household incomes. Qualitative conclusions are not sensitive to the change of equivalence scale.