

**An analysis from Ian Brinkley, Associate Director of The Work Foundation of the latest Labour Market figures from the Office of National Statistics:**

The latest figures show further big falls in employment and - on one measure – a big rise in unemployment. Comparing the three months to June with the previous three months, total employment fell by 270,000. Unemployment measured by the International Labour Organisation (ILO) definition (looked for work in the last four weeks, able to start a job in two weeks time) went up by 220,000. The ILO unemployment rate is now 7.8 per cent.

However, there is a baffling discrepancy with the other measure of unemployment, the number of people claiming Job Seeker Allowance (JSA) benefits. This went up by just 25,000 in July. But on a like-for-like comparison, the discrepancy is significantly smaller. A comparison of the claimant count average of the three months to June with the average of the previous three months, shows that claimant count unemployment went up by 150,000. This is still very different from previous recessions, when claimant count unemployment increased faster than the wider ILO measure.

The government has recently announced an official inquiry into the discrepancy. Setting aside possible inaccuracies and “blips” in the statistics themselves, the three most likely explanations are as follows:

- fewer people are signing on for benefits because they expect to get a new job quickly and/or they do not qualify. The level of unemployment benefits in the UK is exceptionally low compared with the average wage, so it is understandable if people who are not in immediate need prefer not to subject themselves to the signing on process;
- people are moving off benefits more quickly than in the past, so long-term unemployment has not built up as quickly as it did in previous recessions. How much this represents a ‘revolving door’ and how much is a genuine increase in the effectiveness with which the employment services are getting people back to work quickly is not known;
- fewer people are dropping out of the labour market. One of the distinguishing features of this recession is that working age ‘economic inactivity’ (people not in work and not actively looking for work) has so far increased very little (though the latest figures show it starting to move upwards). In other words, more people are staying active looking for work and therefore counting as ILO unemployed than in previous downturns. One implication is that ‘open’ unemployment as defined by the ILO will be more of a problem, but long term economic inactivity less of the problem in this recession.

Much attention has been given to young people, quite rightly. Young people are always disproportionately affected by recessions and are among the first to be affected (because the first thing employers do in a recession is stop hiring). The flood

of newly qualified graduates into the labour market this summer has given added urgency to the issue.

However, hard statistics on what is happening to new graduates are few and far between. The most recent figures relate only to people who graduated in 2008. These show that of those students whose destinations were known, about 8 per cent were “assumed” (as described in the ONS figures) to be unemployed. The figure this year is likely to be significantly higher. Again, going on last year’s figures, those with medical and education related degrees should be better placed than those with other types of degrees. But without up-to-date and accurate figures, it is hard to be very specific.

Many new graduates are going to struggle, but the bigger short-term effect could be on non-graduates. Graduates who cannot find the job they want will eventually compete with non-graduates for almost any job going - and many employers will find it attractive to have graduate quality labour for jobs paying the minimum wage or just above the minimum wage. Those young people with few or no qualifications will in consequence suffer extremely high rates of unemployment – the dangers of a ‘lost generation’ are most severe for this group.

The longer term effects of higher graduate unemployment and widespread under-employment could be even more harmful. If there is one certainty about the recovery it is that it will be led by sectors, occupations and organisations that disproportionately recruit graduate quality labour. However, the next generation coming up to college entry age may look at the experience of the previous generation and conclude that getting a degree is worth little in economic terms. That judgement is understandable but wrong. If enough people come to that conclusion, the result could be severe labour shortages in critical areas in four to five years. And some graduates may find themselves trapped in jobs that make little or no use of their talents even when demand for graduates in the economy revives.

The government has taken some very positive steps to help young people who have been unemployed on a long-term basis. These measures need to be deployed as quickly as possible and wherever possible strengthened and extended to older age groups.

But more could be done to slow down the entry of graduates into the labour market over the next few years. Every student who is qualified to do so should be encouraged to look at staying on and the funding provided to support their course. Universities and others running research related programmes should be offered additional short-term funding to take on new graduates in temporary posts. The government should guarantee a place for every young person able to benefit from a course within the higher and further education sectors.

As well as helping graduates directly, these measures would reduce the short term competition for jobs so that non-graduates stand a better chance of getting work. And in the longer term, they will increase the quality of labour that we will need for a sustained recovery.