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Bradshaw, Jonathan, Cooke, Kenneth R. and Godfrey, Christine, 1950- (1983) Impact of unemployment on the living standards of families. *Journal of Social Policy*, 12 (4). pp. 433-452.

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The Impact of Unemployment on the Living Standards of Families

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ABSTRACT

Social security for the unemployed was not designed to cope either with large-scale or long-term unemployment and recent developments in the structure of unemployment and in social security policy give rise to concern for the living standards of the unemployed, especially the long-term unemployed. This article draws on data from the Family Finances Survey to assess the living standards of the unemployed after various durations of unemployment and compare these with the living standards of families with low incomes from work. The measures of living standards used are income, expenditure and the availability of consumer durables. The implications of the findings for social security policy are discussed.

In a number of important respects, social security provision for the unemployed in Britain has moved more and more out of step with trends in the structure of unemployment. At its origin the benefit system was not designed to cope either with high levels or long durations of unemployment, and in recent years the worsening employment situation has been accompanied by a contraction of the benefit system which has led to increasing concern in public discussion about the living standards of the unemployed.

Insurance benefits for the unemployed were framed in anticipation of full employment, essentially to meet the needs of the short-term unemployed in a buoyant labour market. Social security makes no special provision for the long-term unemployed as it does for the long-term sick. There is no long-term insurance benefit for the unemployed equivalent to invalidity benefit, and the exhaustion of entitlement to insurance benefits now contributes significantly to the large-scale dependence of the unemployed on means-tested benefits. In 1982-3 over half (52 per cent) of the

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unemployed received supplementary benefit either alone or with unemployment benefit, and the majority of these (41 per cent) were dependent entirely on supplementary benefit. The proportion dependent entirely on supplementary benefit has been rising since the mid-1960s and is forecast to rise again to 42 per cent in 1983-4 (House of Commons, 1982). The unemployed are also the only group who are not entitled to the long-term rate of supplementary benefit after twelve months.

Recent legislation has coupled reductions in the support provided by insurance benefits, including the phasing out of earnings-related supplement (ERS), the abatement of upratings (restored in the March 1983 budget) and the taxation of unemployment benefit with curtailment of the discretionary element in supplementary benefits, in which the unemployed were already one of the least favoured groups (Field, 1977).

One interpretation of the relationship between benefit levels and unemployment which has received considerable attention in both popular and academic discussion is that current benefit levels have undermined the incentive to search for or stay in work (Golding and Middleton, 1982; Miller and Wood, 1982; Parker, 1982). On the other hand, it has been argued (Field, 1977; Lister and Field, 1978; Burghes, 1981) that benefit levels have failed to maintain the living standards of the unemployed, particularly the long-term unemployed, at a morally acceptable level, either in individual terms or in comparison with other social groups.

Sinfield (1981) has suggested that the public debate about incentives and the moral panic about the supposed numbers of work-shy claimants have enabled attention to be deflected away from the question of hardship. The increasing numbers of particularly the long-term unemployed, however, suggest that greater attention should now be given to discussion of the living standards that current benefit levels are able to support and to consideration of whether, and in what ways, social security provision for the unemployed might need to be improved to meet current needs.

The purpose of this article is to compare the living standards of the unemployed at different stages of unemployment and compare the living standards of the unemployed with those of families with low incomes from work. There have, in the past, been a number of essentially qualitative studies of this topic (Sinfield, 1970; Marsden and Duff, 1975). Much of the quantitative research on the living standards of the unemployed has focused on incomes (Moylan and Davies, 1980, 1981; Davies *et al.*, 1982) and on indicators of relatively severe financial stress, including recourse to borrowing, arrears of regular payments and sale of assets (Clark, 1978; Daniel, 1974; Daniel and Stilgoe, 1977). What is not well documented is the amount and type of consumption that these income levels afford and

the adjustments that families make to consumption patterns to avert severe financial difficulties during unemployment. It is also important to attempt to establish what is the impact of *unemployment* on living standards, as distinct from the impact of low income, and the format of some previous studies has not made this possible.

This article is based on findings from the Family Finances Survey (Knight, 1981) which has provided a unique opportunity for comparing the living standards of the unemployed with those of other families with incomes in the same range of the income distribution. One of the strengths of this survey is that it contains, for a large number of employed and unemployed families, not only data on incomes but also very detailed information on expenditure.

The Family Finances Survey (FFS) was carried out between the last quarter of 1978 and the third quarter of 1979, and followed the model of the annual Family Expenditure Survey (FES). However, the sample consisted only of families whose resources did not exceed 140 per cent of their supplementary benefit entitlement including housing costs. Although this survey included far more families with an unemployed head than any single year of the FES, because of the income ceiling the sample is only representative of families in about the bottom quartile of the income distribution. While some families with an unemployed head will have undoubtedly been excluded by the truncation of the sample, it is likely that most families dependent entirely on social security benefits are represented in the sample, even those who were receiving maximum ERS. The sample is also restricted to families with at least one dependent child.

Despite these disadvantages the data make it possible to attempt to examine how living standards compare both between the unemployed at various stages of unemployment and between the unemployed and the poorest families in work.

METHODS

Living standards are not easy to measure in any complete or exact way, nor is there any agreed normative minimum level for living standards. However, the FFS enables several indicators of living standards to be examined and these can be compared between the employed and unemployed. The three indicators that have been used in this analysis are income, expenditure and the availability of consumer durables.

Income can be characterized as a measure of the resources available to families and the opportunities open to them for various kinds of consumption but, in addition to being compressed in this study within a narrow band, income has the disadvantage of taking no account of

purchasing power derived from, for example, use of savings or credit. It is also important, therefore, to consider what actual goods and services families have at their disposal. Expenditure is one way of measuring consumption, but it is a measure of the monetary value of goods and services consumed. It is not a measure of either their quantity or quality. Expenditure also takes no account of durable goods which are owned and make a contribution to living standards, but on which there is no current spending (or none that can be separately identified). Therefore information on the availability of certain consumer durables is also presented. None of these indicators is sufficient in itself to measure living standards but taken together they give a more complete picture of the relative living standards of the employed and unemployed than has been possible in other studies.

In this analysis a number of families included in the original sample have been omitted. The data presented here are based only on single tax unit households (parents and their dependent children). Multi-unit households have been excluded for two reasons: first because, like the Family Expenditure Survey, the FFS is unable to take account of sharing between family units in the same household; and second, because non-weekly expenditure is collected on a household basis and there is no exact way of apportioning expenditure between two or more families in one household.

One other concern was that the relationship of families in the sample to the labour market should be consistent, that is, that heads of households should all be economically active – either in work or unemployed and seeking work. Because of this concern, one-parent families as a group have been excluded. While they might appear to be economically active, the relationship to the labour market of lone-parent families is often less clear-cut than that of two-parent families because of the constraints on their employment opportunities. The treatment of lone-parent families in the social security system is also different from that of two-parent families. They are not required to register as unemployed and can receive the long-term rate of supplementary benefit.

617 multi-unit households and 990 lone-parent families have been excluded from the sample, leaving 1,604 two-parent families living in households containing no other families and no non-dependents. These families are divided into five employment status groups, including the following three groups of the unemployed.

Long-term unemployed: those heads of families 'out of employment but seeking work' who have been away from work over 52 weeks and who are not currently receiving unemployment benefit.

Medium-term unemployed: defined as those heads of families 'out of employment but seeking work' who have been away from work more than

13 weeks and less than or equal to 52 weeks, and those away from work more than 52 weeks but still currently receiving unemployment benefit.

Short-term unemployed: defined as those heads of families 'out of employment but seeking work' for 13 weeks or less.

These groups are distinguished by length of time off work in the current spell. It has been pointed out (Hakim, 1982) that, in cross-sectional studies of this kind, duration of the current spell of unemployment is not an ideal measure because it takes no account of previous employment experiences. In the FFS there is also the problem that length of time off work is not necessarily the same as duration of unemployment because periods of sickness, strikes, lay-offs and holidays may be included and so benefit status has also been taken into account.

The two employed groups are defined by duration of employment in their present job, and benefit status has also been taken into account to help to define these groups more accurately.

Short-term employed: defined as those heads of families who are full-time employees, who have had their present job six months or less and have during the previous year received either some unemployment benefit or some supplementary benefit.

Long-term employed: defined as those heads of families who are full-time employees, who have had their present job more than six months and have received neither unemployment nor supplementary benefit in the previous year.

Employed families were divided in this way in order to separate those in relatively stable employment from those with some recent history of unemployment.

The classification of employment status has, especially in the case of the long- and short-term employed, been partly constrained by the data available in the FFS. However, in the case of the unemployed the divisions between the groups correspond, where possible, to changes in benefit entitlement as unemployment progresses. Earnings-related supplement ceases after six months and unemployment benefit is replaced by supplementary benefit after twelve months.

Although these employment status groups are mutually exclusive they are not entirely comprehensive, so that 567 families could not be classified. The reasons for this are shown in table 1. About one third of these families were excluded because the head was not economically active or was off work through sickness rather than unemployment. A further third were not full-time employees. The remaining third were full-time employees whose circumstances were not covered in the definitions of short- and long-term employment, mainly through the inclusion in these definitions of

benefit receipt in the previous year. By including in the short-term employed group only those who had received either unemployment or supplementary benefit in the previous year we hoped to restrict that group to those who had had spells of unemployment and exclude those who had only changed their job. Our definition of long-term employment was intended to ensure that we excluded all those with some unemployment during the previous year by taking benefit receipt into account. These exclusions left 1,037 families in the sample, and the results presented here are based on a weighted sample (see table 1) of 873 cases.

It is important to emphasize that the FFS data are cross-sectional rather than longitudinal. It is not possible therefore to trace the changes in living standards of individual families moving from work into unemployment, and from short-term to long-term unemployment. Instead, living standards are compared between five separate groups of families who had been employed or unemployed for different periods at the time of the study. The design of the study enables comparisons to be made of the relative living standards of these five employment groups but the dynamic effects of employment status can only be inferred.

We examined the characteristics of the employment groups and although they are not identical they are none the less sufficiently similar that the

TABLE 1. *Exclusions from the Sample*

Initial FFS sample (households)	3211
<i>Less</i> 617 multi-unit households	
<i>Less</i> 990 lone-parent families	
Two-parent, single tax unit households	1604
<i>Less</i> 51 temporarily sick	
67 sick and not intending to seek work	
7 caring for elderly relative	
13 retired	
12 students	
27 Other (away from work more than 5 years)	
168 Self-employed/part-time employee	
129 Full-time employee not included in definitions of short- or long-term employed	
93 Full-time employee temporarily away from work	
Final sample	1037
Weighted sample*	873

* In the FFS large families (those with four or more children) were deliberately oversampled by a factor of three and so to preserve the representativeness of the sample when small and large families are amalgamated the results for large families have to be weighted by a factor of one third. All of the results presented in subsequent tables are weighted in this way, and are based effectively on a sample containing only one third of the number of large families in the initial sample.

results can be presented for the groups as a whole rather than within particular age bands, social classes or other subgroups. However, the results of some multivariate analyses which attempt to take account of any variations in the measures of living standards associated with differences in characteristics are also discussed in this article.

The long-term unemployed have slightly larger families, older heads of household, more tenants and more manual workers than the other unemployed groups. However, the differences are small and the unemployed groups, and indeed the short-term employed, are similar. The only group that does differ somewhat from the others is the long-term employed. These differences are probably partly associated with employment status and partly a function of the way the sample was selected. There are, for example, more owner occupiers among the long-term employed. This may reflect the fact that this group is better able to obtain mortgages but it is also an artefact of the sampling procedure. Because the housing costs of owner occupiers are, on average, higher than those of tenants, owner occupiers are included in the sample at higher income levels than tenants.

RESULTS

Table 2 compares levels and sources of gross income. Even within this constrained sample there is a substantial difference in gross income between the employed and unemployed groups. However, the average gross income of the unemployed groups differs very little and none of the differences are significant. The only noticeable difference is in the amount of dispersion about the mean. The long-term unemployed have a lower variation in gross income and one that is more similar to that of the employed groups.

It might have been expected that the withdrawal of ERS after six months and the termination of unemployment benefit after twelve months would produce a decline in income levels between short- and long-term unemployment. An examination of the sources of gross income gives some indication of why this decline in income does not occur. In this study ERS cannot be separated out from unemployment benefit, but in any case only 61 per cent of the short-term and 77 per cent of the medium-term unemployed received insurance benefits, and about half of these groups received supplementary allowances. Also wives' earnings contribute very little to gross income. This is probably partly due to income disregards on spouses' earnings. The small proportion of families with working wives is also a result of the income ceiling. Only families with very low earnings from wives would remain within the sample, and for this reason there are also few working wives in the employed groups.

TABLE 2. Current Gross Income

Source of current gross income	Long-term unemployed % of %families with source income of income	Medium-term unemployed % of %families with source income of income	Short-term unemployed % of %families with source income of income	Short-term employed % of %families with source income of income	Long-term employed % of %families with source income of income
Earnings from employment					
Household					
Husband	2.1	4.6	13.1	85.2	82.9
Wife	0.0	0.0	2.0	83.2	81.5
Social Security income	2.1	4.6	11.0	2.0	7.4
All	96.4	91.6	82.5	100.0	8.3
Child Benefit	18.1	15.5	15.2	11.7	7.8
Unemployment Benefit	0.0	52.8	41.5	0.0	0.0
Supplementary Benefit	77.6	22.5	25.4	0.0	0.0
Family Income Supplement	0.0	0.3	0.1	3.5	0.0
Other	0.7	0.6	0.3	0.4	0.1
Other Income	1.5	3.8	4.3	11.8	0.3
TOTAL (£ per week = 100%)	48.09	50.56	48.86	2.3	37.0
Coefficient of variation (%)	(23.1)	(28.0)	(30.6)	70.46	84.62
Base (= respondents)	126	131	85	(23.2)	(26.1)
				54	477

Total current gross income F (all groups) = 176.1, d.f. = 4868, p < 0.001

F (unemployed groups) = 1.1, d.f. = 2:339, NS

These results suggest that the unemployed as a whole are considerably poorer even than very low wage earners. The long-term unemployed are living on just over half (57 per cent) of the gross income of the long-term employed. However, lengthening unemployment appears not to have a significant impact on average gross incomes, only in the variation in average gross incomes.

What income families have at their disposal after deductions of tax and national insurance contributions and also, for reasons outlined above, their expenditure may be better indicators of living standards than gross income. These are shown in table 3. As would be expected, the income differential between the employed and the unemployed is smaller for disposable than for gross income, but even so the long-term unemployed have only two-thirds of the mean disposable income of the long-term employed. The differences in the disposable incomes of the unemployed groups are, like their gross incomes, small and not statistically significant.

One of the problems that arise in these simple comparisons of means is that some of the difference in incomes may be due to differences in the number and ages of children between the groups. Equivalence scales are one way of controlling for these differences, and equivalent current disposable income is shown in table 3, calculated using the DHSS equivalence scale (van Slooten and Coverdale, 1977). The equivalent disposable income of the long-term unemployed (£29.63) remained at about two-thirds of that of the long-term employed (£47.44).

Table 3 also shows total expenditure and the excess of this over current disposable income. Total expenditure is lower for the unemployed than for families in work, but also, unlike income, declines between the short- and long-term unemployed. The differences are not significant and so may be due to chance. However, there are a number of reasons why it might be expected that expenditure should decline in this way while income remains constant: the short-term unemployed may spend more because they have more savings to draw on or better access to credit but it may also be that the expectations of the groups differ.

Income is an important determinant of expenditure, but it is not necessarily *current* income that fixes its level. Expenditure may be based on an idea of 'permanent income' (Friedman, 1957) which includes both past income, current income and future expectations. For all groups, total expenditure exceeds disposable income. This is a normal occurrence in each year's FES and so this is not a significant result in itself but the variations in this excess of expenditure over income are important. The excess is lowest for the two stable groups and highest for the short-term unemployed. The excess declines between the short-term and long-term

TABLE 3. Current Disposable Income, Equivalent Current Disposable Income and Total Expenditure

	Long-term unemployed	Medium-term unemployed	Short-term unemployed	Short-term employed	Long-term employed
Current disposable income (£ per week)	47.91	50.20	48.08	59.13	72.25
Coefficient of variation (%)	(29.5)	(26.9)	(23.3)	(22.0)	(25.3)
Total expenditure (£ per week)	52.24	56.31	59.72	65.79	75.39
Coefficient of variation (%)	(41.2)	(43.4)	(52.8)	(32.7)	(43.3)
Excess of expenditure over current disposable income (£ per week)	4.16	6.11	11.81	6.66	3.14
Equivalent current disposable income (£ per week)	29.63	32.54	31.59	38.11	47.44
Coefficient of variation (%)	(14.4)	(22.5)	(23.5)	(21.5)	(27.3)
Base (= respondents)	126	131	85	54	477

Statistical Significance

Current disposable income:

F (all groups) = 106.2, d.f. = 4:868, $p < 0.001$

F (unemployed groups) = 1.2, d.f. = 2:339, NS

Total expenditure:

F (all groups) = 23.2, d.f. = 4:868, $p < 0.001$

F (unemployed groups) = 2.3, d.f. = 2:339, NS

Equivalent current disposable income:

F (all groups) = 118.3, d.f. = 4:868, $p < 0.001$ F (unemployed groups) = 6.8, d.f. = 2:339, $p < 0.001$

unemployed and this decline suggests that there are differences in what these groups conceive as their 'permanent income'.

Also in this sample, as in other low income samples (Fiegehen *et al.*, 1977), the low correlations between current disposable income and total expenditure ($r=0.36$ for the long-term unemployed and $r=0.53$ for the long-term employed) suggest that factors other than current incomes determine expenditure to a large extent, and expectations may figure among these other factors. If there is any truth in this hypothesis, then the short-term unemployed group whose expectations might be relatively optimistic should have the lowest correlation between income and expenditure, and this is the case ($r=0.27$). What this indicates is that as unemployment progresses and expectations fall, 'permanent incomes' are adjusted downwards and come more into line with current incomes. Although the current incomes of the unemployed groups are about the same, their expenditure suggests that, in fact, their living standards are declining.

There are also differences between the groups in patterns of expenditure as well as in levels of expenditure. The proportion of total expenditure devoted to the main commodity groups is shown in table 4. Housing, food and fuel could be characterized as necessities and what families have left after deduction of expenditure on necessities is a measure of the access they have to other commodities which affect their standard of living. Families in the FES spent 42.7 per cent of their budget on necessities in this sense in 1979, but in the FFS sample the expenditure of even the long-term employed group on necessities is greater, at 55.5 per cent. That of the long-term unemployed group is considerably higher still, at 65.6 per cent. This proportion is higher than that of the short- and medium-term unemployed.

The families in this sample devoted a smaller proportion of their expenditure to all of the remaining commodity groups shown in table 4, with the exception of tobacco. The differences in tobacco expenditure are striking. All of the unemployed groups allocate a larger proportion of their expenditure to tobacco than the employed groups. This finding may result either from there being a greater proportion of smokers in the unemployed groups or from a higher expenditure on tobacco among smokers in these groups than in the employed groups. When this finding was examined more closely there were found to be greater proportions of smokers (i.e. families with some tobacco expenditure) in the long- and medium-term unemployed groups than in the short-term unemployed group and the employed groups, but the differences in expenditure between the groups were not significant. From these cross-sectional data, and with no infor-

TABLE 4. Shares of Expenditure of Main Groups

Expenditure Groups	Long-term unemployed		Medium-term unemployed		Short-term unemployed		Short-term employed		Long-term employed		F (all groups) groups)		F (unemployed groups)		1979 FES ¹
	%		%		%		%		%		d.f. = 4.868	d.f. = 2.339		%	
Food															
Housing	34.2		33.4		31.4		33.1		30.6		3.7*		1.6		25.1
Fuel, light and power	19.7		16.5		17.8		15.1		16.6		2.2		2.2		13.2
Clothing and footwear	11.8		9.7		11.0		9.0		8.3		9.4**		3.3		5.4
Alcoholic drink	5.0		5.8		3.8		5.2		6.6		3.7*		2.2		9.0
Tobacco	2.4		2.9		2.6		3.8		2.8		1.3		0.6		4.1
Durable household goods	6.9		7.5		6.4		6.3		3.7		24.1**		1.2		3.1
Other goods	4.3		3.6		4.8		5.1		5.4		1.7		0.9		7.6
Transport and vehicles	6.5		6.5		6.6		6.1		7.3		1.6		0.0		8.0
Services	3.7		7.7		9.3		10.5		11.3		18.9**		14.4**		13.7
Miscellaneous	5.0		5.7		6.5		5.2		6.5		3.1		2.4		9.2
Base (= respondents)	0.6		0.7		0.8		0.7		1.0		1.6		0.3		1.5
	126		131		85		54		477						

¹ The figures for married couples with one, two, three and four or more children were weighted to give the same proportions of different family compositions as the average for the five employment groups.

* $p < 0.01$

** $p < 0.001$

mation on previous smoking habits, it is not possible to say whether there are more smokers in the longer term unemployed groups because of the stress of unemployment or because smokers are more likely to be found among those more at risk of unemployment.

In order to see if the diet of the unemployed is any different from that of the employed expenditure on particular foodstuffs was examined. The findings were that the medium-term and long-term unemployed allocated a slightly larger share of expenditure than the short-term unemployed and the employed groups to bread and potatoes. However, other differences were both very small and inconsistent.

The long-term unemployed spend a larger amount on clothing and footwear than the short- and medium-term unemployed and this may be because the replacement of stocks is postponed in short-term unemployment. Clothing and footwear is the only commodity group in which expenditure on children can be separately identified. When these were examined the unemployed groups spent less on them than the employed groups, but the most remarkable finding was how little all of the groups spent on children's shoes, and especially how little the long-term unemployed spent. Grossed up to an annual sum, the amount for all of the groups was far less than the price of one pair of shoes and just over £2.00 for the long-term unemployed.

The lower level of expenditure of the unemployed on transport and vehicles is partly due to their having no travel-to-work costs but it might also indicate some restriction in their social life. This hypothesis was investigated further and it was found that while the expenditure of all groups on holidays and entertainments was low it was lower for the unemployed than the employed, highest for the long-term employed and lowest for the long-term unemployed. The long-term employed also spend most and the long-term unemployed spend least on newspapers and periodicals. Although there is no difference in the level of gambling expenditure, there are fewer families in the unemployed groups who do gamble. There is, therefore, some evidence of greater social restriction in the unemployed groups.

The remaining indicator of living standards is the availability in the household of various consumer durables. The availability of consumer durables is a measure of living standards in two respects. On the one hand, it is a measure of consumption over an extended period of time, which current expenditure does not take account of. (The presence of some assets, however, may affect current expenditure). On the other hand, it is a measure of the quality of life in that most of the durable goods considered here are labour-saving devices or sources of entertainment.

TABLE 5. Availability of Consumer Durables

Consumer Durables	Long-term unemployed		Medium-term unemployed		Short-term unemployed		Short-term employed		Long-term employed		χ^2 (all groups) χ^2 (unemployed) χ^2 (employed)	1979 ¹ FES
	%		%		%		%		%			
Telephone	25.5		37.1		46.0		35.9		59.6		60.9**	77.6
Television	97.2		98.1		98.2		94.7		97.3		2.0	98.1
Washing machine	75.3		76.1		81.6		83.5		88.3		19.8**	95.9
Any Fridge/Freezer	80.3		84.8		84.5		94.1		96.8		50.6**	98.2
Car	11.0		30.1		34.6		51.1		66.7		157.9**	60.3
Central heating	33.1		41.9		37.4		47.1		53.5		16.3*	67.9
Base (= respondents)	126		131		85		54		477		9.9*	

¹ Households with two adults and two children.² Three out of six cells had expected frequencies less than five.* $p < 0.01$ ** $p < 0.001$

The proportion of households with each asset available is shown in table 5. There is a consistent pattern to these results for all assets apart from televisions. Generally the long-term employed were the best-provided with assets and the long-term unemployed the worst-provided. The general level of availability of assets was lower than for all families in the FES.

There are some striking results in the table. Hardly any families do not have a TV. The car is the least likely to be available in the households of the unemployed. One possible explanation is that it is an asset that is readily disposable in a period of unemployment and can be realized for cash. The pattern of ownership suggests that if this happens cars are not immediately disposed of. A washing machine or fridge has, unless it is very new, only a limited resale value, which may explain why the differences in availability are not so great. The differences that exist may be due to the inability to replace or repair the asset as it breaks down. Telephones are not assets that can be resold, but there is a standing charge to pay regardless of how much it is used and despite any amount of economizing. On the other hand, a family may be reluctant to give up a telephone immediately because of the cost and delay involved in getting it reconnected. The figures suggest it probably is an asset, though, which families tend to give up in long-term unemployment. Also those who are working but who have been unemployed recently do not immediately acquire or re-acquire a telephone.

Central heating is different from other durables in that it is not something which can be disposed of in the short-term. Central heating is likely to be associated with the type and tenure of housing which the family occupies. All the groups are less likely than the general population to have central heating and the long-term unemployed have the lowest proportion with central heating.

So far the relationship between employment status and living standards has been examined using bivariate analysis. The analysis is based on the assumption that the characteristics of the employment groups are similar. Thus any variation in living standards is assumed to arise from differences in employment status rather than differences in the characteristics of the employment groups. In order to verify this assumption and to check that employment status does have an independent effect on living standards after any variation associated with different characteristics of the employment groups had been taken into account, some multivariate analyses were carried out.

The method used to examine variations in income and expenditure was regression analysis. In this analysis variations in income and expenditure were examined in relation to employment status, number of children in the

TABLE 6. Employment Status, Current Disposable Income and Expenditure

<i>Independent variables</i>	<i>Current Disposable Income</i>	<i>Expenditure</i>
	(unstandardized regression coefficients)	
Constant	58.59	51.78
Non-manual class	13.17***	17.97***
Long-term unemployed	-21.98***	-20.05***
Medium-term unemployed	-19.50***	-17.53***
Short-term unemployed	-21.38***	-12.42***
Short-term employed	-9.87***	*
2 child family	-5.66***	8.78***
3 child family	11.29***	11.00***
4 child family	17.49***	17.83***
5 child family	26.02***	27.41***
Age of youngest child	4.47***	*
Age of head of household	*	0.28**
R ²	0.49	0.19
F	108.1	29.07

Statistical significance

* Did not meet the inclusion parameter

** $p < 0.05$ *** $p < 0.01$

family, social class, age of the youngest child, and age of the head of the household. The results are presented in table 6.

Each analysis was run as a stepwise regression with inclusion parameters set at the 80 per cent significance level. In the regression of income each of the employment groups entered the equation and made a significant contribution to the variance explained. Social class entered first. We suspect this is because the long-term employed contain more non-manual families. Because many of these are owner-occupiers and because their housing costs are ignored in calculating current disposable incomes, there is a good deal of variation between the long-term employed and other groups which is accounted for by class. The largest family group enters next into the equation. Disposable income is partly determined by family size – through child benefits and the supplementary benefit scale rates. Next the three groups of unemployed enter. The only independent variable not found to make a significant contribution was age of the head of the household.

In the regression of expenditure it was found that the proportion of variance explained was lower, but the groups of unemployed still entered the equation and made a significant contribution to the variance explained. The variables entered in much the same order as with income but the short-

term employed and the age of the youngest child did not pass the inclusion parameter. As we saw in the earlier analysis the differences in expenditure between the short-term unemployed, short-term employed and long-term employed are not very great and certainly not as large as their income differences.

These results represent only an exploratory exercise and the status of the estimates is open to question. We have not included interactive effects and there was certainly some multicollinearity between the independent variables in the equation. In an exploration of these effects regression analyses were carried out separately for each social class and family size group. These analyses confirmed that employment status still made a significant contribution to explaining variation in income and expenditure. (Detailed results can be provided on request.) Typically the proportion of variation explained by employment status was between 30 and 40 per cent, although, not surprisingly, employment status explained rather less of the variance in the incomes and expenditure of large and unskilled manual families where replacement ratios are narrower. Although these analyses of interactive effects are not comprehensive they confirm the importance of employment status in influencing income and expenditure.

The availability of a consumer durables, being a dichotomous variable, was investigated by logit analysis. The availability of each asset except televisions (which almost all possessed) was examined with three independent variables – social class, employment status and the number of children in the family. Estimates were obtained for models with just one of these variables, with combinations of variables and also with a full set of interactive terms. The results summarized in table 7 are for specifications which satisfy the following criteria: no more general specifications had a significantly greater likelihood; and no simplification produced an insignificant decrease in the likelihood. Statistical significance was assessed by means of Likelihood Ratio Test Statistics (LRTS). These LRTS indicated that interaction terms could be omitted in the models for all consumer durables. For the availability of telephones, fridges and central heating the number of children variable was not significant.

From the estimated coefficients it is possible to calculate the probability of a household of a given type having an asset using the formula

$$P = \frac{e^{-\sum b_i x_i}}{1 + e^{-\sum b_i x_i}}$$

where $\sum b_i x_i$ is the weighted sum of the independent variables and the weights are the corresponding estimated coefficients. Thus for example the probability of a one child, manual, long-term employed family having

a car is 48 per cent compared with eight per cent for a one child, manual, long-term unemployed family.

It can be seen from table 7 that for telephones, washing machines and central heating, social class is a more important determinant of availability than employment status. This is not surprising given that the availability of consumer durables are likely to reflect long-term living standards. Nevertheless the long-term and medium-term unemployed groups have significant and sizable coefficients for each consumer durable. The long-term unemployed are consistently less likely than the other employment groups to have a consumer durable *ceteris paribus*. The effects of short-term unemployment and short-term employment are more variable, reflecting that a change in employment status does not necessarily have an immediate impact on the availability of assets. However, both groups are less likely than the long-term employed to have telephones, fridges and cars and the short-term unemployed are less likely to have central heating. The short-term employed are more likely to have each asset than the short-term unemployed except for telephones – which is further evidence that the short-term unemployed may retain telephones and the newly employed delay obtaining them.

CONCLUSIONS

The findings of this study have to be interpreted with some care, but the cumulative weight of evidence suggests that the living standards of the long-term unemployed are lower than those in short-term unemployment and that the living standards of both are below those of the poorest families in work.

These findings are based on data collected in late 1978 and 1979. Since that time policy developments in social security for the unemployed have been motivated by a concern about work incentives rather than the hardship of unemployment and consequently have tended to reduce income support for the unemployed. The ending of ERS and the abatement and taxation of benefits were all intended to improve incentives to work for the short-term unemployed (as well as to save public expenditure). However, it has been argued that in practical terms at current benefit levels and especially in the present economic climate, reducing benefit levels is not the appropriate way to improve incentives (Layard *et al.*, 1978; Social Security Advisory Committee, 1982).

More attention should now be given to the adequacy of the living standards of families in unemployment, especially of those in long-term unemployment. There has been some discussion of the need to abandon the contributory principle in unemployment benefits (Fimister and Lister,

1980) and of the case for a new long-term unemployment benefit based on the invalidity benefit model (Burghes, 1981). However, the reform that has most consistently been advocated (Field, 1977; Clark, 1978; Lister and Field, 1978; Supplementary Benefits Commission, 1979, 1980; Social Security Advisory Committee, 1982; Burghes, 1981; Brown and Madge, 1982) is the payment of the long-term rate of supplementary benefit to the unemployed after twelve months. The Social Security Advisory Committee in its initial report (1982) suggested that the long-term rate be extended to the unemployed in phases beginning with families with children, at an annual cost of £85 million at 1981/82 benefit levels.

TABLE 7. Logit Models to Predict the Availability of Consumer Durables

Independent variables	Telephone	Fridge/ Freezer	Washing Machine	Car	Central Heating
Constant	1.43	4.04*	2.20*	1.06*	0.77*
Manual class	1.36*	-0.96	-0.79*	-1.14*	-0.78*
Long-term unemployed	-1.23*	-1.74*	-0.61*	-2.32*	-0.69*
Medium-term unemployed	-0.78*	-1.42*	-0.55*	-1.44	-0.53*
Short-term unemployed	-0.47*	-1.33*	-0.40	-1.17*	-0.56*
Short-term employed	-0.66*	-0.54*	-0.06	-0.54*	0.31
2 child family			0.43	0.60*	
3 child family			0.63*	0.82*	
4 child family			0.61*	0.74*	
5 child family			-0.01	0.23	
Likelihood ratio test statistic	135**	70**	36**	256**	54**

Statistical significance

* p < 0.05

** p < 0.01

There are arguments in favour of extending the long-term rate to the unemployed in terms of equity, because all other long-term benefit recipients have access to the long-term rate. This study suggests there is also a case in terms of relative disadvantage. Unlike White (1982) who suggests that living standards stabilize as unemployment progresses, we have found evidence of a continuing deterioration in expenditure and availability of consumer durables. Moreover, the long-term unemployed have living standards considerably below those of even low-income families in work.

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