A flood of misery

Unemployment surges, and there is worse to come

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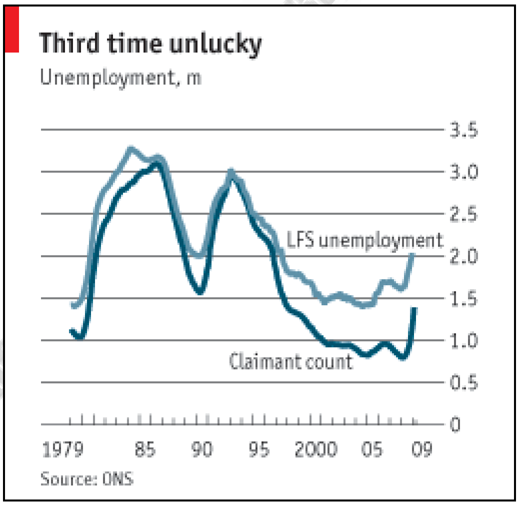
This recession has many victims, but it is in the lengthening lists of ordinary working men and women on the books of job centres and employment agencies that the suffering is most manifest. Their woes are increasing by the hour as mass unemployment returns to Britain, and the consequences are likely to prove far-reaching.

A few years ago it seemed so different. Memories of the two previous job-shedding recessions, in the early 1980s and the early 1990s, were fading. Unemployment rates had fallen to their lowest since the mid-1970s, thanks to prolonged growth and the newly efficient labour market on which Britain prided itself. In its manifesto for the general election in 2005 the Labour Party pledged full employment in every region by 2010. It did not seem implausible.



Almost four years later, the presumptuousness of that commitment has been thoroughly exposed. The latest unemployment figures, released on March 18th, were disastrous. As expected, the wider unemployment count—the number of people out of work and looking for jobs, as the Labour Force Survey counts them—climbed to more than 2m for the first time since mid-1997, just after Labour won power (see chart). On this measure, the jobless accounted for 6.5% of the labour force, also the highest since 1997.

But even these grim findings were overshadowed by something worse: a record rise in the number of people claiming jobseeker's allowance, a narrower measure of unemployment that misses out many women, in particular, because their partners' earnings make them ineligible for the benefit. The increase of 138,400 in February was the biggest monthly jump since comparable records began in 1971. And this is no one-month blip: the average rise of 104,000 in the three months to February was also the biggest on record.

The deterioration in the labour market is not only more marked than in previous recessions, it is also more widespread across regions, sectors and occupations. In the early 1980s it was the industrial heartlands in the midlands and the north that were most stricken as manufacturing firms collapsed. A decade later it was the south of England, especially vulnerable to the housing-market bust, that saw jobless rates rise most steeply. In this recession, by contrast, jobs are vanishing across the country. Early hopes in northern regions that their economies would be sheltered by the relatively large numbers of people working in the public sector have been dashed.

The broad geographical spread of rising unemployment reflects the extent to which a recession generated by the credit crunch has taken casualties throughout the private sector. Home builders brought low by the plunge in housing investment have laid off workers, but so too have manufacturing firms caught up in the collapse of global trade. Financial firms in London are shedding jobs, but so are retailers in high streets up and down the land.

The recession is showing scant respect for social class or occupation. The state's benefit and job-search agency, Jobcentre Plus, which typically deals with mainstream jobs, is handling almost double the usual number of new claims. Employment agencies are seeing well-paid people who have never before lost their jobs, says Tom Hadley of the Recruitment and Employment Confederation (REC). Representing private firms that mainly specialise in the professional and white-collar market, REC reports the fastest fall in job vacancies since its survey started in 1997. Demand for staff is falling across the board, other than in nursing and medical care.

There is more pain to come. Paul Gregg, a labour-market economist at Bristol University, thinks the surge in unemployment in February is the first of three terrible months as employers catch up with the decline in demand by shedding labour. Subsequent increases will be smaller, but even if the economy starts to recover at the end of this year, as the Bank of England predicted in February, he does not expect unemployment to peak until well into 2010.

That peak now looks increasingly likely to match the dismal record of previous recessions and exceed 3m people. The gap between the wider measure of unemployment and the claimant count is likely to narrow in any case as jobseekers who are not entitled to benefit give up and are reclassified as "inactive" rather than unemployed. In earlier downturns, the jobless have been pushed off the claimant count and onto incapacity benefit. But this time reforms to encourage long-term welfare claimants (including single parents) into work will tend to push up the claimant count, points out Mr Gregg.

Those reforms look spectacularly ill-timed (see article). Despite the government's protestations that it will press ahead with them, the immediate priority will be dealing with the newly unemployed. James Purnell, the work and pensions secretary, thinks that it is vital to prevent short-term claimants from turning into long-term jobless. To this end, the state will give businesses that hire people who have been unemployed for six months or more £1,000 per worker, with a further £1,500 for training.

The strategy makes some sense, although much of the money is likely to go to employers intending to hire anyway. But it is a meagre sandbag against the rising waters of unemployment. That flood will engulf the economy, as those who lose their jobs spend less and those who keep them save more in case they too are sacked. And it is not only GDP that will suffer; the return of mass unemployment could prove lethal to any remaining chance that Labour will cling to power at the next election.

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