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| To: ECONOMIC DEVELOPMENT COMMITTEE       |                    | Subject:<br><br>SUMMARY OF A RESEARCH REPORT :<br><br>THE REAL LEVEL OF UNEMPLOYMENT |
| From: DIRECTOR OF PLANNING & DEVELOPMENT |                    |  |
| Date: 29 July 1997                       | Ref: SC/LC/REP.255 |  |

## 1 Introduction

- 1.1 In March 1997 "The Real Level of Unemployment" was produced by the Centre for Regional Economic and Social Research at Sheffield Hallam University. The aim of the report is to highlight the real level of unemployment in Britain when hidden unemployment is included. This report sets out a summary of the main findings from this research and the results as they relate to North Lanarkshire.

## 2 Background

- 2.1 The principal official measure of unemployment in Britain is the monthly claimant count. This is a measure of the number of people out-of-work and claiming unemployment-related benefits. However, given the tightening of the rules governing eligibility to receive these benefits it is widely held that the claimant count now under represents the true scale of unemployment.
- 2.2 There is no scope to discuss these changes here, but it is worth noting that beyond the numbers recorded by the claimant count there is a further group of people who are unemployed but not claiming benefits. These people are consequently excluded from the official published figures.

## 3 Hidden Unemployment

The Sheffield team have outlined a range of mechanisms through which unemployment becomes hidden.

- o Unemployed but not claiming benefit : Includes people who have left their job voluntarily or have been dismissed for misconduct, who are disqualified from benefit for a period. Also includes those not entitled to means-tested benefits, for instance if man or woman has a partner in full-time work they are ineligible for means-tested unemployment benefits and will not appear in the claimant count.
- o Those on government schemes : Places on these schemes are not the same as conventional jobs and do not attract similar payment to conventional work. Many participants see themselves as only temporarily diverted from unemployment.
- o Early retirement : As a result of a general shortage of jobs in the economy many people with access to a company pension or lump-sum redundancy payment opt for early retirement. These people are not included in the claimant count.
- o Permanently sick : This is considered to be the single most important mechanism through which unemployment becomes hidden. Whereas unemployment benefit becomes means-tested after 6 months, incapacity benefit is not means-tested. This differential is important and is seen as incentive for people seeking to secure their benefit income. Moreover, once people are on incapacity benefit very few tend to come off. Department of Social Security statistics show that in August 1996 there was a total of 2.48 million people of working age claiming sickness-related benefit. According to the Sheffield researchers, there are now more people of working age 'on the sick' than 'on the dole'.

#### 4 Real Unemployment

- 4.1 In order to produce estimates of real unemployment, the hidden unemployed are added to the claimant count. Initially, the research team made estimates at the UK level for 1991 using census data and adding hidden unemployment. For comparison in 1997 a range of different data sources were pieced together, the results are outlined below.

Table 1 : Alternative Measures of Unemployment, UK ; 1991 & 1997

|                   | 1991                | 1997                |
|-------------------|---------------------|---------------------|
| Claimant Count    | 2,100,000 (8.1%)*   | 1,837,000 (7.1%)*   |
| Real Unemployment | 3,468,000 (13.0%)** | 3,950,000 (14.2%)** |

\*as % of economically active

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

#### 5 Research Findings Relevant to North Lanarkshire

- 5.1 The research project relates to the local authority areas that existed prior to local government re-organisation. As such, North Lanarkshire is not included as a geographical entity. The following results therefore relate to the former Council areas. Strathkelvin is included in the research project but not included in this report as the picture for Strathkelvin as a whole would not necessarily be the same for the 4 wards in the Northern Corridor. The research project does not provide data at levels below the former District Council area.

Table 2 : Incapacitated Due to Sickness or Invalidity as a Proportion of Working Age Population ; August 1996

|       | Cumbernauld & Kilsyth | Monklands | Motherwell |
|-------|-----------------------|-----------|------------|
| Men   | 10 - 15%              | 20 - 30%  | 15 - 20%   |
| Women | 5 - 10%               | 15 - 20%  | 15 - 20%   |

Data Source : Department of Social Security

NB - For men, Monklands (along with Glasgow) had the highest proportion in Scotland. Motherwell ( along with 4 other West of Scotland districts) was in the second highest grouping. For women Monklands and Motherwell had the highest proportions in Scotland.

- 5.2 The discrepancies outlined in Table 1 above, continue to be apparent in relation to North Lanarkshire. Table 3 below outlines the local situation.

Table 3 : Alternative Measures of Unemployment ; January 1997

|                       | Claimant Count (%) | Real Unemployment (%) |
|-----------------------|--------------------|-----------------------|
| Scotland              | 7.9                | 18.1                  |
| Strathclyde           | 9.1                | 23.2                  |
| Cumbernauld & Kilsyth | 6.6                | 18.3                  |
| Monklands             | 8.6                | 27.8                  |
| Motherwell            | 9.2                | 26.8                  |

- 5.3 According to the research carried out by the Sheffield research team, and the estimates outlined above, North Lanarkshire has 2 of its component former District areas ranked in the top 20 highest unemployment areas in the UK. Monklands is ranked 15th and Motherwell 18th in terms of unemployment.
- 5.4 The high levels of permanently sick recorded for the Monklands and Motherwell areas is likely to be a factor in the real unemployment figure. Areas with high proportions of men who have worked in heavy industry are generally expected to have higher proportions of their working age population registered as permanently sick. This is due to the physical nature of the work they used to do and the increased risk of accidents due to working with machinery.

## 6 Robustness of the Results

- 6.1 The key point in assessing the accuracy of these results is to bear in mind the fact that the two measures are considering different things. The claimant count measures those registered as unemployed and claiming benefits. Real unemployment is an attempt to measure those who might reasonably be expected to have been in work in a fully-employed economy. For real unemployed, people are being counted whether or not they are actively seeking a job or claimants of unemployment-related benefits.
- 6.2 A margin of error also exists in terms of calculation and definition. In calculation the Sheffield team admit that some problems do exist in amalgamating the building blocks from which real unemployment has been calculated. The research team believe that the rates of real unemployment for individual districts may be accurate to within one or two percentage points of the figure they quote. In relation to definitions, real unemployment includes; people on government schemes, women at home looking after children full-time, those in early retirement and those permanently sick. Academic debate is still ongoing concerning the pros and cons of the underlying methodology for calculation and definition within this research programme.
- 6.3 Overall it has to be acknowledged that the figures for real unemployment remain estimates. They are based on specific assumptions and on inferences from aggregate data. Within this constraint, the research team are confident that the estimates do identify the broader scale and geographical distribution of the problem.
- 6.4 A full copy of the report is held within the Economic Development Unit. Full publication details of the report are :
- Beatty C., Fothergill.S., Gore T., Herrington A. "The Real Level of Unemployment"  
Centre for Regional Economic and Social Research Sheffield Hallam University. March 1997

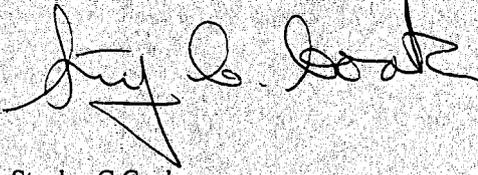
## 7 Summary

- The gap between registered unemployment and real unemployment has grown during the 1990s as the claimant figure is apparently under representing the true picture.
- The numbers registered as incapacitated (permanently sick) in North Lanarkshire appear higher than those registered as unemployed. North Lanarkshire also has some of the highest levels of incapacity in Scotland and the UK.
- The Monklands and Motherwell areas are ranked in the top 20 highest unemployment areas in the UK in terms of real unemployment.
- Real unemployment is calculated to be about 3 times the level of registered unemployment in North Lanarkshire.
- The results of this study have implications for the way we consider our local labour market. A great many of the hidden unemployed will have become thoroughly detached from the labour market. Targeted training programmes aimed at assisting the unemployed to access new jobs in the area may be insufficient to meet the needs of the hidden unemployed.
- The UK's unemployment situation is now enormously complex. Estimates of hidden and real unemployment assist in understanding the totality of the unemployment situation

**8 Recommendation**

It is recommended that the Committee :

- (i) note the contents of this report.



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