

**THE REAL LEVEL OF UNEMPLOYMENT**

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## Introduction

Unemployment figures matter. At the national scale, they are one of the main measures of the health and performance of the economy.

At the local scale the figures probably matter even more. They play the single most important role in defining how communities see themselves - as prosperous, depressed or middle-of-the-road. Unemployment figures are pivotal in assessing the extent to which Britain still has a regional problem. They are also central to how the European Union assesses the needs of Britain's regions compared to those of other member states.

It is unfortunate therefore that the principal official measure of unemployment - the monthly 'claimant count' - no longer commands credibility. The criticisms have been numerous - from academic sources<sup>1</sup>, from independent watchdogs such as the Unemployment Unit<sup>2</sup> and from no less a source than the Royal Statistical Society<sup>3</sup>.

It is important to be clear about the nature of these criticisms. No-one is suggesting that government statisticians have somehow acted unprofessionally and 'fiddled the figures'. Equally, no-one argues that the claimant count does not accurately measure exactly what it sets out to measure - the number of people out-of-work and claiming unemployment-related benefits. The concern is that this no longer represents the totality of the problem. The most widely quoted reason is that the eligibility to receive unemployment-related benefits has become more restricted. There have been more than thirty important changes since the early 1980s<sup>4</sup> which have had the effect of reducing the claimant count. Indeed, the Department of Employment has from time to time deemed these revisions sufficiently important to justify revising down the old figures to place them on the same basis as the new ones. During 1996, particularly important changes occurred. In April the duration of non-means tested benefit was reduced from twelve to six months. In October the shift from Unemployment Benefit to the Jobseekers Allowance imposed much stricter conditions on the eligibility for

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<sup>1</sup> for example, J Wells (1995) 'The missing million' in K Coates (ed) *The Right to Work*, Spokesman, Nottingham.

<sup>2</sup> for example, P Convery (1996) 'How many people are unemployed?', *Working Brief*, No. 78, pp. 23-26, Unemployment Unit, London.

<sup>3</sup> Royal Statistical Society (1995) *Report of the Working Party on the Measurement of Unemployment in the UK*, Royal Statistical Society, London.

<sup>4</sup> see P Gregg (1994) 'Out for the count: a social scientist's account of unemployment statistics in the UK', *Journal of the Royal Statistical Society A*, Vol. 157, pp. 253-270.

benefit. As ministers themselves acknowledge, the effect has been to further reduce the claimant count.

It is therefore no longer controversial to note that beyond the numbers recorded by the claimant count there is a further group of people who are unemployed but who are not claiming unemployment-related benefits. These people are excluded from the published figures.

The other source of official data on unemployment is the Labour Force Survey. This is less well known but also less criticised. The Labour Force Survey covers a sample of about 60,000 households across the country and produces figures on a quarterly basis. These cover a wide range of information about the workforce including unemployment. The definition of unemployment used by the Labour Force Survey is the one set out by the International Labour Organisation (ILO) - that the individual is without a job, is available to start work in the next fortnight and has actively looked for work in the last four weeks. This internationally accepted definition is the main reason why the Labour Force Survey has been subject to less trenchant criticism than the claimant count.

In recent years the Labour Force Survey has generated estimates of unemployment, on the ILO definition, that are a little above those from the claimant count. For example the estimates for the summer of 1996 (the most recent presently available) show ILO unemployment to be 221,000 higher than the corresponding claimant count figure for Great Britain. In practice, the ILO and claimant unemployed do cover two rather different groups of people, with some individuals included in one but excluded from the other. However, the fact that the Labour Force Survey produces estimates of unemployment that are not wildly out-of-line with those from the claimant count has been used by the Department of Employment to defend the claimant count's results<sup>5</sup>.

Nevertheless, it is gradually becoming recognised that in the UK context the ILO definition used by the Labour Force Survey also generates misleading unemployment figures. There are a number of reasons for this but broadly the problem concerns the way in which unemployment has become 'hidden'. In particular, there are built-in mechanisms in the social security system that divert large numbers of individuals off unemployment-related benefits and onto other forms of support, especially sickness-related benefits or, in some cases, out of the benefits system altogether. These people thus drop out of the claimant count and when they are included in the Labour Force Survey are recorded as 'sick', 'early

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<sup>5</sup> see Department of Employment (1995) *How Exactly is Unemployment Measured?* Department of Employment, London.

retired', 'looking after family/home' or even as a 'discouraged worker'. Yet in reality many of these people retain impeccable credentials to be counted among the unemployed.

All of these criticisms beg an important question. If the claimant count and the Labour Force Survey do not provide a credible picture of the extent of the problem, what then is the real level of unemployment?

It is this question which the present report addresses. The next section explains how unemployment becomes hidden - a necessarily full explanation in parts because some of the processes have never previously been set out in a comprehensive way. This is followed by an analysis of 1991 Census data using established, well-proven methods that have previously been used for small areas. The following section then provides estimates of 'real unemployment' for January 1997. This is the heart of the analysis and is based upon an extension to the methods already applied to 1991 data. Subsequent sections discuss the reliability of the new estimates and the implications for policy making. An appendix presents the details of statistical sources and methods.

### **How unemployment becomes hidden**

There are several mechanisms through which unemployment becomes hidden.

As noted earlier, the claimant count is the number of people out-of-work and claiming unemployment-related benefits. The first group of hidden unemployed are therefore those who are *unemployed but not claiming benefit*. Most who fall into this category are non-claimants because they are ineligible to receive benefit. Amongst these are people who have left their job voluntarily or have been dismissed for misconduct, who are disqualified from benefit for a period. They can still sign-on to receive National Insurance credits and some are eligible to receive means-tested benefits. For many in these categories, however, there is no financial incentive to register as a claimant.

More importantly, entitlement to means-tested benefits after six months out-of-work - and earlier in the case of those with insufficient National Insurance credits - depends on household rather than individual circumstances. For example, a man or woman with a partner in full-time work is ineligible for means-tested unemployment benefits. The household may still be eligible for other means-tested benefits - Housing Benefit for instance - if the wages are low, but the individual without a job is not counted as unemployed. Ineligibility for benefit is especially widespread among women. Many who are actively seeking work do

not qualify because their partner is in work, and as a consequence they are omitted from the claimant count.

The second group with a claim to being included among the hidden unemployed are those on *government schemes*. At the present time, these schemes comprise Youth Training, Skillseekers, Youth Credits, Modern Apprenticeships and Training for Work, but their name and form has varied considerably over the years.

When the predecessors of these schemes were first established in the 1970s they were widely regarded as merely a mechanism for keeping some of the unemployed gainfully occupied. Participants certainly regarded themselves as unemployed first and foremost, and only temporarily diverted from that status. Over the years, attitudes to government schemes have mellowed and in many cases the training component has become more genuine. Arguably, to suggest that those on government schemes should still be counted among the hidden unemployed is stretching a point.

Against this view three points need to be made. First, places on government schemes are not the same as conventional jobs. There is a strong element of 'make-work' and the remuneration - often benefit plus a few pounds - is well below that in conventional employment.

Second, many participants on government schemes still see themselves as unemployed and only temporarily off the register, and would take a 'proper' job straightaway if one were available. Indeed, for some individuals life has become near-permanent unemployment interspersed with time on schemes that lead nowhere.

Third, the varying extent of participation in government schemes indicates that, whatever the intention, the effect has been to hide unemployment. For instance, the number of men on schemes outnumbers women by three-to-two, against a background in which unemployment is more widespread among men. More importantly, government schemes account for a much higher proportion of the workforce in areas of high unemployment. Census data shows that in districts with very high claimant unemployment the proportion of the male workforce on government schemes is typically 4-5 per cent. Conversely, where claimant unemployment is very low, the proportion on schemes is generally below one per cent.

If the proportion on government schemes was more even across the country there would be a stronger case for seeing them as a normal part of the education/training process, analogous perhaps to staying on at school. In fact,

the local and regional incidence of government schemes indicates that though they may impart useful skills, they also continue to serve a second function as a mechanism for hiding unemployment.

The other mechanisms by which unemployment becomes hidden owe less to public intervention and more to the responses of individuals faced with difficulty in finding work. Especially in areas where there is a marked shortage of jobs, many people are realistic enough to recognise that they will never again find meaningful, decently-rewarded work. Given the nature of the contemporary labour market, a great many of the people in this position are older men with essentially manual skills. They therefore assess their options, including what the benefits system has to offer.

To some individuals in this position, *early retirement* is the best way forward. This is a feasible option if they have a company pension to draw on and perhaps a lump-sum redundancy payment. Without work they may be able to enjoy an adequate though not extravagant standard of living until the time, a few years hence, when they would have retired anyway. Such individuals become largely decoupled from the labour market, only returning if a very attractive opportunity presents itself. They do not appear as unemployed in either the claimant count or Labour Force Survey figures.

Early retirement is not always unwelcome to the individual. But in a proportion of cases it is forced upon them by the shortage of suitable jobs. Their health and age may allow them to carry on working for some years, but the labour market does not. These individuals for whom early retirement is a premature, enforced state ought to be regarded as part of the stock of hidden unemployed.

The other option that some individuals are channelled towards is a move onto sickness-related benefits. They thus drop out of the ranks of the unemployed and become reclassified as *permanently sick*. This is now the single most important mechanism through which unemployment becomes hidden and it deserves a full explanation.

It is not widely recognised that two benefit systems operate in parallel. The first relates to 'unemployment', now in the form of the Jobseekers Allowance. After six months this benefit is means-tested, as we noted earlier. The other benefit system relates to 'sickness', now in the form of Incapacity Benefit. Crucially, this benefit is not means-tested.

For many of the long-term unemployed, the differential in benefits creates an incentive to move across on to Incapacity Benefit. For example, an unemployed man in his fifties with a wife in work, perhaps part-time, with little or no

mortgage and children who have left home will not generally be entitled to means-tested Jobseekers Allowance (or Income Support before October 1996). In essence, his wife's earnings disqualify him from benefit. But if he can secure a move across on to Incapacity Benefit he will receive a sum irrespective of his wife's earnings.

This is precisely the scenario that many unemployed men and women face. The gatekeepers determining access to Incapacity Benefit are medical practitioners. Many older unemployed people have picked up injuries over the course of their working career. This is especially true of men who have worked in heavy industry. And there is the effect of simply getting older. In practice, therefore, many of the long-term unemployed do manage to secure a move across on to Incapacity Benefit.

In 1996, just over 5 per cent of all the claimants leaving the unemployment register for whatever reason - including finding a job - did so because of a move across on to sickness benefits. Once on Incapacity Benefit, very few come off, not least because the chances of finding appropriate employment diminish still further as the period without work extends. In April 1995, for instance, well over half of all those claiming sickness-related benefits had been doing so for more than three years. More than a quarter had been claiming for more than six years.

The numbers claiming various forms of sickness benefit are now truly astonishing. Figure 1 shows the number of men and women of working age (16-64 for men, 16-59 for women) claiming benefit for sickness or invalidity for more than six months. The numbers have risen every year for the last decade and a half. In April 1981 there were 574,000 men and women in this category. By April 1995 the figure had risen to 1,809,000.

Even this is not the full picture. The majority of these claimants were on Incapacity Benefit or its predecessor, Invalidity Benefit. Added to this there are more than 300,000 further claimants of working age receiving Severe Disablement Allowance, and those incapacitated by sickness for less than six months. Department of Social Security statistics show that in August 1996 there was a grand total of 2.48 million people of working age claiming sickness-related benefit. Of these, 1.56 million were men and 0.92 million were women. To put it another way, there are now more people of working age 'on the sick' than 'on the dole'.

It is inconceivable that there has been a three-fold increase in the level of genuine incapacitating illness in the workforce over the last decade and a half. Indeed, this rise has occurred at a time when general standards of health - measured by indicators such as standardised mortality rates - are known to be showing a slow

but steady improvement. What can be observed in the rise in long-term sickness claimants is above all not health but the operation of the labour market and the social security system.

This impression is reinforced by the distribution of sickness claimants across the country, shown in Figures 2 to 5. These maps use data specially provided by the Department of Social Security. The claimant figures include all those of working age in receipt of Incapacity Benefit or Severe Disablement Allowance plus those receiving National Insurance credits for incapacity. The short term sick - those who have been claimants for less than six months - are also included but they comprise only about ten per cent of the total number of claimants. We have expressed the figures as a percentage of the working age population in each district, taken from the 1991 Census.

What the maps reveal is an exceptional incidence of sickness claimants in places such as South Wales, Merseyside, Manchester, South Yorkshire, North East England and Clydeside. In many of these, sickness claimants account for more than 15 per cent of the entire male workforce. In a few places, the proportion exceeds 20 per cent - more than one-in-five of all males between the ages of 16 and 64. In contrast, in large parts of the South of England the proportion is below 5 per cent. What the maps also reveal is that the proportion of women claiming sickness benefits is well below that for men but with much the same geographical distribution.

This pattern is of course exactly what we would expect to observe as a result of the diversion of the long-term unemployed on to sickness-related benefits in areas of high unemployment. Indeed, there is an uncanny resemblance between the geography of sickness-related claimants and the geography of unemployment-related claimants. Even within the South East, for example, the coastal unemployment blackspots of Thanet, Clacton, Hastings and Brighton show up as having high levels of sickness claimants as well.

What we are suggesting is that a proportion of the 'permanently sick' ought really to be seen as 'hidden unemployed'. That is not to say that the ailments are fictitious - the bad backs, limps and other disorders are no doubt real enough. But whether they can in many cases be described as incapacitating, in the sense of rendering the individual entirely incapable of employment, must be questioned.

Furthermore, in suggesting that many permanently sick are in reality unemployed we are in no sense arguing that there is social security fraud. Rather, given the labour market they face and the operation of the benefits system, the individuals in question are responding rationally to their predicament. They ought not to be

criticised for their actions, which are perfectly legal. Moreover a whole range of professionals, especially GPs but also Department of Employment staff, have colluded in and legitimated the large-scale transfer of the unemployed on to sickness benefits.

The government seems to share this view. From the mid 1980s onwards it operated a policy which actually encouraged the shift. Staff of the then Department of Employment were pressed to reduce the number of unemployed claimants. At 'Restart' interviews and in other face-to-face situations, they often encouraged the unemployed to move on to more suitable benefits and thus out of the headline figures. Sickness-related benefits were a popular option. Then in April 1995, with the introduction of Incapacity Benefit to replace Invalidity Benefit, the policy changed. The medical criteria for securing a move on to Incapacity Benefit are tougher, and the claimants carried over from the previous benefits regime are being re-evaluated. Clearly the government now thinks that the diversion has gone too far, not least because it is so expensive, and that the hidden unemployed should be weeded out from the genuinely sick.

The net effect of the various mechanisms through which unemployment becomes hidden is that the form of non-employment across the life cycle has developed an interesting pattern. Recorded unemployment forms only one part. This is illustrated in Figure 6 for men and Figure 7 for women, using data from the 1991 Census of Population.

For men, non-employment is especially important for the under 25s and the over 50s, but the form it takes at these two ends of the age-range differs. For the under 25s, extended stays in education, government schemes and unemployment are the main forms of non-employment. For those between 25 and 50, unemployment is the main form of joblessness, but the vast majority of this middle group are in work. For those over 50, unemployment is still important but 'permanent sickness' and, eventually, 'early retirement' become more important - more important in fact than 'unemployment' itself.

For women, the picture differs because the category 'other inactive' - essentially those looking after home or family full-time - is of major importance at nearly all stages in the life cycle. But some of the features identifiable for men are also present. Among younger women, extended stays in education and government schemes are important; among older women 'permanent sickness' becomes evident, though not to the same extent as for men.

The point is that the forms which joblessness takes have become more varied and complex. Conventional unemployment - in the sense measured by the claimant count or the Labour Force Survey - is only part of the overall picture. But an

important part of the other categories of non-employment is made up of the hidden unemployed.

### **Measuring hidden unemployment**

In two previous publications, two of the present authors developed and applied a method for measuring hidden unemployment. The first of these studies covered the coalfields<sup>6</sup>, the second England's Rural Development Areas<sup>7</sup>. In this method - the Beatty/Fothergill approach - the hidden unemployed are then added to the claimant count to produce estimates of 'real unemployment'.

In the form that it has previously been applied to the coalfields and rural areas, the Beatty/Fothergill approach uses Census of Population data for April 1991. The approach adds four groups of hidden unemployed to the claimant count.

The first group are the extra unemployed recorded by the Census of Population. 'Unemployed' in the Census is a self-reported category and therefore includes some people who are ineligible for benefit and excluded from the claimant count. The second group of hidden unemployed are those on government schemes. The third and fourth groups are the excess numbers recorded as 'early retired' and 'permanently sick'. The Census allows each of these four groups to be measured accurately, with no overlap between them.

A crucial assumption in this context is the use of the South East of England as a benchmark. In this method, the proportions of men and women of working age that are recorded by the Census as 'early retired' and 'permanently sick' in the South East at the time of the Census (April 1991) are used as the yardstick to define 'excess'. For men these proportions are 2.2 and 3.4 per cent respectively, and for women 0.9 and 2.4 per cent. Excesses over these proportions in any locality are counted as hidden unemployed.

Later we subject this benchmark to scrutiny, but at this stage it is worth noting that there is a very simple logic behind it. In April 1991 the South East had only recently emerged from a prolonged period (c. 1986-90) of virtually full employment. The relatively low levels of early retirement and permanent sickness which prevailed in this region at that time therefore probably represent

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<sup>6</sup> C Beatty and S Fothergill (1996) 'Labour market adjustment in areas of chronic industrial decline: the case of the UK coalfields', *Regional Studies*, Vol. 30, pp. 627-640.

<sup>7</sup> C Beatty and S Fothergill (1997) *Unemployment and the Labour Market in Rural Development Areas*, Rural Development Commission, London.

the levels achievable in a reasonably fully employed economy. Excesses over this level are thus likely to be a form of hidden unemployment.

Although this approach to measuring hidden unemployment has previously been applied only to small areas, the comprehensive nature of the Census of Population data lends itself to nation-wide application. The resulting estimates of real unemployment for Great Britain as a whole in April 1991 are shown in Table 1. At that time the claimant count recorded a total of 2.1 million unemployed.

**Table 1: Alternative measures of unemployment, Great Britain, April 1991**

	<b>Male</b>	<b>Female</b>	<b>Total</b>
CLAIMANT COUNT	1,592,000	507,000	2,100,000
<b>HIDDEN UNEMPLOYED</b>			
Extra Census unemployed	114,000	258,000	371,000
Government schemes	216,000	124,000	340,000
Excess 'early retired'	75,000	29,000	104,000
Excess 'permanently sick'	360,000	193,000	553,000
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REAL UNEMPLOYMENT	2,357,000	1,111,000	3,468,000
Unemployment rates:			
Claimant count *	10.6	4.6	8.1
Real unemployment **	15.2	9.9	13.0

\* as % of economically active

\*\* as % of economically active plus hidden unemployed

Sources: NOMIS, Census of Population, authors' estimates

Our figures, using the Beatty/Fothergill approach, indicate that the real level of unemployment was 3.5 million. Corresponding unemployment rates were 8.1 and 13.0 per cent respectively<sup>8</sup>.

Our figures indicate that in April 1991 there was a total of 765,000 men who could be described as 'hidden unemployed', and 604,000 women. The most important mechanism hiding the unemployed was the diversion into 'permanent sickness', accounting for 553,000 in total but especially important among men. Among women, unemployed non-claimants - i.e. those declaring themselves unemployed in the Census but not included in the claimant count - were especially important at 258,000.

On the basis of these figures therefore, hidden unemployment appears exceptionally extensive. Real unemployment, as a consequence, is far above the level indicated by official data.

### **Up-dating to 1997**

Unfortunately, there is no single comprehensive source of data comparable to the Census of Population that allows an easy up-date of real unemployment estimates to 1997. We have therefore employed the same basic approach but had to piece together the jigsaw using data from different sources. The full details are set out in an appendix but the fundamentals require explanation here.

In the 1991 analysis the extra unemployed identified by the Census of Population, compared to the claimant count, were included as hidden unemployed. Most if not all of these extra unemployed will be non-claimants. This reflects the fact that in the Census 'unemployed' is a self-declared category, independent of claimant status. This self-declared concept of unemployment is similar to the one used by the quarterly Labour Force Survey, which asks people whether they are out-of-work, looking for work, and available to start. In the 1997 analysis we therefore include the excess of Labour Force Survey unemployment over the claimant count. Significantly, the Census and Labour Force Survey-based measures of this form of hidden unemployment generate

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<sup>8</sup> The rates of real unemployment for Great Britain as a whole shown in Table 1 are slightly higher than those previously published using the Beatty/Fothergill method. Here the GB rates are derived from a summation of unemployment figures for individual districts, whereas previously they have been derived by a single national calculation. The difference arises because some individual districts have rates of permanent sickness and early retirement below the South East benchmark and these negative values are discounted in the district-level calculations. The GB rates presented here are the superior estimate.

broadly similar figures, with the number of women well in excess of the number of men.

Numbers on government schemes can be measured directly from administrative data held by government departments and agencies.

The number of people 'early retired', and thereby the excess attributable to hidden unemployment, cannot be measured directly from any source for dates later than 1991. However, Labour Force Survey data suggests that there has been little change in the proportion of men who are early retired, as explained in the statistical appendix. We have therefore carried forward the 1991 numbers of excess early retired men to the 1997 analysis. In the absence of data to the contrary, the same procedure has been adopted for women.

The number of people 'permanently sick', and again thereby the excess attributable to hidden unemployment, can be measured directly using unpublished data from the Department of Social Security.

The points in time for which up-dated information is available vary. For the Labour Force Survey unemployed, it is for Summer 1996. For government schemes the data is for October 1996, December 1996 and January 1997, depending on locality. For the sick the data is for August 1996. The numbers of hidden unemployed in these categories have been added to the claimant count figures for January 1997 to give what we have called a 'January 1997' estimate of real unemployment.

Not all the up-dated information is available disaggregated by sex or district. In some cases we have therefore had to adopt procedures that allocate figures for counties or TEC areas, for example, to individual districts. Crucially, however, figures on the number of sickness-related benefit claimants are available for every district in Great Britain and separately for men and women. This is important because the excess 'permanently sick' form the largest component of the hidden unemployed, and the district-level figures which we calculate are as a result essentially based on hard data rather than imputed figures.

Finally, the 1997 analysis continues to use the South East in 1991 as the benchmark against which to measure excess levels of 'early retirement' and 'permanent sickness'. The logic here continues to be that the low rates prevailing in this region at that point in time are probably a good guide to what can be achieved in a reasonably fully-employed economy.

## Unemployment: the real picture

The estimates that result from applying our methods to the data are shown in Table 2, which refers to Great Britain as a whole. These figures are, we believe, central to an understanding of the contemporary unemployment problem.

Overall, our figures indicate that in January 1997 the real level of unemployment was 3.9 million, or 14.4 per cent. This compares with a claimant count figure for

**Table 2: Alternative measures of unemployment, Great Britain, January 1997**

	Male	Female	Total
CLAIMANT COUNT	1,407,000	429,000	1,837,000
HIDDEN UNEMPLOYED			
Extra LFS unemployed	60,000	270,000	340,000
Government schemes	260,000	150,000	400,000
Excess 'early retired'	80,000	30,000	100,000
Excess 'permanently sick'	820,000	450,000	1,260,000
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REAL UNEMPLOYMENT	2,620,000	1,330,000	3,950,000
Unemployment rates:			
Claimant count *	9.4	3.9	7.1
Real unemployment **	16.4	10.9	14.2

\* as % of economically active

\*\* as % of economically active plus hidden unemployed

Note: numbers of hidden and real unemployed rounded to nearest 10,000

Sources: NOMIS, Census of Population, DSS, DfEE, Welsh Office, Scottish Enterprise, Highlands and Islands Enterprise, authors' estimates.

the same month of 1.8 million, or 7.1 per cent. In other words, the real level of unemployment was slightly more than double the claimant count figure.

The inclusion of hidden unemployment increases unemployment among men by 85 per cent but triples the number of unemployed women. Including the hidden unemployed, men nevertheless still outnumber women by two-to-one.

Comparing the 1997 estimates with the 1991 figures presented earlier, the claimant count shows a *fall* of more than 250,000 but real unemployment has *risen* by nearly 500,000.

The largest source of hidden unemployment, accounting for nearly all the increase since 1991, is 'permanent sickness'. Our figures indicate that some 1.2 million men and women have been diverted from 'unemployment' to 'permanent sickness' by the operation of the social security system.

This last number is enormous by any standards. However, it needs to be seen in context. We have already noted that there are presently nearly 2.5 million people of working age claiming sickness-related benefits. We have also noted that, in the last decade and a half, there has been a three-fold increase in the number of long-term sickness claimants of working age. And we noted that there are financial incentives in the benefits system that make it worthwhile for many of the long-term unemployed to move across on to sickness-related benefits. Against this backcloth, the estimate that 1.2 million of the 'permanently sick' are really 'hidden unemployed' is not unreasonable.

Comprehensive figures on claimant and real unemployment by district, county and region, for January 1997, are presented at the end of this report.

Table 3 shows the top and bottom ten districts across Britain in terms of total real unemployment. Merthyr Tydfil, in the South Wales valleys, has the dubious distinction of the highest rate - more than 33 per cent. Hart, a district in north east Hampshire well within London's affluent commuter belt, has the lowest rate - just over 3 per cent.

Such large differences between extremes point to a general issue: apart from increasing the overall rate of unemployment, a shift from 'claimant' to 'real' rates also widens differentials. Typically, districts with low claimant unemployment (3-4 per cent) have rates of real unemployment that are only 2-3 percentage points higher. Districts with high claimant unemployment (10 per cent or more) generally have rates of real unemployment that are 10 or more percentage points higher. Once more this is entirely consistent with the expectation that in areas

**Table 3: Districts with highest and lowest total real unemployment,  
January 1997**

	per cent
HIGHEST	
Merthyr Tydfil	33.4
Liverpool	32.0
Knowsley	31.8
Rhondda	31.6
Easington	31.2
Blaenau Gwent	31.1
Glasgow	30.6
Port Talbot	30.5
Cumnock and Doon Valley	28.7
Hackney	28.7
LOWEST	
Hart	3.1
Wokingham	4.0
Surrey Heath	4.1
Woking	4.1
Test Valley	4.3
Basingstoke and Deane	4.5
Harborough	4.5
Uttlesford	4.5
Waverley	4.5
Horsham	4.6

Source: Authors' estimates

where jobs are hardest to find, the pressures causing a diversion from recorded to hidden unemployment are likely to be greatest.

No fewer than 70 districts or boroughs have real rates of unemployment that are estimated to exceed 20 per cent. These include several substantial towns and cities - Brighton, Glasgow, Hull, Liverpool, Manchester, Middlesbrough, Newcastle, Nottingham, Sunderland and Swansea for example - as well as seven

inner London boroughs. No fewer than 22 districts have estimated real rates of unemployment exceeding 25 per cent.

### **How accurate?**

The critical question is of course the reliance that can be placed on our estimates of real unemployment, especially as they diverge so markedly from the official figures.

The first point to note is that the competing sets of figures do not all try to measure the same thing. In essence, our definition of real unemployment counts *those who might reasonably be expected to have been in work in a fully-employed economy*. They are counted whether or not they happen to be active job seekers or claimants of unemployment-related benefits. In contrast, the claimant count sets out to include just the claimants, and the ILO definition of unemployment used by the Labour Force Survey includes just the active job seekers.

Many of the people we count as hidden unemployed have probably accepted that because of the shortage of jobs, their remaining years to retirement age will have to be spent on sickness benefits or pension. These people are not job seekers in the terms of the Labour Force Survey because they have in effect detached themselves from the labour market. Nevertheless, the process of detachment is itself the result of unemployment - in places where it is difficult to find work, many people simply give up the struggle altogether. Furthermore, as we have explained, in the UK context there are powerful interactions between different parts of the benefits system that encourage large numbers to drop out of the claimant count and out of the process of job search. These people may no longer be receiving unemployment benefits or even looking for work, but they should still be counted among the 'real unemployed'.

Putting aside these conceptual issues, there is still the question of the extent to which 'real unemployment' has been measured accurately. The issues divide into two categories - problems of *calculation* and problems of *definition*.

Regarding problems of calculation, it must be conceded that there is a margin of error in all the figures. This arises from a number of sources: the data that provides the building blocks for hidden unemployment is not all for January 1997; the allocation of global figures between districts has in some cases been necessary; and the data is derived from a number of separate administrative sources that may not be wholly compatible at the margins.

It is impossible to put a wholly accurate figure on this built-in error. Our assessment would be that rates of real unemployment for individual districts may be accurate to within one or two percentage points of the quoted figure. On the other hand, given the methods used, some of the errors will cancel out - if the true level of unemployment has been overestimated in one district, it will correspondingly be underestimated in a neighbouring district. Errors of estimation arising from these sources would also be insufficient to make any difference to the basic pattern or magnitude of real unemployment across the country.

In passing, it is worth noting that the Labour Force Survey, being a sample, is affected by errors of estimation. And the claimant count is profoundly compromised as a measure of unemployment because it is no more than the by-product of the application of social security rules.

Three problems of definition deserve mention. The first is the inclusion of people on government schemes as part of the hidden unemployed. Since these individuals are engaged in gainful economic activity, it is not difficult to devise a case for their exclusion. Our judgement is that they should be included, as we explained earlier, not least because their concentration in areas of high unemployment suggests that government schemes do have the effect of disguising even greater unemployment. If those on government schemes were to be excluded, the total number of real unemployed would be reduced by 400,000, to around 3.5 million or 13 per cent. The reduction in areas of low unemployment would be about half a percentage point, and in areas of high unemployment the reduction would be 3-4 percentage points.

The second definitional issue concerns women who are looking after children or home full-time. For many this role is the alternative to employment and, even if they want employment, those with partners in work often find themselves ineligible for means-tested benefits. This group undoubtedly includes substantial hidden unemployed.

Our method includes non-claimant women only if they declare themselves to the Labour Force Survey as 'actively seeking work'. Quite a number do - hence the excess of Labour Force Survey unemployment over the claimant count for women. However, there will be a further group of women who would like work but do not even look because they know the appropriate opportunities are not available. This further group, whose size is difficult to assess, is excluded from our figures. Its inclusion would boost 'hidden' and 'real' unemployment to still higher levels.

The third definitional issue is our use of the South East of England in April 1991 as the benchmark. To recall, the rates of early retirement and permanent sickness in this region are used as a guide to what is achievable in a relatively full-employed economy. This important assumption has already been the subject of academic debate<sup>9</sup>.

The arguments against the South East benchmark can be summarised as follows. It may be too high because by April 1991 the South East was already entering recession, and anyway there are parts of the region where there never was full employment even at the peak of the 1980s boom. So the South East's sickness and retirement figures will themselves include some hidden unemployed. Conversely, the South East may be too low as a benchmark because in some areas of heavy industry in particular there may be genuinely higher underlying levels of permanent sickness arising from the nature of local employment.

Both these conflicting positions have validity. The fundamental problem is that there is no way of directly measuring underlying levels of genuine incapacitating sickness in different parts of the country. It is possible, nevertheless, to place parameters on the possible bias inherent in the 1991 South East benchmark. For instance, if the rate of permanent sickness recorded among working age men in the South East in 1981 - 2.1 per cent - was used as the benchmark to reflect levels of incapacity prevailing before the big rise in the figures in the 1980s and 1990s, our figures would show an increase in real male unemployment in most districts of 1.3 per cent. This in turn would add nearly 200,000 to real male unemployment in January 1997. Conversely, if rates of permanent sickness among men in the coalfields in 1981 - 4.8 per cent - were taken as a guide to underlying rates in areas of heavy industry, the effect would be to reduce estimated rates of real male unemployment in these places by 1.4 percentage points. This in turn would reduce the national count by 50-100,000, depending on how geographically extensive these areas of heavy industry were deemed to be.

Our preferred benchmark remains the South East in April 1991. Although the boom conditions of preceding years were receding fast by then, lags can be expected before recession feeds into levels of 'permanent sickness' and 'early retirement'. This benchmark is neither at the top nor bottom of the range of alternative assumptions. Also it has the merits of simplicity: the South East is widely recognised to be the UK's most prosperous region. The low levels of 'permanent sickness' and 'early retirement' that prevailed in this region at the

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<sup>9</sup>

see D Armstrong (1997) *Hidden Male Unemployment in Northern Ireland*, working paper no. 29, Northern Ireland Economic Research Centre, Belfast.

end of a long economic boom are as good a guide as any to what is achievable in a fully employed economy.

Nevertheless, in the final reckoning it has to be acknowledged that our figures for real unemployment remain estimates. They are based on specific assumptions and on inferences from aggregate data. Within this constraint, we are nonetheless confident that the estimates do identify the broad scale and geographical distribution of the problem.

### **Some implications**

Unemployment figures are of central importance to the way that different parts of the country and the economy as a whole are perceived. An alternative set of figures inevitably has wide-ranging implications.

First, there is the extent to which there is still a regional problem in Britain. One of the unusual features of the early 1990s recession was that it was associated with an apparently sharp convergence in regional unemployment rates. London's claimant unemployment rate, for example, actually rose above that in Scotland for the first time in three generations. The much-hyped North-South divide seemed to be dying.

Unemployment is of course only one measure of regional well-being, but the figures for real unemployment suggest that the differences are in fact still alive and well, and much larger than the claimant count has indicated. Table 4 lists the counties with the greatest divergence between their estimated real unemployment and the GB average. The table also shows the equivalent divergence measured by the claimant count. It is clear that the gap between different parts of Britain is much greater using this wider measure of unemployment. The apparent waning of the regional problem has been an illusion.

The second important implication of the new figures concerns Britain's position compared to other EU member states. This is illustrated by Table 5. The official unemployment comparisons, published in *Labour Market Trends*, show the UK two-thirds of the way down the unemployment league table, below the other large economies of the EU. Inserting the estimates of real unemployment instead places Britain close to the top.

Strictly speaking, it is not proper to compare figures for 'real unemployment' in Britain with unadjusted figures for other EU states. Undoubtedly there is hidden unemployment in other member states too. However, the point is that in Britain this hidden unemployment is exceptionally large - so large in fact as to devalue

**Table 4: Counties with highest and lowest total unemployment, January 1997**

	<b>Divergence from GB average rate (%)</b>	
	<b>Real unemployment</b>	<b>Claimant count</b>
<b>HIGHEST</b>		
Merseyside	+11.7	+4.3
Mid Glamorgan	+11.5	+0.7
West Glamorgan	+10.6	+0.9
Cleveland	+9.1	+4.4
Isle of Wight	+9.1	+3.8
Strathclyde	+9.0	+2.0
Dyfed	+8.2	+1.8
Gwent	+7.9	+0.4
Tyne and Wear	+7.6	+3.0
Durham	+6.8	+0.3
<b>LOWEST</b>		
Surrey	-9.2	-4.4
Wiltshire	-8.2	-3.1
Berkshire	-7.9	-3.6
Oxfordshire	-7.8	-3.8
Buckinghamshire	-7.4	-3.7
West Sussex	-7.0	-3.4
Northamptonshire	-6.3	-2.6
Hampshire	-6.2	-2.5
Borders	-6.1	-2.7
Hertfordshire	-6.1	-3.4

Sources: NOMIS and authors' estimates

the Labour Force Survey figures on which the international comparisons are based. It cannot be assumed that unemployment is so markedly under-recorded in other member states, especially as they may not have benefits systems that operate so powerfully to divert people out of recorded unemployment.

**Table 5: Unemployment rates in EU countries**

	<b>per cent</b>
Spain	21.4
Finland	15.1
<i>GB - real unemployment</i>	<i>14.2</i>
France	12.5
Ireland	12.4
Italy	12.2
Sweden	10.2
Belgium	9.7
Greece	9.7
Germany	9.0
<i>UK - official unemployment</i>	<i>8.1</i>
Portugal	7.1
Netherlands	6.7
Denmark	5.7
Austria	4.1
Luxembourg	3.2

Note: GB real unemployment is for January 1997. All other figures are for July, August or September 1996, except Greece (1995) and are standardised, seasonally adjusted rates.

Sources: Labour Market Trends, authors' estimates.

Indeed, the available evidence points towards much higher diversion than in other EU states. In Britain, the 2.5 million people of working age now claiming sickness-related benefits represents about 7 per cent of the entire working-age population. Comparable figures are hard to come by, but a study of OECD countries<sup>10</sup> showed that the proportions for other EU member states (in 1990) were just over 4 per cent for Germany, less than 3 per cent for Spain, and less than 2 per cent for France. Among the larger member states only Italy, at 11 per cent, exceeded the present British figure. Furthermore, between 1980 and 1993 the number of invalidity benefit recipients rose faster in the UK than in any other EU or OECD member state.

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<sup>10</sup> S Blondal and M Pearson (1995) 'Unemployment and other non-employment benefits', *Oxford Review of Economic Policy*, vol. 11, pp. 136-169.

EU-wide comparisons are of more than passing importance. The areas eligible for assistance under the European Union's 'Objective 2' programme - aid to industrial areas in difficulty - depend a great deal on relative levels of unemployment and the map will be redrawn at the end of 1999. The UK is presently the biggest single recipient from this budget - £4 billion in the present spending round. On the official unemployment figures, British regions look unlikely to receive much if any follow-on funding. On more realistic unemployment figures, the outcome could be very different.

The third set of implications are for macroeconomic policy. At the present time - Spring 1997 - there is much concern that the economy may be not too far from 'overheating'. With claimant count unemployment falling sharply after four years of sustained if unspectacular growth, there are fears that inflation could begin to accelerate because of pressure of demand and labour shortages. The Bank of England has been prominent in voicing these fears. But if real unemployment is 3.9 million, as our figures indicate, not 1.8 million, the inflationary pressures in the labour market may be altogether more remote.

Attractive though this logic sounds, it is only partly valid. The problem is that a great many of the hidden unemployed have undoubtedly become thoroughly detached from the labour market. The shortage of suitable jobs has driven large numbers of long-term unemployed into long-term 'sickness' in particular, but it is far from clear that the process works in reverse when jobs are more readily available. A transfer from unemployment to sickness benefits may be a one-way ticket - skills become rusty, motivation wanes, the daily pattern of working life becomes a thing of the past. Significantly, even during the economic boom of the late 1980s, when claimant unemployment fell by 1.5 million, the number of long-term sickness benefit claimants did not decline.

Just how many of the hidden unemployed might be reconnected to the labour market is therefore an important issue for macroeconomic policy - indeed, for training and labour market policies as well. There is a serious risk that in an economy that has created and sustained such high levels of unemployment, and then pushed so much of it from view, it may prove very difficult to get real levels of unemployment down again. The costs in terms of wasted productive potential and on-going social security payments are already enormous.

### **Concluding remarks**

Two deep recessions since the beginning of the 1980s and the onward march of technology have profoundly affected the nature of the UK labour market. In

particular, the traditional industries that once employed large numbers of male manual workers have either gone or changed out of all recognition. The coal industry, which has shed nearly 250,000 jobs since 1985, is just an extreme example of a process that has been at work across large swathes of British industry.

Against this backdrop it is hardly surprising that there is large-scale unemployment. The old jobs have gone; the workers that have been displaced are not necessarily in the right locations or do not always have the right skills to fill the new jobs that have been created.

In the face of such radical economic change, the surprising feature is perhaps that the official unemployment figures have been so low. In much of the South, official unemployment rates have never risen beyond single-digit levels. In parts of the North - like the coalfields - official rates have barely reacted to the disappearance of formerly dominant employers.

Yet the everyday experience of many people, especially in areas of severe job loss, is often very different. They know at first hand the difficulty in finding work, and the experiences of their family, neighbours and friends. To them, the official unemployment figures seem unrealistic.

What our estimates of real unemployment do is build a bridge between the two positions. The official figures are accurate in so far as they measure the number of claimants or the number of active job seekers. But this is no longer the totality of the unemployment problem. Beyond those who are officially counted, there is a further army of people that unemployment and the benefits system have pushed to the very margins of the labour market. They are unemployed but no longer counted as such - the hidden unemployed.

The official unemployment figures are correct within the narrow confines of what they set out to measure. But ordinary people are correct in telling the government statisticians that unemployment is far, far more widespread.

## **APPENDIX: Statistical sources and methods**

### **Districts**

The districts and boroughs used throughout this study are the local government units as defined up until the end of March 1996. In April 1996, local government was reorganised in Scotland, Wales and parts of England resulting in new district boundaries, but comparatively little data is yet available for these new units.

### **Derivation of unemployment rates**

All the unemployment rates presented in this report use 1991 economically active persons of working age, from the Census of Population, as the denominator. The economically active comprise the employed (including self-employed) and recorded unemployed, plus those on government schemes. For rates of real unemployment, the hidden unemployed are added to the economically active to calculate a rate.

The use of a 1991 denominator to create 1997 estimates is not ideal. However, more up-to-date measures of the economically active population are not available at the district scale and the Registrar General's mid-year population estimates for districts are subject to inaccuracies. The use of a 1991 denominator introduces a distortion into the estimated rates in districts where the rate of population change is particularly rapid, but such instances are relatively few and the bias is unlikely to exceed 1 percentage point. Districts that are experiencing rapid population growth will tend to have their 1997 unemployment rates slightly overestimated; districts experiencing rapid population loss will have their 1997 rates underestimated. Because the number of economically active women is gradually rising, the use of a 1991 denominator also tends to inflate female unemployment rates.

### **Claimant count**

The numbers out of work and claiming unemployment-related benefits (the 'claimant count') are those produced for districts by the Department for Education and Employment, accessed by the NOMIS system.

The claimant count unemployment rates for local areas presented in this report are for districts and differ from the official published figures which are for travel-to-work areas.

### **LFS unemployment**

The excess of Labour Force Survey (LFS) unemployment over the claimant count is one of the components making up the estimates of real unemployment in 1997.

This exercise uses the LFS unemployment rates (based on the ILO definition) from the Summer 1996 quarterly survey, which is presently the most up-to-date available. These rates are compared with the claimant count unemployment rates for the same quarter (i.e. an average of the June, July and August 1996 figures). The exercise has been conducted separately for males and females.

Because of the limited sample size, LFS unemployment rates are not available for the majority of districts and about half of all counties, though those with missing values are normally the areas with a smaller population. Where a district LFS rate is unavailable, the appropriate county rate has been inserted, and where a county rate is unavailable, the appropriate regional rate has been used. Comparisons have in these cases been with the corresponding claimant count rate for the county or region. The differences between the LFS and claimant count rates have been translated into absolute numbers, using the 1991 economically active population in each district, for inclusion in the real unemployment totals.

Negative values for some districts (where the LFS rate is less than the claimant rate) have been discounted in this calculation. This means that the extra LFS unemployed derived from the summation of district figures is 371,000 compared with an excess of 221,000 derived from a comparison of national LFS and claimant count figures.

### **Government schemes**

The up-to-date numbers on government schemes are derived from four sources. For England they have been supplied by the Department for Education and Employment and relate to October 1996. For Wales they come from the Welsh Office and relate to January 1997. For Scotland they come from Scottish Enterprise and from Highlands and Islands Enterprise and relate to December 1996.

In every case the statistics are for TEC areas (LECs in Scotland). These mostly cover individual large districts or groups of neighbouring districts. The 1996/7 figures for individual TECs/LECs have been allocated to individual districts on the basis of the district's share of the number on government schemes in the corresponding area in 1991, from the Census of Population. In a small number of cases, a district is divided between two or more TECs/LECs. In these cases, the numbers for the two or more TECs/LECs have been added together and allocated across the whole area in proportion to the 1991 data.

Only the Scottish figures are available disaggregated by sex. For England and Wales, the estimated numbers in each district have been divided by sex on the basis of the 1991 male/female split in numbers on government schemes resident in the district.

### **Early retirement**

The excess number of early retired, who are counted as hidden unemployed, are carried forward from the 1991 analysis. This is the excess over the proportion of men and

women of working age who are 'early retired' in the South East of England, taken from the 1991 Census of Population.

The numbers early retired for dates later than 1991 cannot be measured directly from any source. However, Labour Force Survey data suggests that there has been little if any change since 1991 in the proportion of men of working age who are early retired. Between Spring 1991 and Spring 1995, the economically active share of the GB working age male population fell by 3.0 percentage points. The rise in long-term (6 months+) sickness claimants, recorded by the Department of Social Security, accounts for a fall of 2.1 percentage points over the same period. The rise in the number of economically inactive 16-24 year old students, recorded by the Labour Force Survey, accounts for a further fall of 1.0 percentage point. Together, these two reductions in male economic activity appear to account for the whole of the fall, suggesting that there was stability in the overall number of early retirees.

For women, the fall in economic activity rates of 0.5 per cent between 1991 and 1995 is exceeded by the reductions attributable to rising sickness (1.4 per cent) and economically inactive students (1.0 per cent). The proportion of women who are full-time looking after family/home is also likely to have changed, however, making it impossible to draw inferences about the number of early retirees.

### **Permanent sickness**

Statistics on sickness claimants have been provided by the Department of Social Security (DSS) for August 1996. These are based upon a 5 per cent sample of claimants. A small number of cases are excluded as their details are not held centrally. The DSS also applies a grossing factor to the local figures to allow for a small number of unknown postcodes. The DSS provides estimates for each district in Great Britain.

The data covers numbers of persons of working age, separately for males and females, who fall into three categories: Incapacity Benefit claimants; those not entitled to Incapacity Benefit due to insufficient National Insurance contributions but in receipt of National Insurance credits in respect of their incapacity; and those claiming Severe Disablement Allowance. A small number of people claim both Incapacity Benefit and Severe Disablement Allowance but these are only counted once.

The numbers recorded as 'permanently sick' by the 1991 Census and the sum of the numbers claiming Invalidity Benefit for 6 months or more and Severe Disablement Allowance in April 1991 are broadly comparable - roughly 900,000 men and 550,000 women. This suggests that the two sources of data on long-term sickness - self-reported and administrative - are likely to be counting broadly the same people.