

**FABIAN
SOCIETY**

DOUBLE TROUBLE

MASS UNEMPLOYMENT AND BENEFIT
CUTS AFTER THE PANDEMIC

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 **Standard Life
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1. INTRODUCTION

2020 has been a year that millions of people would rather forget. Everyone in Britain has lost something and many have suffered very greatly - through illness, isolation, bereavement or having no work. 9 million employees were on furlough in the early summer and the number of people relying on universal credit has increased by 3 million so far this year.¹

Looking forward to 2021, the public health prospects are brighter and mass vaccination holds out the possibility of a return to social normality by the middle of next year. But the economic consequences of the crisis are likely to last much longer. With turmoil across so much of the economy, there is every reason to expect a steep rise in unemployment in 2021, once the furlough and business support measures come to an end.

At the same time, in April 2021, ministers are planning to implement a huge cut in social security by reversing the temporary benefit policies they introduced at the start of the pandemic. The key change was a rise in the main adult allowance for universal credit of around £20 per week. This was a hugely welcome measure and has sustained millions of households with zero or low earnings through 2020. Now we can expect it to disappear, just as the government's main unemployment-prevention measures come to an end.

This paper examines the consequences for families of a sharp rise in unemployment alongside these cuts to social security. It first looks at the difference that will be made by keeping or scrapping the temporary 2020 social security measures, while assuming there is no significant change in unemployment; then it examines the consequences for households of mass unemployment in 2021; and finally it looks at the combined effects of an April benefit cut and mass unemployment.

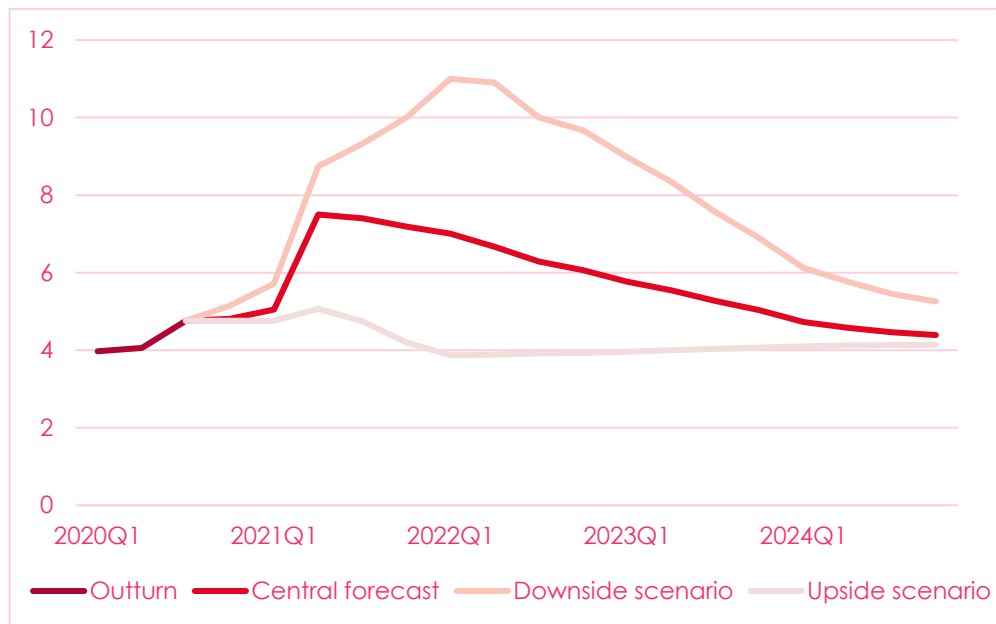
The analysis uses the Landman Economics Tax-Transfer Model (TTM) to project the impact of labour market and public policy changes. TTM is a micro-simulation model of the tax-benefit system that uses data from the 2018/19 Family Resources Survey to analyse the impact of changes on household incomes and the public finances (see appendix).

The outlook for unemployment

By the early Autumn unemployment had risen only modestly, due to the success of the government's emergency coronavirus interventions.² However OBR projections suggest that unemployment could rise fast during 2021.

The office's central forecast is for unemployment to peak at 7.5 per cent in 2021 (lower than peak unemployment following the 2008/09 financial crisis). Its upside scenario is for unemployment to peak at 5.1 per cent and its downside scenario is that unemployment will reach 11 per cent in 2021.³ This would take unemployment to heights last seen following the recession of the early-1980s and equates to around 4 million unemployed.

FIGURE 1: THE OBR'S SCENARIOS FOR UNEMPLOYMENT, NOVEMBER 2020



Source: Economic and fiscal report, November 2020, OBR, 2020

The OBR's downside scenario assumes that the public health emergency continues across 2021. But even if mass vaccination arrives sooner, there are other reasons for thinking that unemployment on this scale may be likely: millions of people have been away from their jobs for long periods this year and high-employment service sectors have been worst affected by the crisis, with many businesses likely to be permanently harmed by changed patterns of demand, cashflow pressures and delayed investment.

When compared to the past, the OBR's projections are also very optimistic about the persistence of unemployment and how quickly it will peak. In previous recessions, unemployment has risen steadily, month after month,

for anything between two and four years. By contrast the OBR's central projection is for unemployment to peak 1½ years into the downturn and then fall back quickly. With so much economic output lost between early 2020 and early 2021 the chances of a less benign outcome must be high.

FIGURE 2: UNEMPLOYMENT AFTER PREVIOUS RECESSIONS

Recession	Decline in GDP	Pre-recession unemployment	Peak unemployment	Time to reach peak
1980-1981	-4.1%	5.5%	11.9%	4½ years
1990-1991	-2.0%	6.9%	10.6%	2¾ years
2008-2009	-5.9%	5.2%	8.4%	3¾ years
2020-2021 OBR forecast	-12.1%	3.8%	7.5%	1½ years

Source: ONS GDP and unemployment rate time series; Economic and fiscal report, November 2020, OBR, 2020

For this paper we've examined the consequences for family finances of two unemployment scenarios. The first is no change (ie the level of unemployment before the crisis). This is broadly equivalent to the OBR upside scenario, where unemployment is expected to fall back to pre-recession levels by the end of 2021. Our second 'mass unemployment' scenario is similar to the OBR's downside scenario (ie unemployment well over 10 per cent).¹

The terrible impact of this mass unemployment scenario shows how, just as in recessions of the past, unemployment is never 'a price worth paying'. However, even the upside scenario has serious consequences because of the government's plans for benefit cuts.

We have not modelled a scenario similar to the OBR central forecast but the range of results we present provides a useful guide - if unemployment rises to around 7½ per cent per cent, outcomes will lie roughly half-way between the modelled results.

¹ The unemployment level we modelled was 11.9 per cent, the OBR's July projection for peak unemployment, a little higher than the OBR November downside scenario of 11 per cent.

Reversing the social security cuts is a top priority

Our analysis reveals that, with the planned benefit cuts, poverty will rise significantly over the medium term under both unemployment scenarios:

- **No change in unemployment:** the number in poverty rises by 1.1 million and child poverty rises by 400,000
- **Mass unemployment:** the number in poverty rises by 3.2 million and child poverty rises by 850,000

Between these two scenarios, if unemployment rises moderately (in line with the OBR's current central forecast) in the region of 2 million people will move into poverty.

The government's decision this year to increase the support available in universal credit was a huge boost to millions of families. In 2020 temporary social security rises brought vital help to people who lost work or who saw their earnings fall, as well as providing a welcome supplement to many already on low incomes.

However, in 2021 these measures will be even more important, after other emergency schemes come to an end. From April next year people who lose their job or whose earnings drop will not have other forms of protection. Huge numbers are likely to be affected, given expectations of widespread job losses.

Without action, family incomes and spending power will fall and poverty will rise dramatically, compared to the position we have seen this year with emergency protective measures in place. It is now essential that ministers put the 2020 social security increases on a permanent footing.

2. REVERSING THE 2020 SOCIAL SECURITY INCREASES

We analysed the medium-term impact of either retaining or reversing the April 2020 social security reforms. To do this we modelled the difference that the temporary 2020 rules would make, if they were retained following the complete roll-out of universal credit. In this chapter we present the results using our ‘no change in unemployment’ scenario to focus only on the effects of the benefit cuts.

The two temporary measures we reverse are: the increase in the standard adult universal credit allowances (of around £20 per week); and the introduction of more generous rent support for private tenants.²

Impacts on poverty

Implementing the planned social security cuts will significantly increase levels of poverty over the medium term.³ **Reversing the temporary 2020 policies will increase the number of people in poverty by 1.1m - of this number 400,000 are children.**

Families, working households and disabled people are all badly affected:

² Ministers have announced the cut to rent support will be implemented gradually (by freezing 2020/21 rent support limits in cash terms) so it will take a number of years for it to return to previous levels. By contrast the £20 weekly uplift is scheduled to be cut in one go this April.

³ The poverty threshold used in this report is 60 per cent of median income in 2010/11, after housing costs, with incomes equivalised to take account of size of household, and prices adjusted for inflation. The analysis uses a fixed poverty threshold (sometimes called absolute poverty) as otherwise changes in social security policies and unemployment rates would lead to a change in the poverty line between the modelled scenarios (due to changes to contemporary median income).

Families: a large majority of those who would be pushed into poverty by reversing the 2020 measures are families with children: 700,000 live in households with children; 360,000 live in households with no children.

In-work poverty: most of the people pushed below the poverty line are in working households – or at least they were prior to the arrival of the pandemic (these calculations do not take account of rising unemployment). 700,000 of those lifted out of poverty live in a household where someone works, compared to 350,000 in a household where no one works. 320,000 of the children pushed below the poverty line live in a household where someone works, compared to just 50,000 where no one works:

- Living with lone parents – 80,000 children are in working families and 40,000 in non-working families
- Living with couples – 250,000 children are in working families and 10,000 are in non-working families.

Age: The people pushed into poverty comprise:

- 100,000 people in 18-24 households (5 percentage point rise)
- 900,000 people in 25-60 households (4 percentage point rise)
- 40,000 in 61-65 households (2 percentage point rise)
- 20,000 in 66+ households (0 percentage point rise)

Disability: A disproportionate number of those pushed into poverty live in a household where an adult is disabled (480,000 people or 45 per cent of those moving into poverty).

Impacts on average incomes and inequality

Households that are not entitled to universal credit are unaffected by the cuts, while many that are will lose £20 per week or more. Combining these groups together, the cuts reduce average household incomes by £3.50 per week.⁴ As universal credit is means-tested the impacts are very skewed, with working-age households in the lower half of the income distribution losing an average of £6.20 per week.

Some types of household are more affected than others because they are more likely to be receiving universal credit. On average:

- Families with children lose £7.70 per week, and within this lone parent families lose £15.10 per week

⁴ Disposable income before housing costs

- Households without work aged 18 to 65 lose £10.10 per week – and non-working families with children lose £15.40 per week
- Households where an adult is disabled lose £5.90 per week

People with the least lose out the most, as a proportion of their family income. The cuts therefore increase income inequality as well as poverty. With the temporary 2020 measures in place the average income of the top decile of working-age households was 12.9 times higher than that of the poorest decile. After the cuts it is 13.4 times higher.

FIGURE 3: THE IMPACT OF THE CUTS ACROSS THE INCOME DISTRIBUTION

	1st	2	3	4	5	6	7	8	9	10th
Average fall in income	4%	3%	2%	2%	1%	1%	0%	0%	0%	0%

Changes in income, before housing costs, by income deciles of working age households from the lowest (1st) to the highest (10th)

3. MASS UNEMPLOYMENT

We analysed the impact of possible mass unemployment, using an assumption about the unemployment rate that is roughly in line with the OBR's current downside scenario (we used the OBR's July projection for peak unemployment of 11.9 per cent; the office's November downside scenario is for unemployment to peak at 11 per cent).

Our model simulated the effects on families of this level of unemployment, by taking into account the likelihood of people with different characteristics losing their job (see appendix for details of the methodology). The baseline data is from 2018/19 when the unemployment rate was the same as in early 2020 (ie 3.8 per cent). This is a rise in unemployment from 1.4 million to 4.3 million.

FIGURE 4: THE IMPACT OF MASS UNEMPLOYMENT ON THE NUMBER OF WORKING AND WORKLESS HOUSEHOLDS

Family units	No change in unemployment	Mass unemployment scenario	Increase	Percentage change
Single not working	4.9m	6m	1.1m	22%
Single working part-time	2.4m	2m	-0.4m	-15%
Single working full-time	7.3m	6.6m	-0.7m	-10%
Couple, neither working	1.2m	1.5m	0.3m	29%
Couple, one part-time worker	0.9m	1.1m	0.2m	21%
Couple, one full-time worker	2.6m	3.4m	0.8m	32%
Couple, both working, at least one part-time	3.6m	3.0m	-0.6m	-16%
Couple, both working full time	5.5m	4.7m	-0.8m	-14%

Note: excludes people aged 66+ who were not working in 2018/19.

We project that mass unemployment would lead to an extra 1.8 million adults in workless households. This is a rise of 24 per cent on 2018/19 levels.

Young adults are the worst affected (10 per cent of 18-25 single adults or couples move from being in work to being workless, compared to 4 per cent of 25-65 households). Hopefully many of these young people will have something of cushion, as our model indicates that 430,000 of the 530,000 young adults hit will be living with their parents.

Mass unemployment also leads to a fall of 1.4 million in the number of couples who are both in work. On this occasion, mature adults are worst hit with 1.2 million of these couples aged 25-60. The number of couples where only one person is working rises by 1 million.

Many couples in this situation are eligible for very little protection. For example, a couple without children who own their own home will only be eligible for universal credit if the partner who remains in work earns less than around £26,000 per year. Otherwise, the unemployed member of the couple will receive Jobseeker's Allowance worth just £74 per week, no matter how high their previous earnings.

These changes also have a significant detrimental impact on children. Under this mass unemployment scenario, we project that the number of children in workless families rises by 530,000.

This increase is made up of an extra 190,000 children in lone parent workless families (a 15 per cent increase) and an extra 350,000 in two parent workless families (a 61 per cent increase). The number of children with two working parents will fall from 7.1 million to 6.1 million.

Impacts on poverty

We used our mass employment scenario to assess the impact on poverty over the medium term, again making calculations on the basis that universal credit is fully rolled-out.⁵ For these calculations we ignore the Covid-19 emergency measures (in both the 'no change' and 'mass unemployment' scenarios) in order to look only at the effects of labour market changes.

⁵ By assuming that universal credit is fully rolled out the model provides an accurate picture of incomes and poverty in the future, should high unemployment persist for a number of years. The *change* reported between the 2018/19 and 2021 unemployment scenarios also represents a reasonable approximation for the short term effects, since almost everyone whose employment circumstances alter significantly in 2020 and 2021 will move onto universal credit rather than legacy benefits (which are disregarded in our model).

Under our mass unemployment scenario the number of people in poverty rises by 2.1 million – from 12.5 to 14.6 million. This is an increase from 19 per cent to 22 per cent of the population. Child poverty rises by 480,000 - from 23 per cent to 27 per cent. Among adults, 18 to 25 households are worst hit, followed by 24 to 60 and then 61 to 65 households.

The number of people in poverty living in non-working households aged below 66 rises by 1.5 million, from 4.6 million to 6.1 million. But the level of in-work poverty also increases by 550,000 as a result of so many couples moving from being two-earner to one-earner households. Notwithstanding the rise of unemployment, in-work poverty remains a very significant problem: the proportion of people in poverty who are in working households declines only modestly from 54 per cent to 50 per cent.

FIGURE 5: NUMBER OF PEOPLE IN POVERTY IN WORKING AND NON-WORKING HOUSEHOLDS

Households	No change in unemployment	Mass unemployment scenario	Increase
Not working - 66+	1.2m	1.2m	0.1m
Not working - under 66	4.6m	6.1m	1.5m
In work	6.7m	7.2m	0.5m
Total	12.5m	14.6m	2.1m

Incomes and spending power

As a result of the decline in employment, average household incomes are projected to fall significantly (on the assumption that emergency Covid-19 measures comes to an end in March 2021).

Looking across all households, average incomes fall by £19 per week (a drop of 3 per cent). This equates to an annual economy-wide decline in household incomes of £34 bn, which will make a huge dent in consumer spending unless government action is taken.

These figures for average losses obscure the fact that many households will see no change to their income; but a significant minority will see a large drop as a result of their employment circumstances changing. The differences in the averages give a feel for the prevalence of the labour market risk facing different groups and the extent to which incomes will fall when different types of household are hit by unemployment.

FIGURE 6: AVERAGE IMPACT OF THE MASS UNEMPLOYMENT SCENARIO ON DIFFERENT TYPES OF HOUSEHOLD

Family type	Average fall in income	...as a percentage of income
18-24s ⁶	£17	9%
25-60	£27	4%
61-65	£8	2%
66+	£1	0%
No children	£16	3%
1-2 children	£29	4%
3+ children	£21	3%
All households	£19	3%

Figure 7 shows that on average low-income households are worst hit, relative to their previous incomes. However in cash terms the impacts are felt right across the income distribution. This is because people in the low paid jobs most vulnerable to unemployment are found in households across the income distribution. Higher income households also contain more people who were working before the crisis, and more middle/high earners (who are less vulnerable to unemployment but stand to lose more money than low earners should they lose their job).

FIGURE 7: THE IMPACT OF MASS UNEMPLOYMENT ACROSS THE INCOME DISTRIBUTION

	1 st	2	3	4	5	6	7	8	9	10 th
Average fall in income	-£10	-£17	-£13	-£12	-£11	-£14	-£20	-£16	-£26	-£26
...as percentage of initial income	-4%	-4%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-1%

Changes in income, before housing costs, by income deciles of working age households from the lowest (1st) to the highest (10th)

⁶ Figure 6 reports the incomes of family units (ie single adults or couples) not those of wider households. 18-24 year-olds are treated identically, whether they live on their own or with their parents (whose income is ignored).

DOUBLE TROUBLE

Mass unemployment leads to an increase in income inequality. The average income of households in the richest decile is 14.3 times higher than for those in the poorest decile under our mass unemployment scenario, compared to 13.4 times higher with 2018/19 employment levels.

4. MASS UNEMPLOYMENT AND BENEFIT CUTS IN 2021

We examined the combined impact of cutting benefits and a surge in unemployment. This analysis compares the position in April 2020 when unemployment was low but benefits had been raised (the 2020 baseline), with a situation where the benefit rise has been reversed and there is mass unemployment (our worst-case scenario for 2021).

Once again, the modelling assumes universal credit has been fully rolled-out, as we are seeking to understanding the medium-term effects of different social security policies.⁷

Impacts on poverty

We project that an extra 3.2 million people will slip into poverty, as a result of benefit cuts and mass unemployment – a rise from 11.4 to 14.6 million. The proportion of people in poverty rises from 17 per cent to 22 per cent.

Child poverty increases by 850,000, a rise from 21 per cent to 29 per cent of children. Of these children, 210,000 live with a lone parent and 650,000 live with two parents. In all, 1.7 million of the people moving into poverty are in families with children, while 1.5 million live without children.

Employment: 1.9 million of those moving into poverty are in non-working households (this is made up of 1.2 million in single households and 840,000 in two-adult households). 1.3 million of those falling into poverty are in

⁷ We also assume that the full effects of the rent support uplift have been reversed, as the announced cash freeze in rent support limits gradually reduces their value

working households (90,000 in single households, and 1.2 million in two-adult households).

Of the children moving into poverty, 460,000 are in non-working families, and 400,000 are in families where an adult is in work.

Age: The people pushed into poverty comprise:

- 400,000 people in 18-24 households (7 percentage point rise)
- 2.6m people in 25-60 households (6 percentage point rise)
- 120,000 in 61-65 households (3 percentage point rise)
- 60,000 in 66+ households (1 percentage point rise)

FIGURE 8: INCREASES IN THE NUMBER OF PEOPLE IN POVERTY IN 2021 UNDER THREE SCENARIOS

Households	2020 baseline	No change in unemployment and benefit cuts	Mass unemployment scenario and benefit cuts	Mass unemployment scenario but benefit cuts cancelled
Single	5.2m	5.7m	6.4m	5.9m
Couple	6.2m	6.7m	8.2m	7.6m
Working	5.4m	5.8m	7.4m	6.6m
Not working - <66	4.3m	4.6m	6.1m	5.7m
Not working - 66+	1.2m	1.2m	1.2m	1.2m
No children	6.2m	6.6m	7.7m	7.3m
1-2 children	3.2m	3.6m	4.5m	4.0m
3+ children	2.1m	2.3m	2.5m	2.3m
Total	11.4m	12.5m	14.6m	13.5m

Figure 8 shows that, in the context of mass unemployment, cancelling the planned social security cuts would have a significant impact on levels of poverty. One third fewer people would move into poverty - 2.1 million with the cuts cancelled, compared to 3.2 million if the temporary measures come to an end as planned.

Household income and inequality

Many households see no change to their income, from either unemployment or benefit cuts. Others experience a decline in their income due to one or both. Across the whole population average family incomes fall by £22 per week (4 per cent). This is equivalent to a decline in spending power across of the economy of £41bn.

Income inequality increases significantly. The decile of working age households with the highest incomes end up with average incomes 14.3 times higher than those of the poorest decile, compared to a figure of 12.9 under the 2020 baseline.

FIGURE 9: AVERAGE IMPACT OF MASS UNEMPLOYMENT AND BENEFIT CUTS ON DIFFERENT TYPES OF HOUSEHOLD

Family type	Average fall in household income	...as a percentage of household income
18-24s	£20	10%
25-60	£18	5%
61-65	£12	3%
66+	£1	0%
No children	£19	4%
1-2 children	£36	5%
3+ children	£32	4%
All households	£22	4%

2020 baseline compared to 2021 scenario with mass unemployment and benefit cuts

APPENDIX: ABOUT THE RESEARCH

The microsimulation model

The analysis in this report uses the Landman Economics Tax-Transfer Model (TTM) to project the impact of labour market and public policy changes. TTM is a micro-simulation model of the tax-benefit system (originally developed for IPPR). It applies data from the 2018/19 Family Resources Survey to analyse the impact of direct taxes and social security. The model compares reform packages to the present tax-benefit system and can produce outputs for: net costs of policy reforms; distributional impacts; analysis of winners and losers; changes in poverty and inequality measures.

The mass unemployment scenario is based on the central case scenario from OBR projections in summer 2020. This projected an unemployment rate of 11.9% in the quarter following the end of the furlough scheme (Q4 2020 under the OBR scenario, which equates to Q2 2021 following the extension of the furlough policy). This is based on an OBR assumption that 15 per cent of furloughed workers become unemployed rather than returning to work.

To model the effect of this increase in unemployment using the 2018-19 Family Resources Survey, we reassigned employees and self-employed people in the FRS into unemployment so that the modelled unemployment rate in the adjusted FRS matched the summer projection. Estimates from the 2020 Labour Force Survey (LFS) were used to model the probability of moving into unemployment by age, occupation and industrial sector so that the profile of the unemployed working age population in the adjusted FRS matched the LFS profile.

About the project

This is the first report for a Fabian Society project Social Security Solutions supported by the Standard Life Foundation.

The Covid-19 crisis has thrown the debate on poverty, living standards and social security into sharp relief. Millions of people have lost their jobs or seen their incomes plummet and are turning to social security for support, often for the first time. The chancellor has temporarily increased the generosity of universal credit, a hugely welcome move but also a recognition

that benefits are too low. And the Covid-19 crisis is shifting public attitudes to benefits, with further movement likely if the recession leads to mass unemployment.

This project aims to consider whether in light of the Covid-19 emergency a new consensus on social security can emerge, both broadly within society and across the political spectrum. The focus of the project is social security for working-age adults and children across Great Britain.

The project seeks to answer two questions:

- Can consensus be built for more **generous social security** over the medium term?
- Can consensus be built for a system that includes **stronger contribution-based and universal entitlements** in addition to means-testing?

In order to answer these questions the project is consulting with experts and policy makers; developing and analysing examples of possible reforms; convening an online citizens' jury to co-design policy options; and testing emerging conclusions with polling.

REFERENCES

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² Labour market overview: UK, November 2020, ONS, 2020

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