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Fiscal Studies



## Living Standards During Previous Recessions

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May 8<sup>th</sup>, 2009

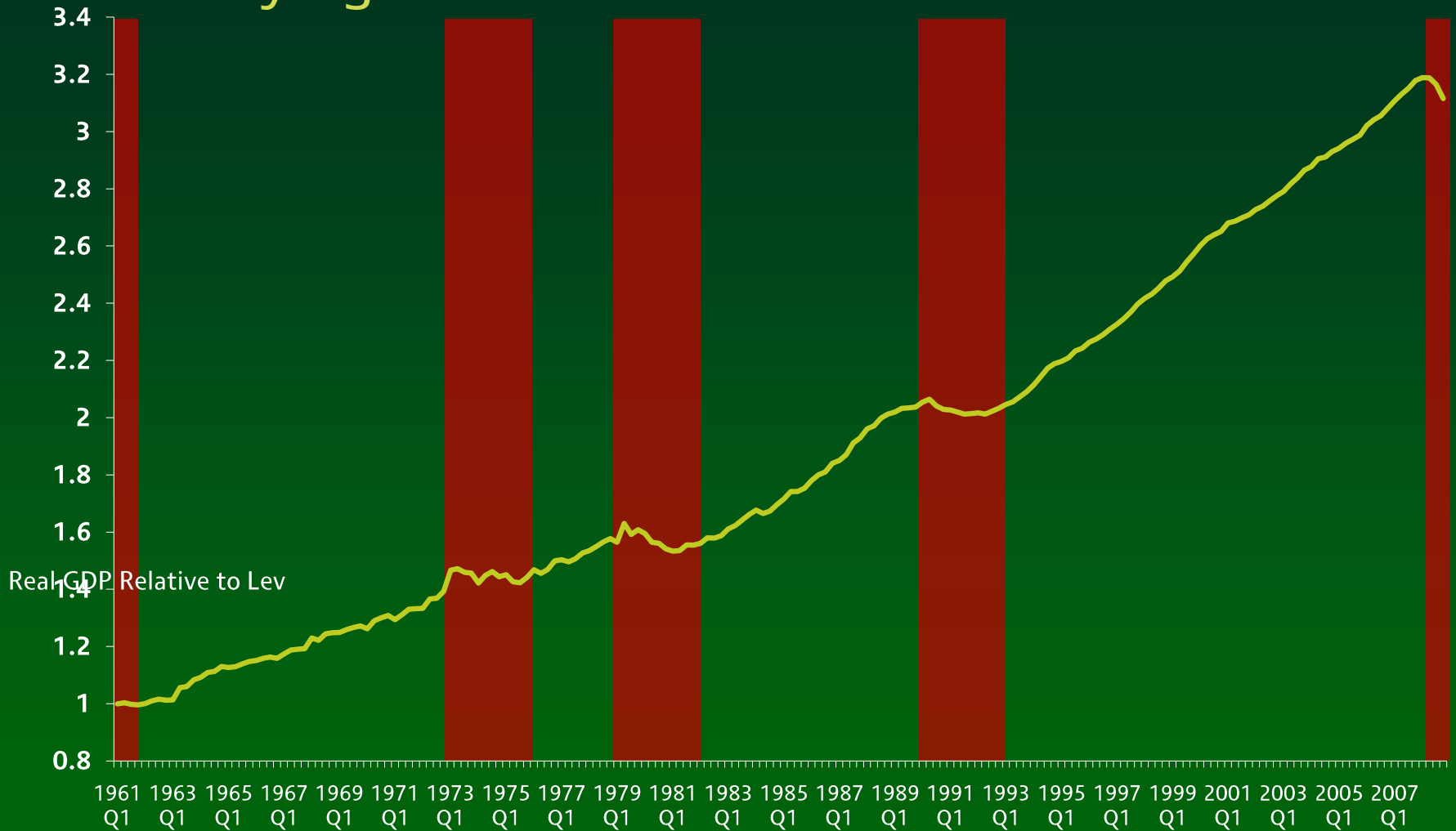
# Motivation

- 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?

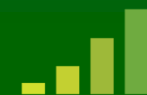
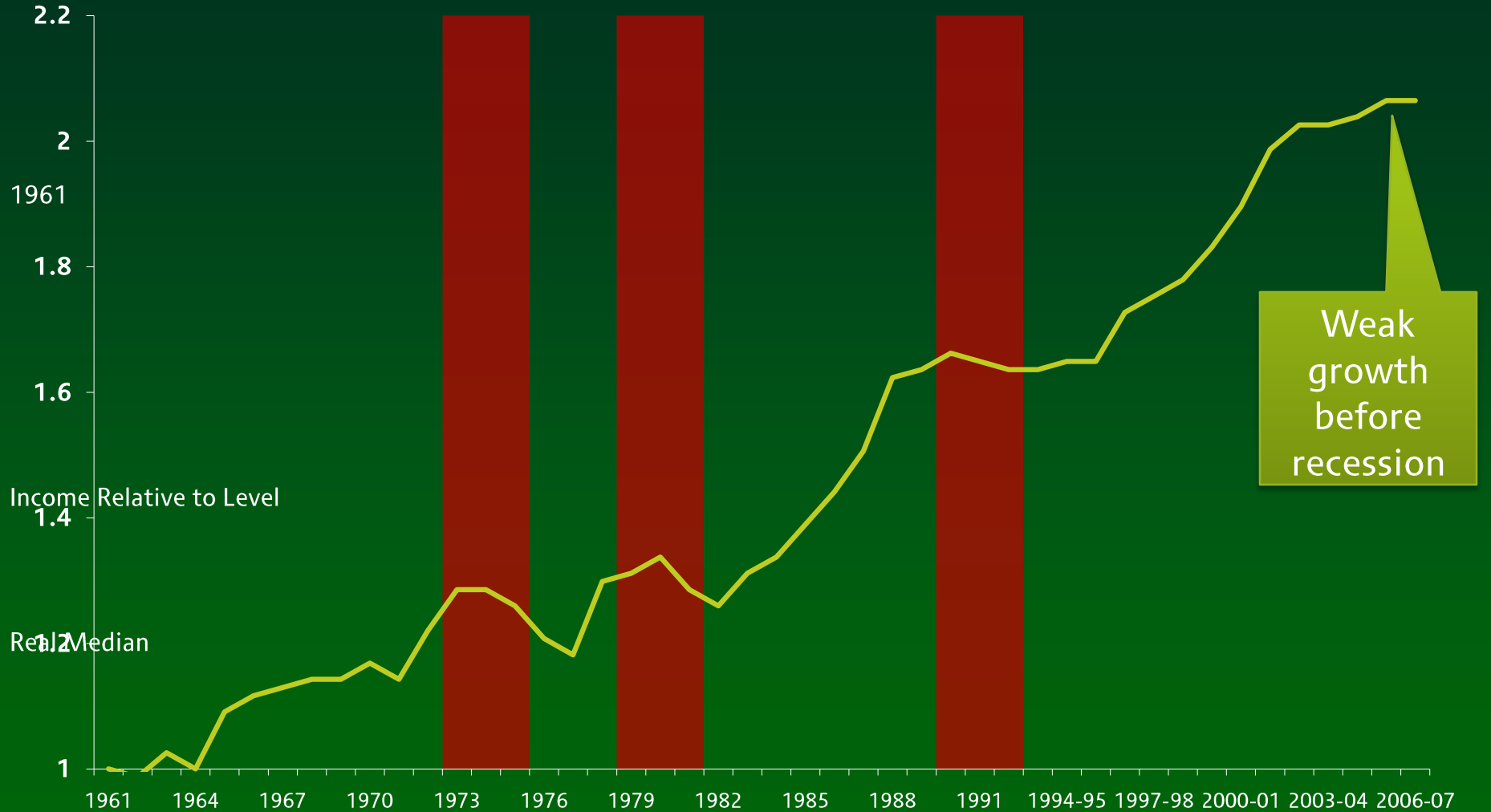
# What might we expect?

- **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?

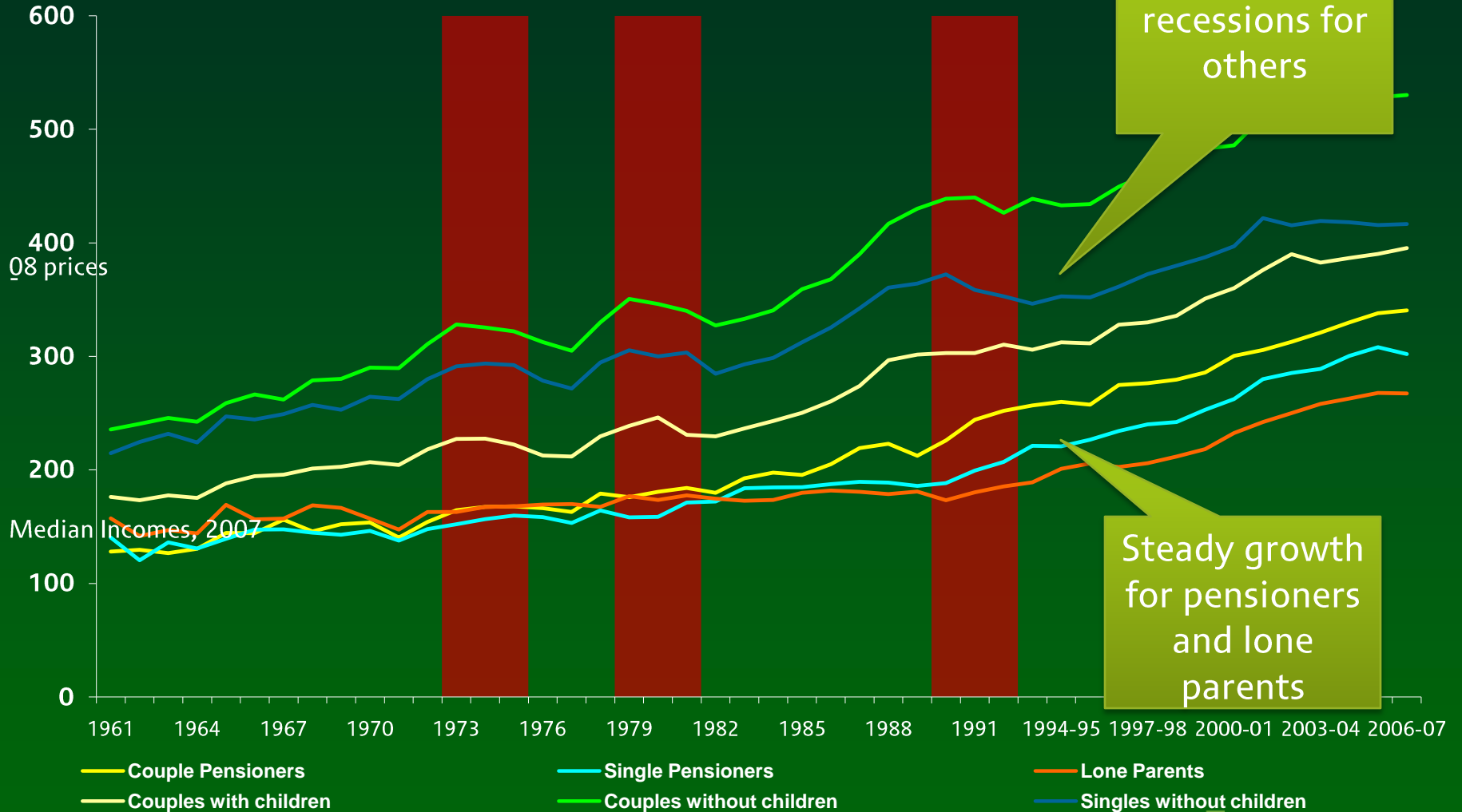
# Identifying recessions since 1961



# Falls in net household incomes during recessions



# Average incomes across family types

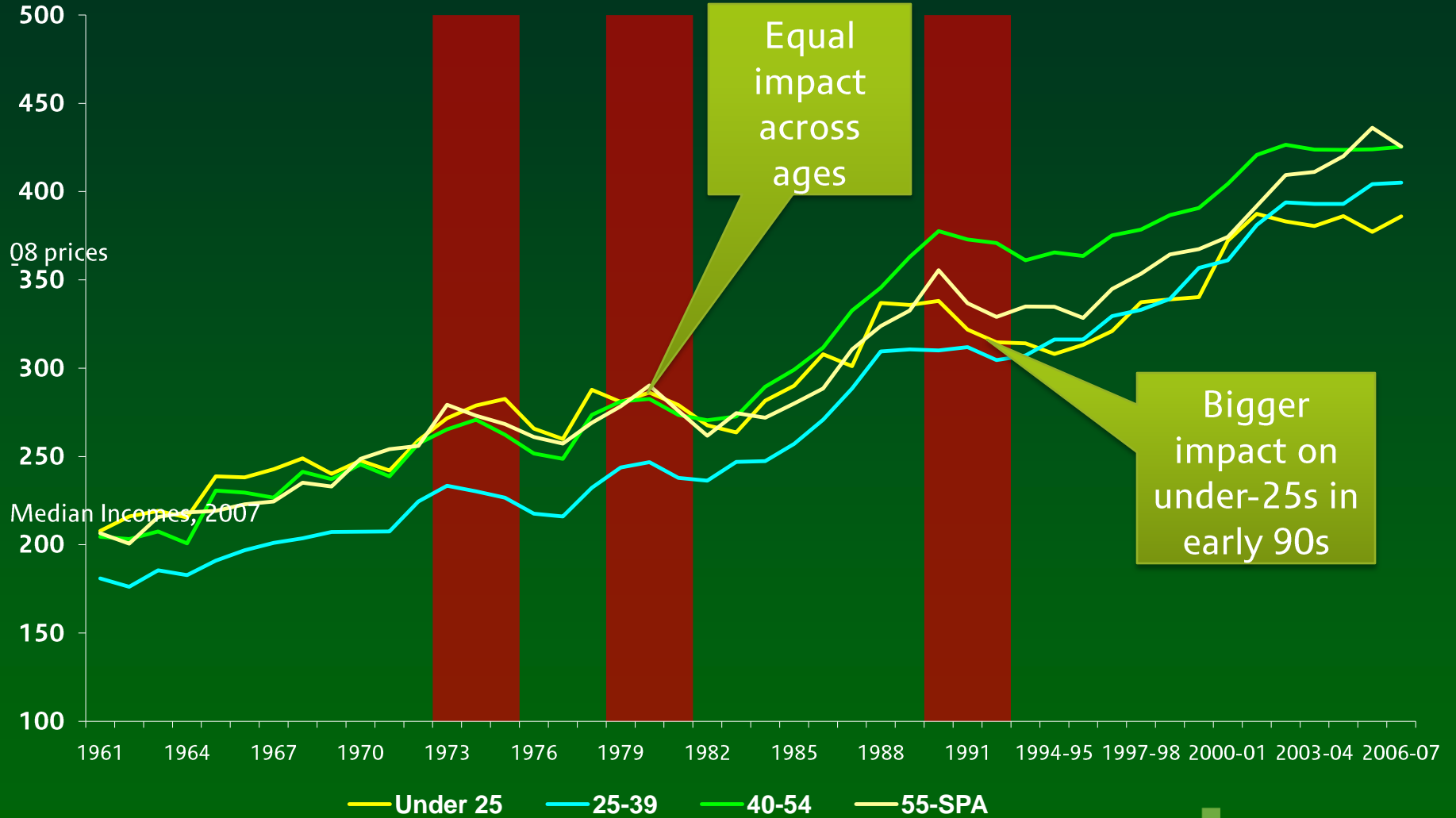


Sources: ONS/FRS/FES

Notes: Median Income for individual family types



# Average incomes across age groups



Sources: ONS/FRS/FES

Notes: Median Income for individual age groups, excluding pensioners



# Across incomes by age left education



Sources: ONS/FRS/FES

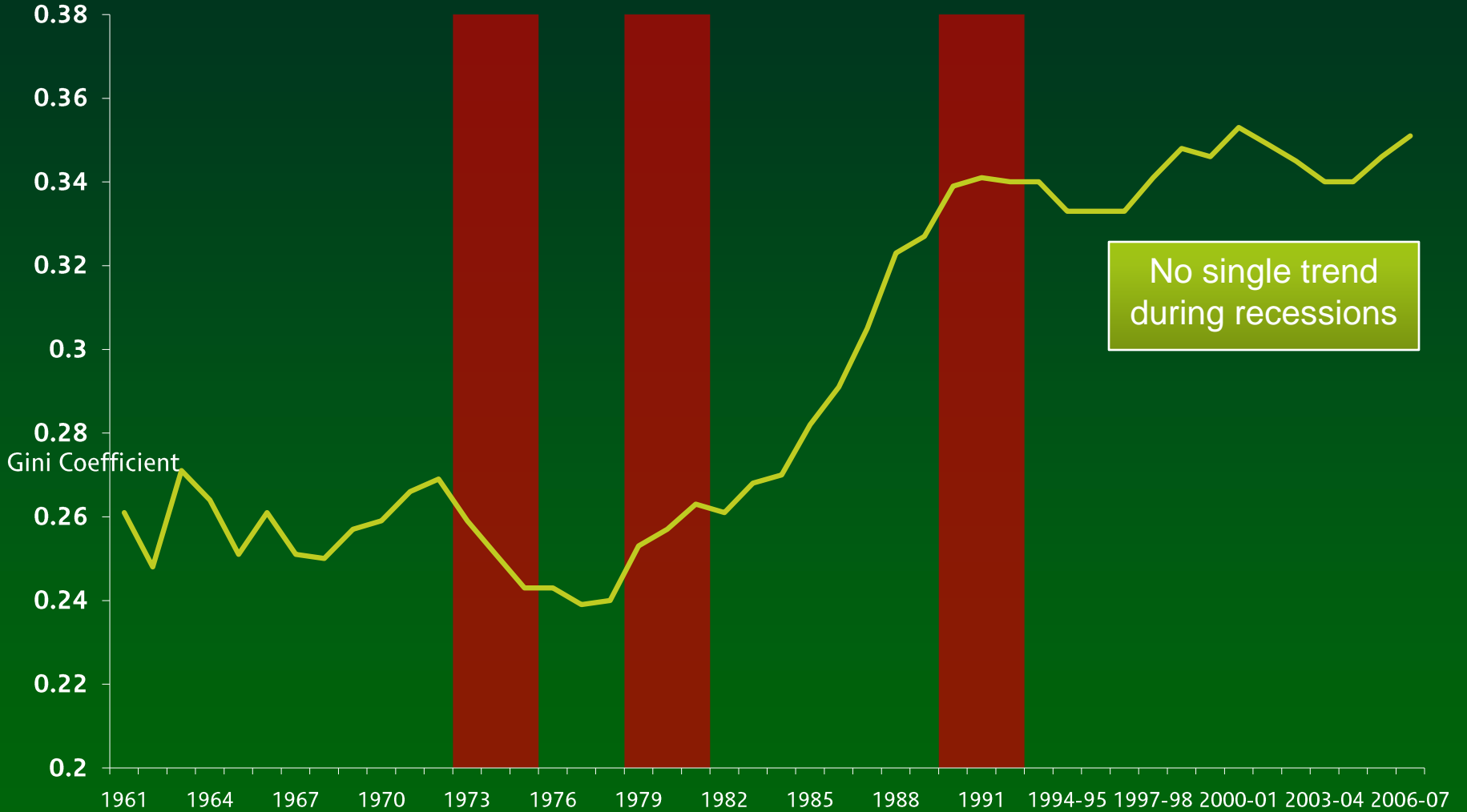
Notes: Median Income for individual schooling groups



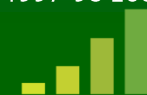
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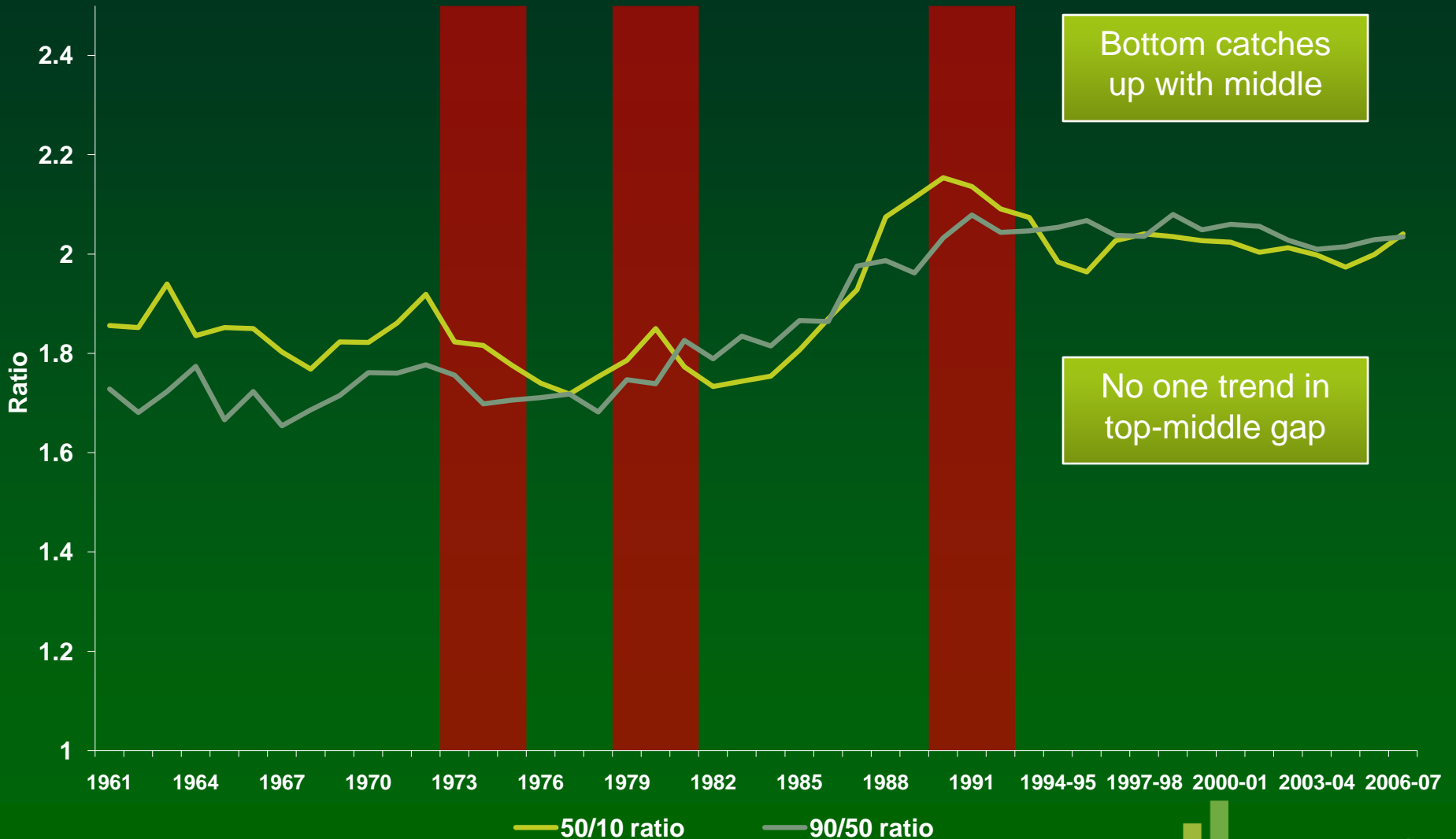
# Income Inequality (Gini Coefficient)



Sources: ONS/FRS/FES



# Income Inequality (Percentile Comparisons)



Sources: ONS/FRS/FES



# Falls in overall relative poverty during past recessions

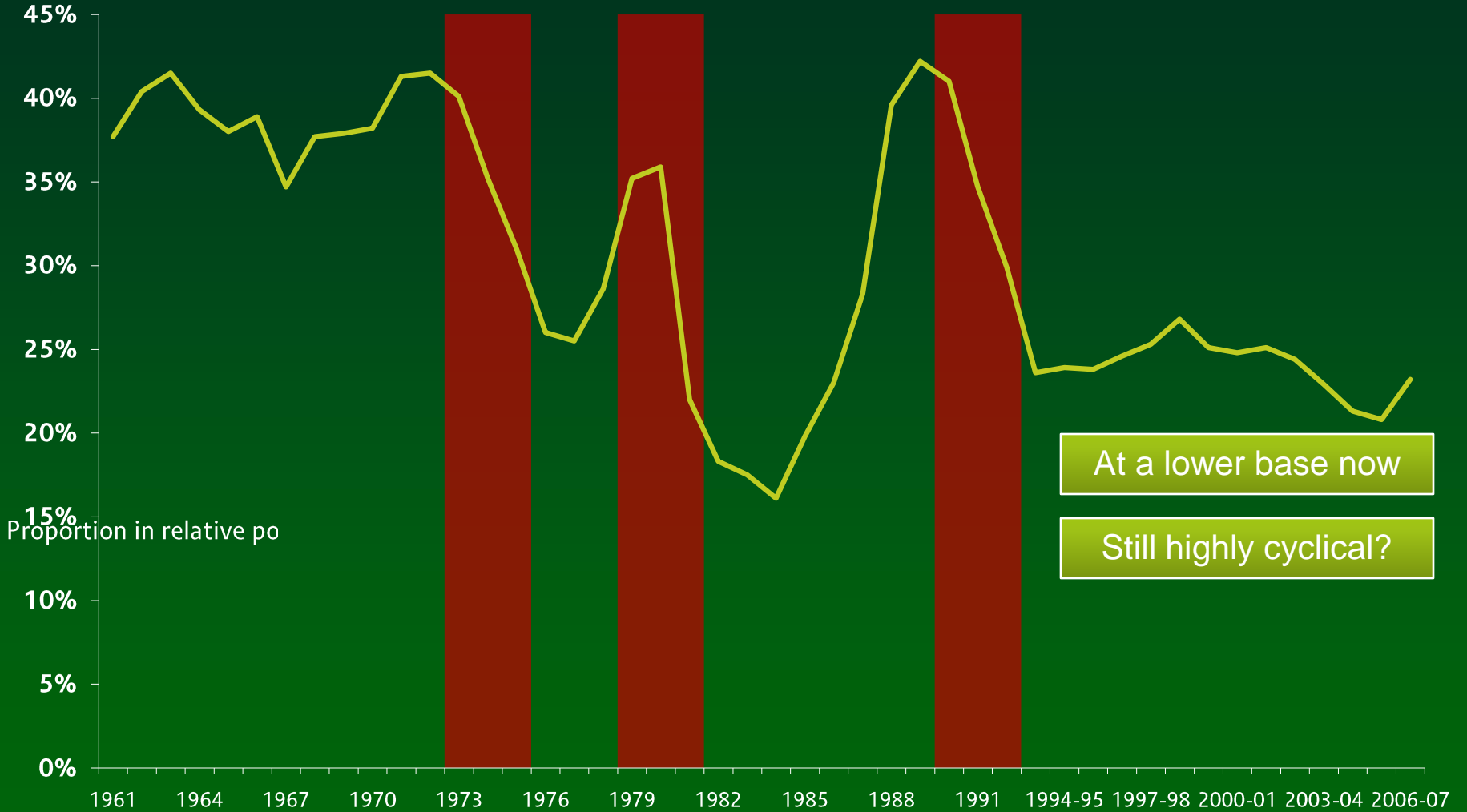


Sources: ONS/FRS/FES

Notes: Poverty threshold defined using 60% of contemporary median (BHC)



# BUT, Big falls in pensioner poverty



Sources: ONS/FRS/FES

Notes: Poverty threshold defined using 60% of contemporary median (BHC)

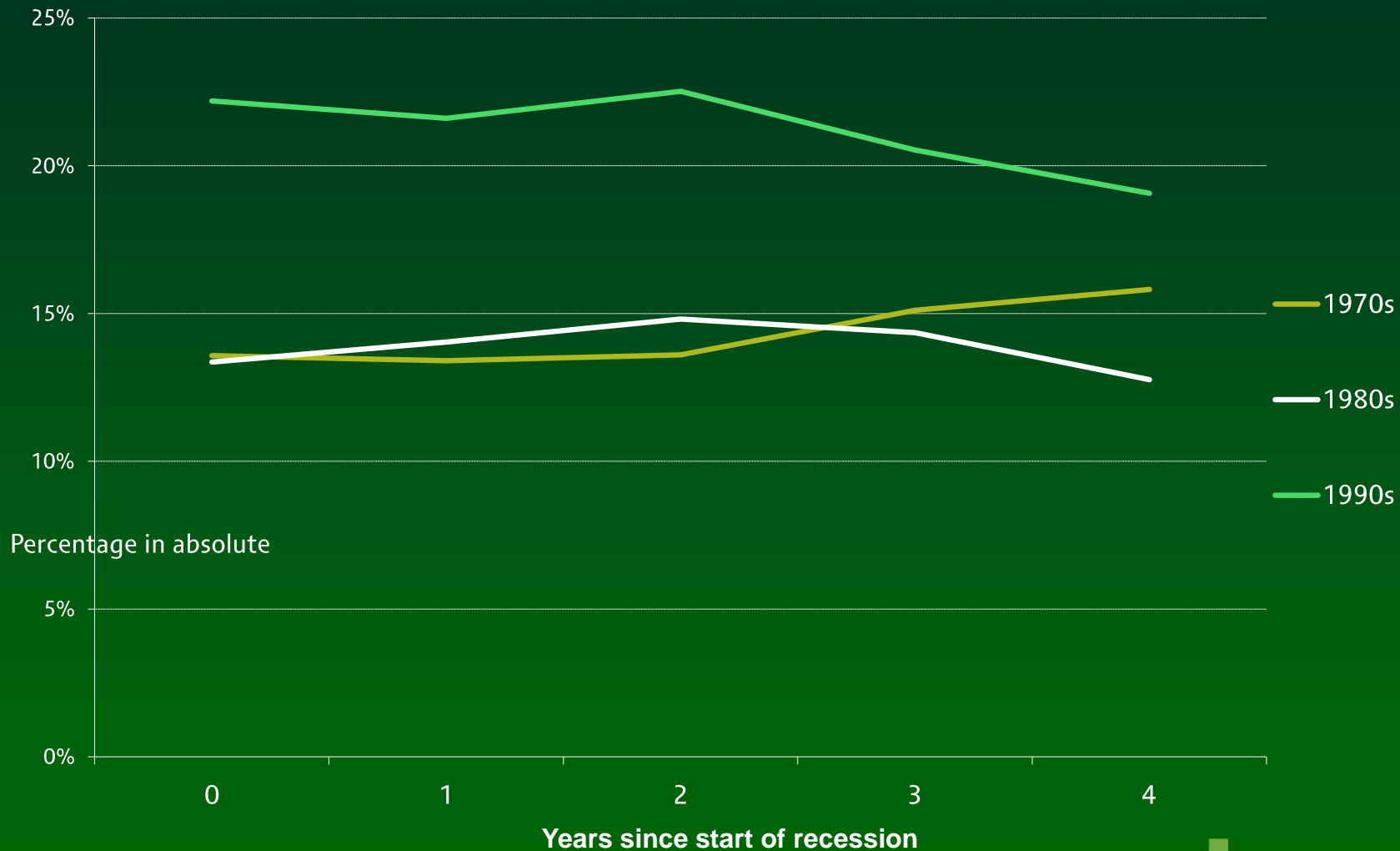


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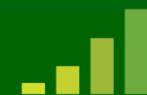
# Poverty during previous recessions

- 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”

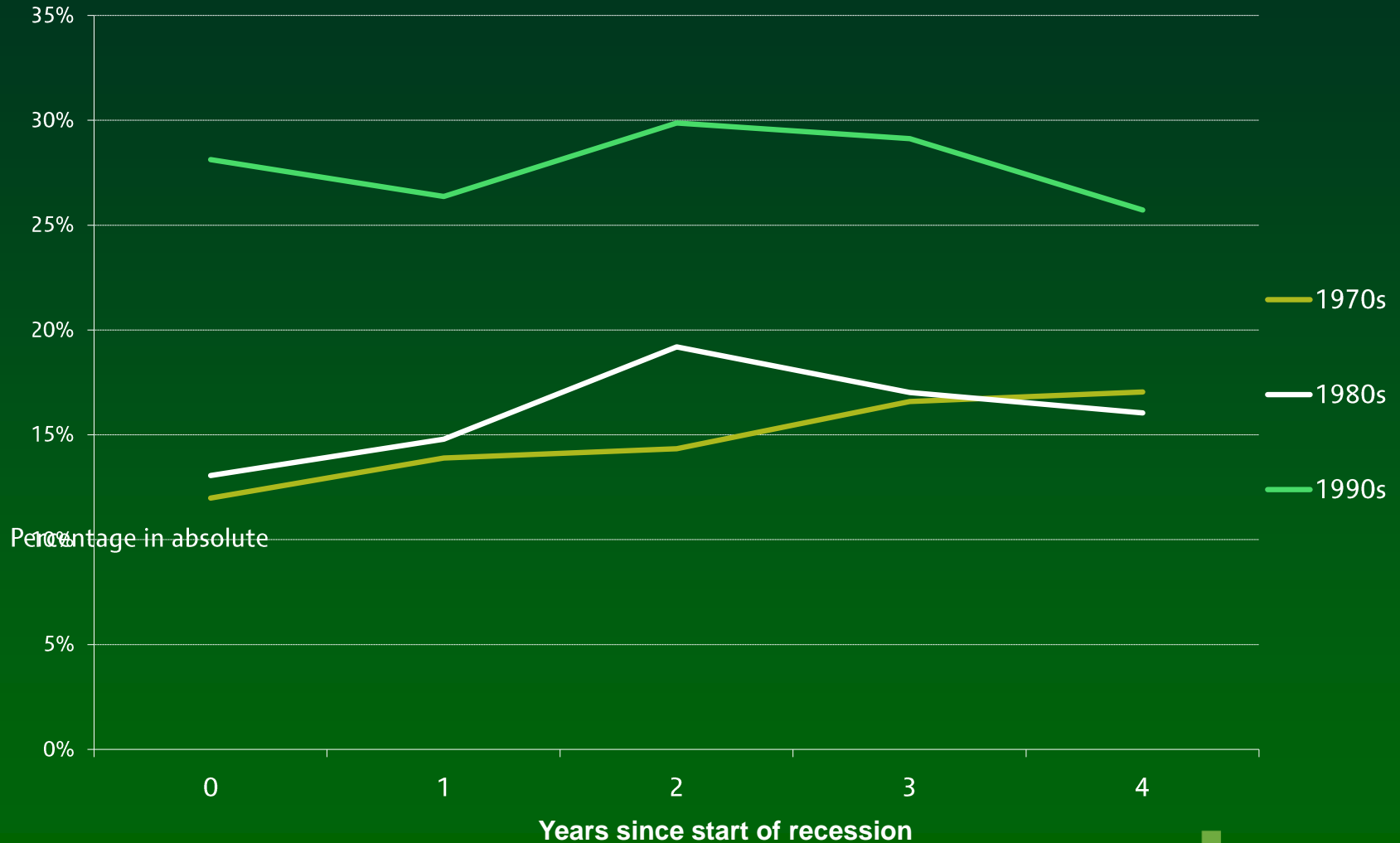
# Little change in these overall measures of absolute poverty during past recessions



Sources: ONS/FRS/FES



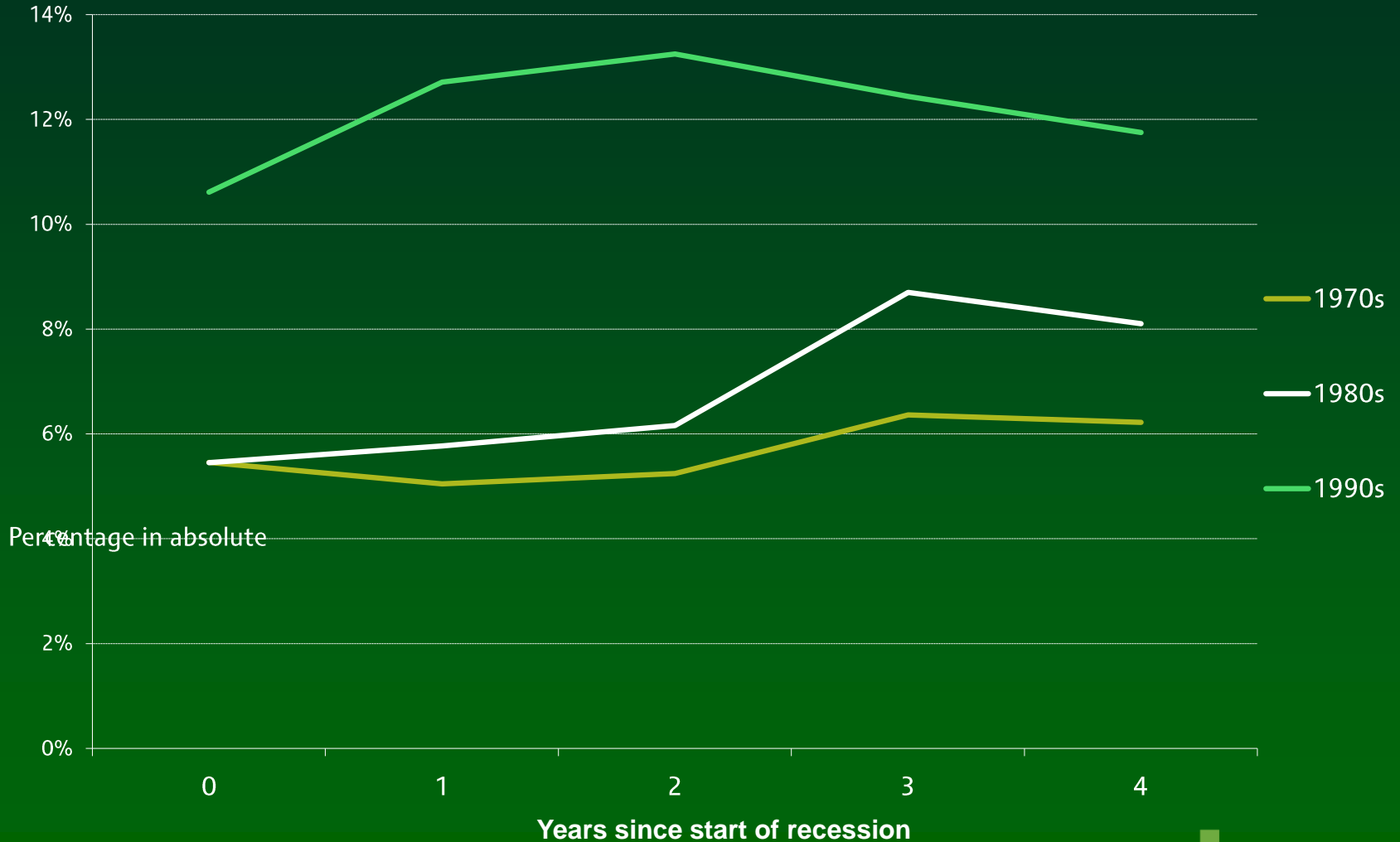
# Rises in absolute child poverty



Sources: ONS/FRS/FES



# Rise amongst working-age adults without children

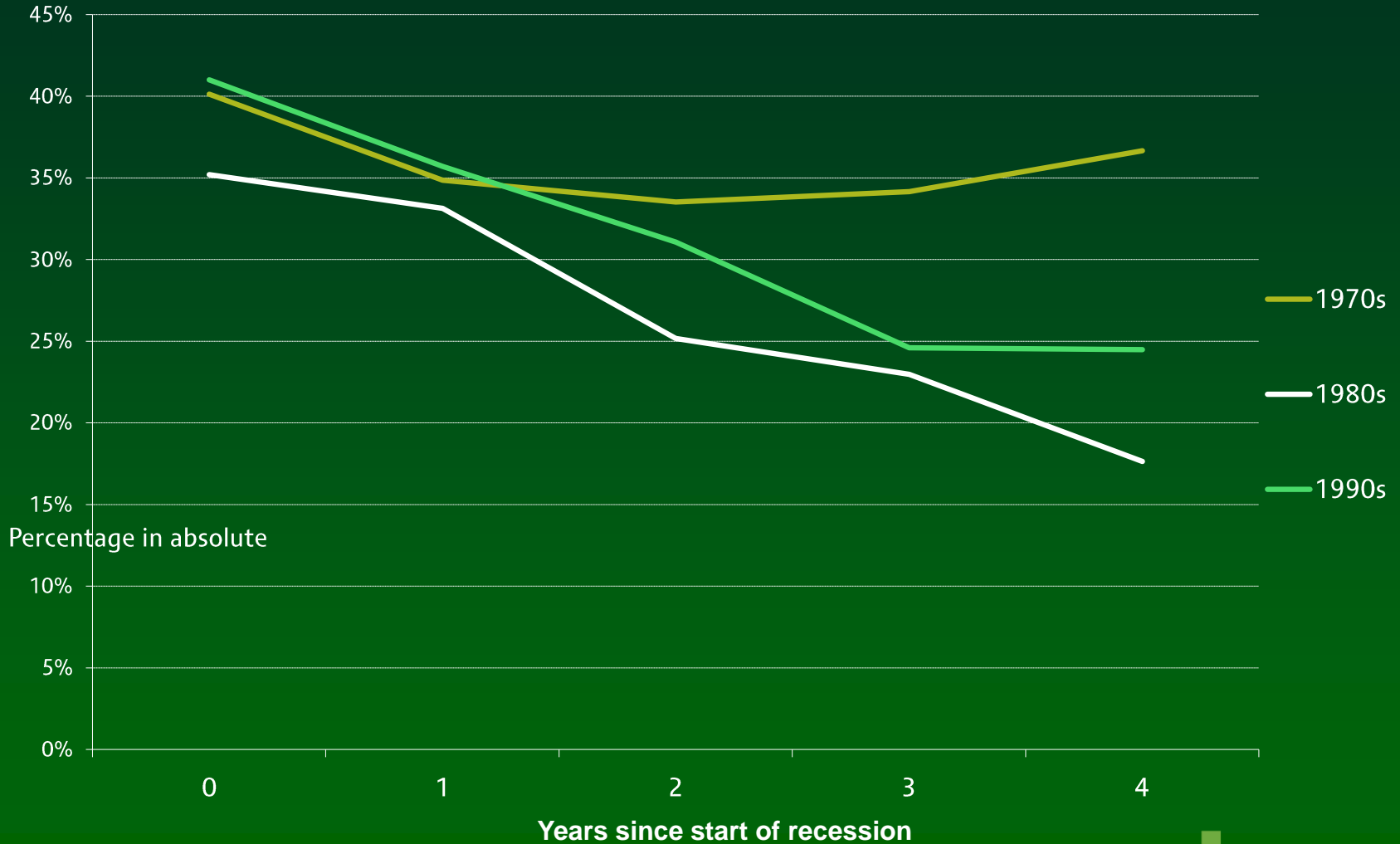


Sources: ONS/FRS/FES





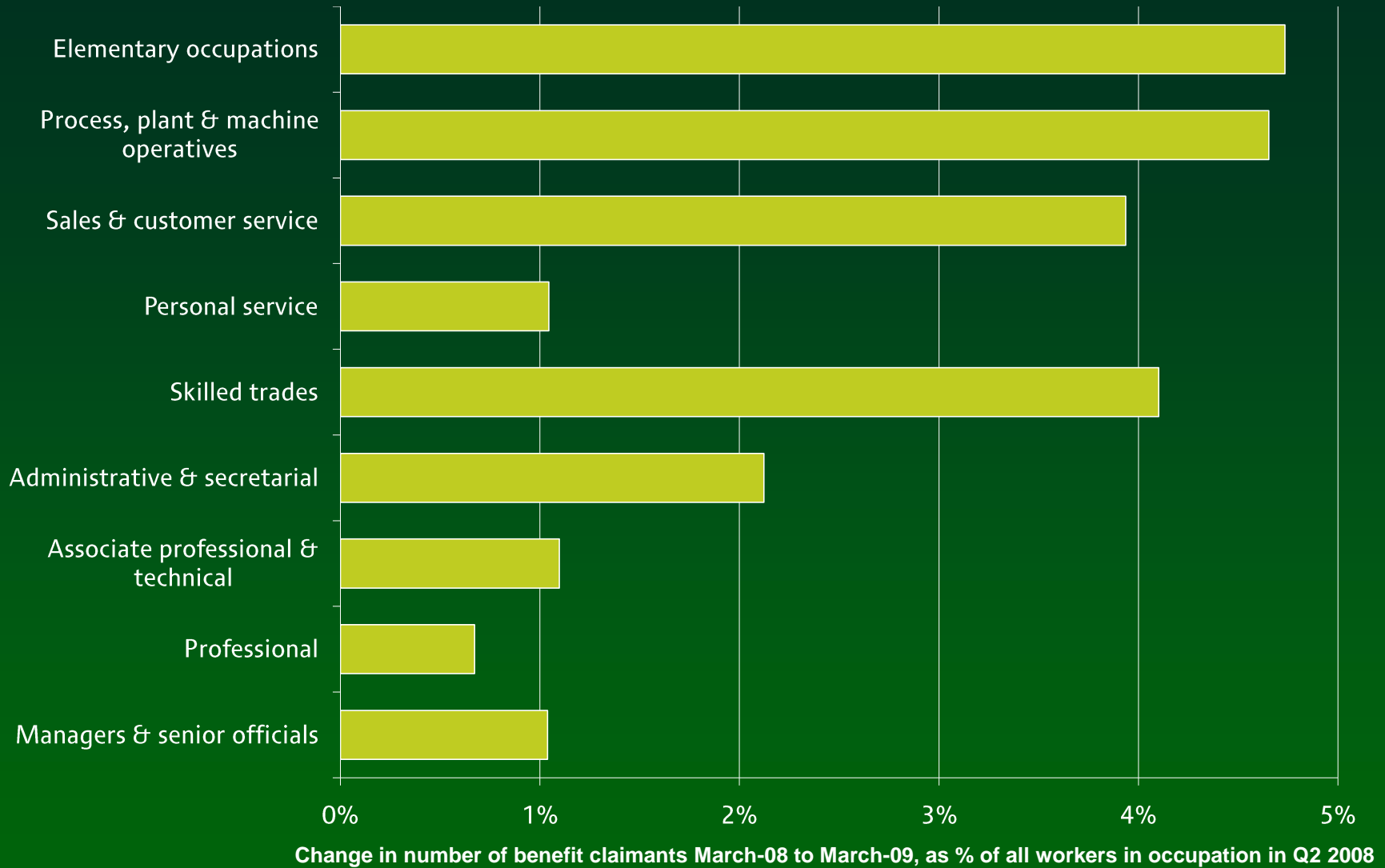
# Falls in absolute pensioner poverty



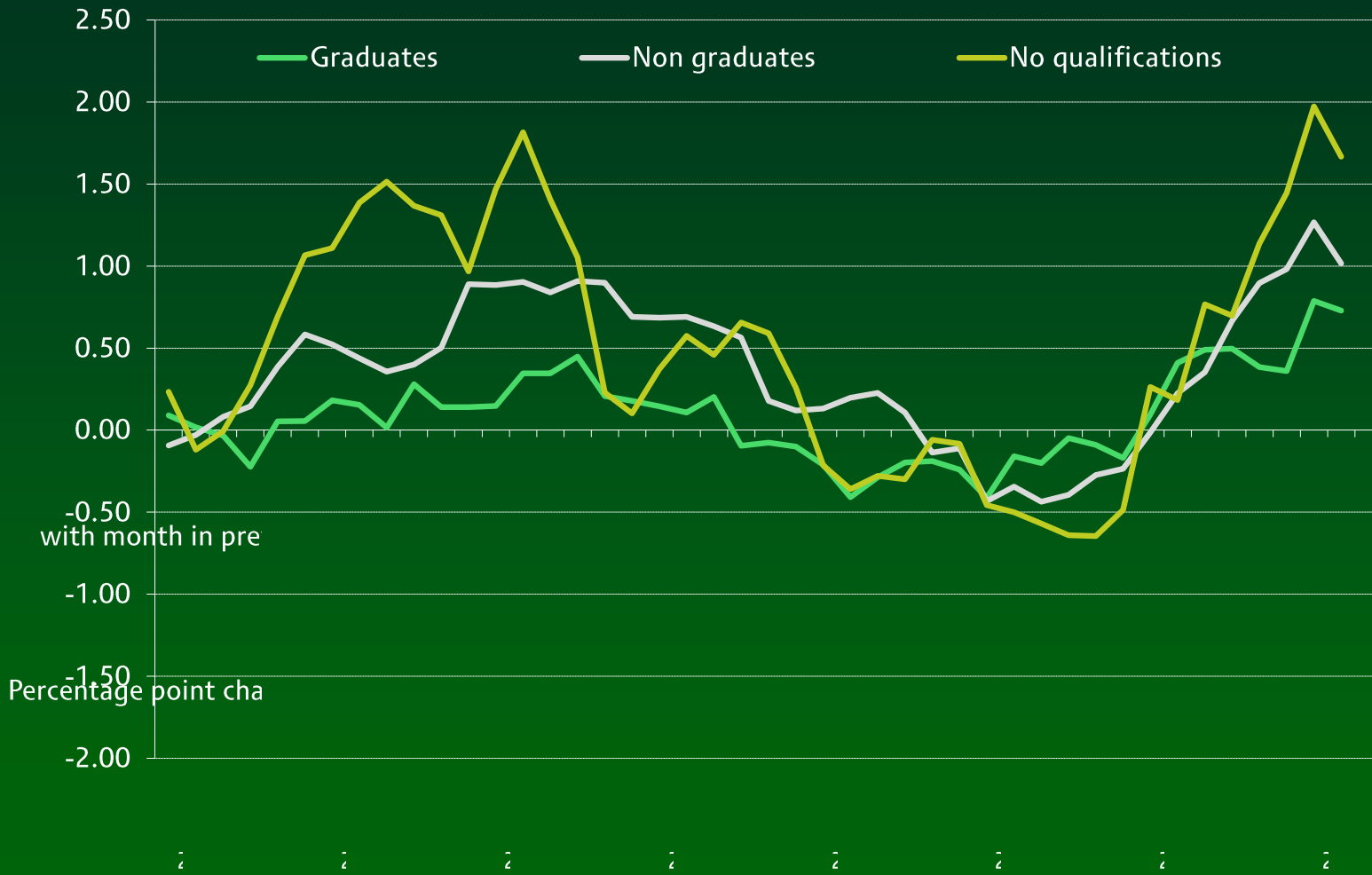
# What about the current recession?

- 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

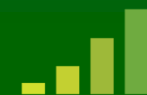
# Increases in unemployment by occupation



# Increases in unemployment by education group



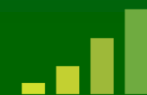
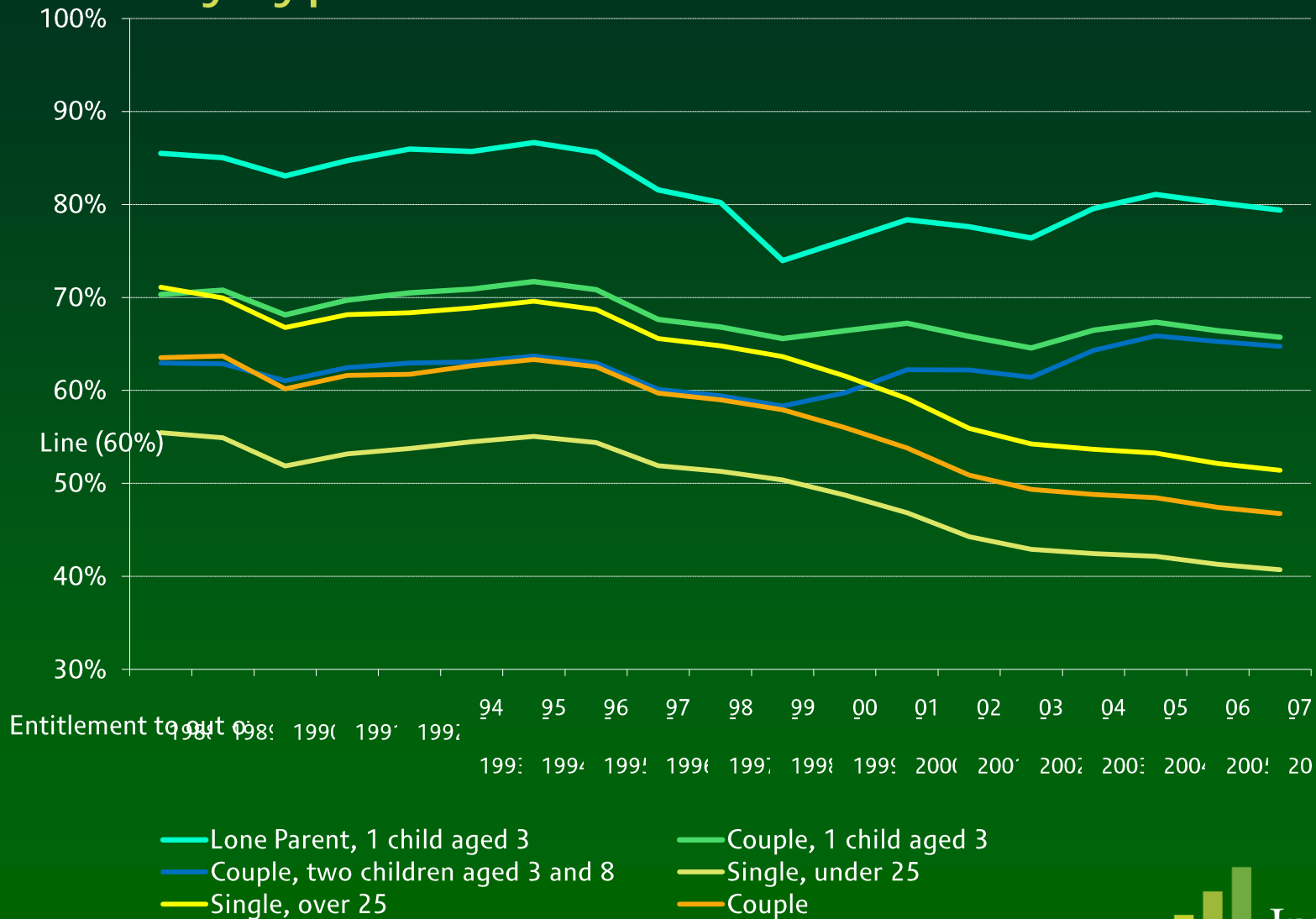
# Increases in unemployment by age-group



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- **But, largest rises in unemployment have been concentrated amongst:**
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  - Workers with lower levels of education
  - And, younger workers
- **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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- **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**