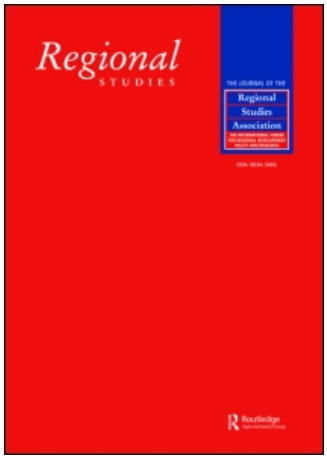

Regional Studies
Publication details, including instructions for authors and subscription information:
http://www.informaworld.com/smpp/title~content=t713393953

The diversion from 'unemployment' to 'sickness' across British regions and districts

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Online Publication Date: 01 October 2005
To cite this Article: Beatty, Christina and Fothergill, Stephen (2005) 'The diversion from 'unemployment' to 'sickness' across British regions and districts', Regional Studies, 39:7, 837 - 854
To link to this article: DOI: 10.1080/00343400500289804
URL: http://dx.doi.org/10.1080/00343400500289804

Regional Studies, Vol. 39.7, pp. 837–854, October 2005

The Diversion from 'Unemployment' to 'Sickness' across British Regions and Districts

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(Received April 2004: in revised form February 2005)

BEATTY C. and FOTHERGILL S. (2005) The diversion from 'unemployment' to 'sickness' across British regions and districts, *Regional Studies* **39**, 837–854. Around 2.7 million non-employed adults of working age in the UK claim sickness-related benefits, and the numbers have risen steeply over time. The very large variation in the numbers across districts and regions points strongly to extensive hidden unemployment, especially in older industrial areas affected by job losses. This paper builds on two previous papers by the same authors – one dealing with the theoretical framework and the other with a local case study – to present wholly new estimates of the scale of the diversion across all parts of the country. It also questions contemporary perceptions of the UK labour market and the validity of current approaches to re-engaging sickness claimants with employment.

Unemployment Sickness Social Security Districts

BEATTY C. et FOTHERGILL S. (2005) Le détournement du 'chômage' à la 'maladie' à travers les régions et les districts britanniques, *Regional Studies* **39**, 837–854. A peu près 2,7 millions d'adultes sans travail et à l'âge de travailler font une demande de prestations de l'assurance-maladie au Royaume-Uni, et leur nombre est monté en flèche sur les années. La variation très importante de leur nombre à travers les districts et les régions indique fortement qu'il s'agit d'un chômage caché de grande ampleur, surtout dans les vieilles zones industrielles touchées par la perte d'emplois. L'article développe deux articles antérieurs des auteurs – l'un qui traite du cadre théorique, l'autre d'une étude de cas locale – et cherche à présenter des estimations tout à fait nouvelles de l'ampleur du détournement à travers le pays. En outre, on remet en question et des perceptions contemporaines du marché du travail au Royaume-Uni, et la validité des approches en vigueur d'aborder le problème de réembaucher les demandeurs de prestations de l'assurance-maladie.

Chômage Maladie Sécurité sociale Districts

BEATTY C. und FOTHERGILL S. (2005) Die Umbenennung von 'Erwerbslosigkeit' auf 'Krankheit in britischen Regionen und Distrikten, *Regional Studies* **39**, 837–854. Im UK beziehen etwa 2.7 Millionen erwerbslose Erwachsene im arbeitsfähigen Alter Krankheiten zugeschriebene Unterstützungsgelder, und diese Zahl ist im Laufe der Zeit stark angestiegen. Die auffallend großen Unterschiede der Anzahl der in Distrikten und Regionen derart Registrierten deutet auf weit verbreitete, versteckte Erwerbslosigkeit hin, besonders in früheren Industriegebieten, die von Stellenverlusten betroffen sind. Dieser Aufsatz stützt sich auf zwei vorhergehende Beiträge der Autoren in Regional Studies – wobei der eine den theoretischen Rahmen behandelte, und der andere eine örtlich begrenzte Fallstudie darstellte-, und legt ganz neue Schätzungen des Umfangs der Umbenennung in allen Teilen des Landes vor. Er stellt darüberhinaus gegenwärtige Auffassungen der Arbeitsmarktes im UK in Frage, sowie die Stichhaltigkeit gegenwärtiger Ansätze zur Wiedereinstellung Krankengeld beziehender Personen in Arbeitsverhältnisse.

Erwerbslosigkeit Krankheit Sozialhilfe Distrikte

BEATTY C. y FOTHERGILL S. (2005) La trayectoria desde el desempleo a la incapacidad laboral a través de las regiones y los distritos británicos, *Regional Studies* **39**, 837–854. En el Reino Unido, alrededor de 2,7 millones de personas adultas en edad de trabajar que se encuentran desempleadas solicitan subsidios por incapacidad laboral, y dicho número ha aumentado dramáticamente a lo largo del tiempo. Existe una gran diferencia entre los diferentes distritos y regiones en lo que respecta al número de personas que se encuentran dentro de este grupo, lo cual apunta a que existe un alto porcentaje de desempleo oculto, especialmente en las viejas zonas industriales afectadas por la pérdida de puestos de trabajo. Este artículo parte de dos artículos publicados previamente por los mismos autores – uno de ellos trata el marco teórico y el otro presenta un estudio de caso de carácter local – con el fin de presentar estimaciones totalmente nuevas respecto a la escala de las divergencias que se dan en todas las zonas del país. También se cuestionan las percepciones que actualmente existen en torno al mercado laboral en el Reino Unido y la validación de los enfoques actuales de cara a la reinserción al mundo laboral de los solicitantes de subsidios por incapacidad laboral.

Desempleo Incapacidad laboral Seguridad social Distritos

0034-3404 print/1360-0591 online/05/070837-18 DOI: 10.1080/00343400500289804
http://www.regional-studies-assoc.ac.uk

JEL classifications: J64, J68, R23

INTRODUCTION

There is a widely held view among politicians and journalists that the UK's unemployment problem is all but solved. The UK labour market is increasingly seen as being characterized mainly by labour shortages, and residual unemployment is frequently attributed to failings in individual skills and motivation.

There is little doubt that the UK labour market has indeed improved substantially since the depths of the recession of the early 1990s, and that parts of southern England are now at or near full employment. However, the assertion that unemployment has all but faded away is based on serious misunderstandings about what has actually happened. In particular, the denial of continuing and large-scale joblessness relies all too often on data that measures only part of the overall problem.

This paper explores what is probably the largest single distortion to the data – the diversion from unemployment to sickness benefits. In particular, it presents new and up-to-date estimates of the scale of the diversion and, for the first time in a paper, provides estimates of the size of the diversion in every region and district of Great Britain.

The first part explains how the UK benefits system works and how this gives rise to a diversion from recorded unemployment to recorded sickness. This is followed by a review of the existing evidence, including comparisons with the rest of Europe and the USA. The main body of the paper then presents estimates of the scale of the diversion across Britain, deploying a new and improved method that provides more robust estimates at the local and regional scale. The final part comments on the nature of this form of unemployment, on the implications for perceptions of the contemporary UK labour market, and on the policies likely to move the British economy closer to genuine full employment.

TWO BENEFIT SYSTEMS

It is not widely recognized that in the UK two separate benefit systems provide support to non-employed adults of working age. The first relates to 'unemployment'. Since 1996, this has taken the form of Jobseeker's Allowance (JSA). To claim JSA, a person must demonstrate they are available for work and looking for work, and they must 'sign on' once every fortnight. For most claimants, including all those claiming for more than 6 months, JSA is means-tested based on household income.

The other benefit system relates to 'sickness'. Since 1995, this has taken the form of Incapacity Benefit (IB). IB is paid to non-employed adults of working age who have health problems or disabilities. About two-thirds of IB claimants actually receive IB. The remaining one-third, with insufficient National Insurance (NI) credits to qualify for IB itself, are counted as 'NI credits only' claimants and in most cases actually receive means-tested Income Support with a disability premium. Importantly, IB is not means-tested except for a small number of new claimants with a substantial pension income. Also, although IB payments start at almost the same rate as JSA, they increase after 6 months and again after 12 months. The disability premium payable to 'NI credits only' IB claimants also makes this worth more than JSA.

The workings of the benefits system may seem a long way removed from the measurement of unemployment. The point is, however, that for many of the longer-term jobless who have health problems, the differential in benefit payments creates an incentive to claim IB rather than JSA. For example, an unemployed man with a wife in work and perhaps a small pension from a previous employer will not generally be entitled to means-tested JSA. In essence, his wife's earnings and his pension reduce or eliminate his JSA entitlement. But if he has sufficient health problems, and if he has enough NI credits (which most men with a work history have), he will be eligible to claim IB irrespective of his wife's earnings or in most circumstances of his pension as well.

The gatekeepers determining access to IB are medical practitioners – initially the claimant's own doctor, but for claims beyond 6 months doctors working on behalf of the employment services. To qualify for IB, a person must be deemed not fit enough to work. In practice, however, the tests applied by the employment services assess the ability to undertake certain basic physical tasks rather than the inability to do all kinds of work in all circumstances. Many unemployed people have picked up injuries over the course of their working life, and there is the effect on health and physical abilities of simply getting older. In practice, therefore, many of the unemployed with health problems can claim IB rather than JSA. As IB claimants, they are not required to sign-on fortnightly or to look for work. Instead, they will typically be recalled for medical reassessment only once every 2–3 years.

The diversion onto IB distorts both official measures of UK unemployment. The best known of these measures is the *claimant count* – the number of people out of work and claiming unemployment-related benefits, mainly JSA, but also NI credits for unemployment. In the UK social security system, those claiming unemployment- and sickness-related benefits are two mutually exclusive groups. None of the IB claimants is therefore included in the claimant count.

The other measure of unemployment (and officially the preferred one, even though it is less often quoted)

is the *ILO measure* derived from the Labour Force Survey. This uses the International Labour Organization definition of unemployment that counts anyone who is out of work and wants a job, is available to start in the next 2 weeks, and has looked for work in the last 4 weeks. The ILO definition produces unemployment figures for Britain as a whole that in the last 3 or 4 years have been around half a million higher than the claimant count. In theory, the ILO measure of unemployment is independent of benefit rules. In practice, because there is no requirement for IB claimants to look for work and because many think they would not find suitable work, most IB claimants do not look for work. They, therefore, fail one of the ILO unemployment tests and drop out of the ILO unemployment figures as well as the claimant count.

The numbers claiming IB are now truly astonishing. Fig. 1, which covers 1981–2003, shows the number of men and women of working age (16–64 years for men, 16–59 years for women) claiming IB (or its predecessor Invalidity Benefit) for more than 6 months. The numbers have risen more or less continuously for two decades. In 1981, there were 570 000 men and women in this category. By 2003, it had risen to 2 130 000. Even this is not the full picture. Added to this there were more than 300 000 further claimants of working age receiving Severe Disablement Allowance (SDA), which is paid to people with a high degree of disability but insufficient NI credits to qualify for IB. There were also more than 200 000 short-term (i.e. less than 6 months) IB claimants of working age. Official statistics show that in Britain as a whole in August 2003, a total of almost 2.7 million non-employed people of working age were claiming sickness-related benefits. Of these, 1.6 million were men and 1.1 million were women.

The big increase in the number of working-age men claiming sickness-related benefits was primarily a phenomenon of the 1980s and early 1990s. Before the 1980s, the numbers were modest, and only increased slowly. 'Restart' interviews, aimed at moving long-term claimants off unemployment benefits, were a prominent feature of the late 1980s and the sharp recession of the early 1990s saw particularly large increases in male sickness benefit numbers. Thereafter, the number of long-term male claimants tended to plateau with only a very small continuing increase. The year 1995 is a significant date in this regard in that it marks the changeover from Invalidity Benefit to IB, which transferred responsibility for authorizing longer-term claims to doctors working on behalf of the Benefits Agency and introduced standardized assessment procedures. The number of women who are long-term IB claimants has in contrast shown an almost continuous increase, though the absolute level remains lower than for men. What the trends in Fig. 1 also demonstrate is that the long period of economic growth in the British economy from around 1993 onwards made absolutely no dent in the number of long-term IB claimants.

It is highly unlikely that there has been a fourfold increase in the level of long-term incapacitating illness in the UK workforce over the last 20 years. Indeed, the increase in IB claims has happened at a time when

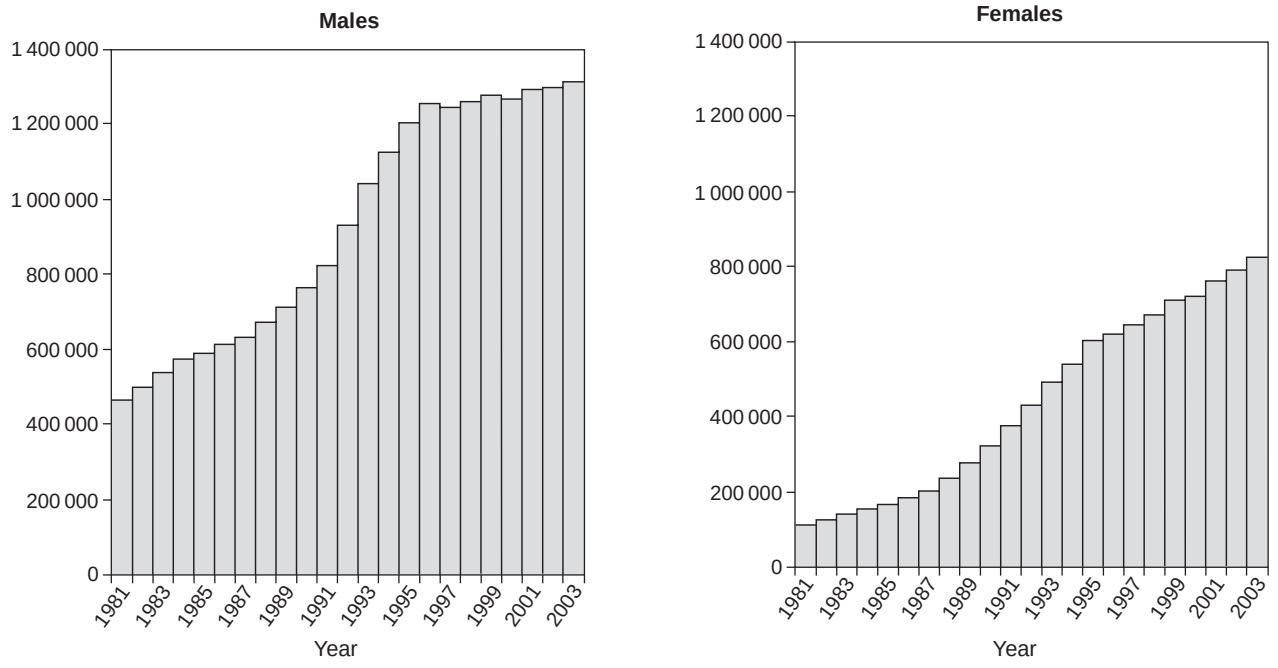

Fig. 1. *Claimants of working age incapacitated by long-term (6 months or more) sickness and invalidity, 1981–2003, Great Britain*

Sources: Social Security Statistics, Department for Work and Pensions

general standards of health are known to be showing a slow but steady improvement, admittedly with the slowest improvement among the most disadvantaged groups. Almost certainly, what can be observed in the rise in the number of long-term sickness claimants is largely the interaction of a difficult labour market and the UK social security system.

EXISTING EVIDENCE

That the claimant count measure of UK unemployment is flawed is no longer disputed. Whilst it is accurate in counting those who are out of work and in receipt of unemployment-related benefits, what is accepted is that the claimant count is influenced by changes in benefit rules. There have been more than 30 of these since the early 1980s, not least the changeover from Unemployment Benefit to JSA, the effect of which was to cut the claimant count by reducing the duration for which non-means tested benefits were available and increasing the requirement to demonstrate active job-seeking. The criticisms of the claimant count have come from academic sources (e.g. Gregg, 1994; MacKay, 1999; Martin and Sunley, 1999; Webster, 2002), from independent watchdogs such as the Unemployment Unit (Convery, 1996), and from no less a source than the Royal Statistical Society (1995).

A study of the labour market in the UK coalfields in the wake of pit closures was one of the first to argue that there is a diversion from unemployment to sickness benefits (Beatty and Fothergill, 1996). The study found that the largest single adjustment to job loss was a withdrawal of men into 'economic inactivity', and that the largest component of this withdrawal was a big increase in recorded 'permanent sickness'. In contrast, pit closures had virtually no impact at all on recorded unemployment in the coalfields. Subsequent similar studies of England's disadvantaged rural areas (Beatty and Fothergill, 1997) and of seaside towns (Beatty and Fothergill, 2004) also identified withdrawals from the labour market into 'sickness' as the key factor holding down recorded unemployment among men, though not on quite the same scale as in the coalfields. A study of Britain's cities (Turok and Edge, 1999) likewise found that labour market withdrawal by men was a key response to job loss in the 1980s and early 1990s.

More generally, there is accumulating evidence that the disparities in employment opportunities between different parts of Britain are reflected less in unemployment data than in levels of economic inactivity among the working-age population. Green (1997, 1999), Green and Owen (1998) and Gregg and Wadsworth (1998) confirm this point. Mackay (1999, p. 1933) makes the observation that 'the greater the degree of labour market disadvantage, the less appropriate is unemployment as a measure of labour market slack'. The relevant point here is that whereas the unemployed (either claimant or ILO) are conventionally included among the economically active, claimants of sickness-related benefits such as IB are nearly all included among the inactive.

The relationship between unemployment, ill-health and the number claiming sickness-related benefits is nevertheless complex. In parallel with the argument that there has been a diversion from 'unemployment' to 'sickness' within the benefits system, there is a quite separate argument that unemployment is actually a cause of ill-health. That there is a causal link from unemployment and poverty to ill-health is in fact not disputed (e.g. Bellaby and Bellaby, 1999). Nor is the fact that the groups most at risk of unemployment are also those most likely to be affected by ill-health (Bartley and Owen, 1996). But these processes alone seem unable to account for the sheer number of sickness claimants in the UK, or the scale of the increase through time. The UK's General Household Survey, for example, records an increase of nearly one-quarter in self-reported limiting long-term illness among men between the early 1980s and the late 1990s, but this increase is of a magnitude that seems unable to explain the huge increase in the number of sickness claimants. Moreover, General Household Survey data may reflect a greater willingness over time to report illnesses as much as any deterioration in underlying standards of health.

Beatty *et al.* (2000) tried to reconcile the rising numbers claiming IB with the observation that standards of health have not deteriorated to the same extent. They also tried to reconcile the rising numbers with the requirement for all IB claimants to demonstrate a significant degree of ill-health. The argument put forward was that work-limiting ill-health is actually quite widespread in the working-age population, but that many of the men and women with health problems do in fact hold down jobs. This is confirmed by data from the Labour Force Survey (Labour Market Trends, 2002) showing that of the estimated 7.2 million men and women of working age in the UK who had a work-limiting long-term illness or disability in winter 2001/02, 3.4 million were in employment.

Beatty *et al.* argued that difficult labour market conditions such as those experienced in the UK for most of the 1980s and 1990s expose men and women with health problems to job loss, and that when they find themselves out of work, their health often places them at the back of the queue for jobs. These people have sufficient ill-health to access sickness-related benefits instead of unemployment benefits – in other words, their benefit claims are not fraudulent. The net effect, however, is that in a difficult labour market, the ill-health that was once hidden because people were in work becomes visible in the numbers claiming sickness-related benefits. Furthermore, as the economy picks up, it is the healthy job-seekers on unemployment benefits who are the first to be taken on again, leaving a large

marginalized group on sickness benefits – precisely the experience in the UK labour market in the late 1990s and early 2000s.

The survey evidence on IB claimants tends to confirm this perspective. Easterlow and Smith (2003) found that people experiencing ill-health do not lack the incentive to work and are likely to be forced rather than lured onto pensions and onto benefits. Extensive survey work reported by Alcock *et al*. (2003) confirms that although a degree of self-reported work-limiting ill-health is just about universal among men claiming IB, only one-quarter say they cannot do any work at all. The same survey evidence also shows that active job-seeking tails off badly among male IB claimants, with barely one in 20 looking for work despite the fact that around half say they would like a full-time job and more than one-quarter looked for work after their last job ended.

A survey of male IB claimants in Barrow-in-Furness (Beatty and Fothergill, 2002a), an area affected by major job losses in the local shipbuilding industry, provides further evidence that a substantial proportion of IB claimants should be regarded as hidden unemployed. In Barrow, the age, skills and low qualifications of male IB claimants would anyway have exposed them to unemployment. Ill-health was the reason for job loss in fewer than half of all cases, with redundancy often figuring strongly. Two-thirds of Barrow's male IB claimants said they would like a full-time job, and only one-third said they could do no work at all.

Analyses of local and sectoral data offer additional evidence. Armstrong (1999) concluded that there is evidence of hidden male unemployment among sickness claimants in Northern Ireland. In North West England, Sutherland (1999) highlighted off-flows from claimant unemployment onto IB. Fieldhouse and Hollywood (1999) found a strong movement of ex-miners into permanent sickness rather than recorded unemployment.

The UK is not unique in having large numbers of working-age adults claiming sickness-related benefits, nor in experiencing a large increase through time, although the UK experience is towards one end of the international spectrum. Marin and Prinz (2003) compared disability benefit claimant rates among 20–64 year olds across a range of Organization for Economic Co-operation and Development (OECD) countries using data for 1999. This placed the UK, at just under 7%, behind Norway, the Netherlands, Sweden and Denmark, which all recorded claimant rates between 7 and 9%. According to the data of Marin and Prinz, the UK is, however, some way ahead of other larger European countries. France, Germany and Spain have disability claimant rates of between 4 and 5%, and Italy of just over 5%. The USA, at just under 5%, is also someway behind the UK.

International comparisons of this sort are inherently problematic because they are influenced not only by the detailed operation of social security rules, but also by differences in pension systems and conventional retirement ages. Nevertheless, the data suggest that the extent to which joblessness is supported by sickness-related benefits, as opposed to unemployment benefits, is different in the UK compared with the countries with which it is most frequently compared. Given that ILO unemployment figures are influenced by the actual benefits claimed, as explained above, one likely effect is that the UK's high proportion of working-age adults claiming sickness benefits gives an unfairly favourable gloss to its ILO unemployment data compared with countries such as France, Germany and the USA.

The USA, like the UK, has experienced an increase though time in sickness and disability claimant numbers. As in the UK, this takes some of the gloss off otherwise favourable unemployment trends in the USA during the mid- and late 1990s. There are also important differences between states in disability claimant rates. The US literature (e.g. Rupp and Stapleton, 1995; Bound and Burkhauser, 1999; Autor and Duggan, 2003) argues like the British literature that the increase through time cannot be explained primarily by health factors. It also argues that local labour market conditions strongly affect disability claimant rates. Of particular interest in this respect is a study of coalmining areas in four US states (Black *et al*., 2002) that directly parallels the UK evidence that mining job loss has led to higher sickness claimant rates.

THE GEOGRAPHY OF SICKNESS BENEFIT CLAIMANTS

What is particularly striking is the distribution of sickness claimants across Britain. Figs 2 and 3 illustrate this point. They show the share of the total working-age population, by district in August 2003, claiming sickness-related benefits – in this instance IB (long- and short-term IB and NI credits only) and SDA. The headline total for Great Britain at that time was 2 662 000, representing 7.5% of the entire working-age population. The data on the number of claimants in each district come from the Department for Work and Pensions and are based on a 5% sample of claimants, which in view of the exceptionally large numbers on these benefits can be considered to provide a reliable picture. The number of claimants in each district is expressed as a percentage of the 2002 working-age population, again from official data.

What is immediately apparent is that sickness claimants are especially concentrated in certain areas, notably North East England, Merseyside, South Wales, parts of Yorkshire and Clydeside. These are the parts of Britain where industrial job losses have been concentrated over many years and where claimant unemployment has persistently been higher than the national average.

Table 1 lists the top 20 and bottom ten districts across Britain in terms of the share of the working-age

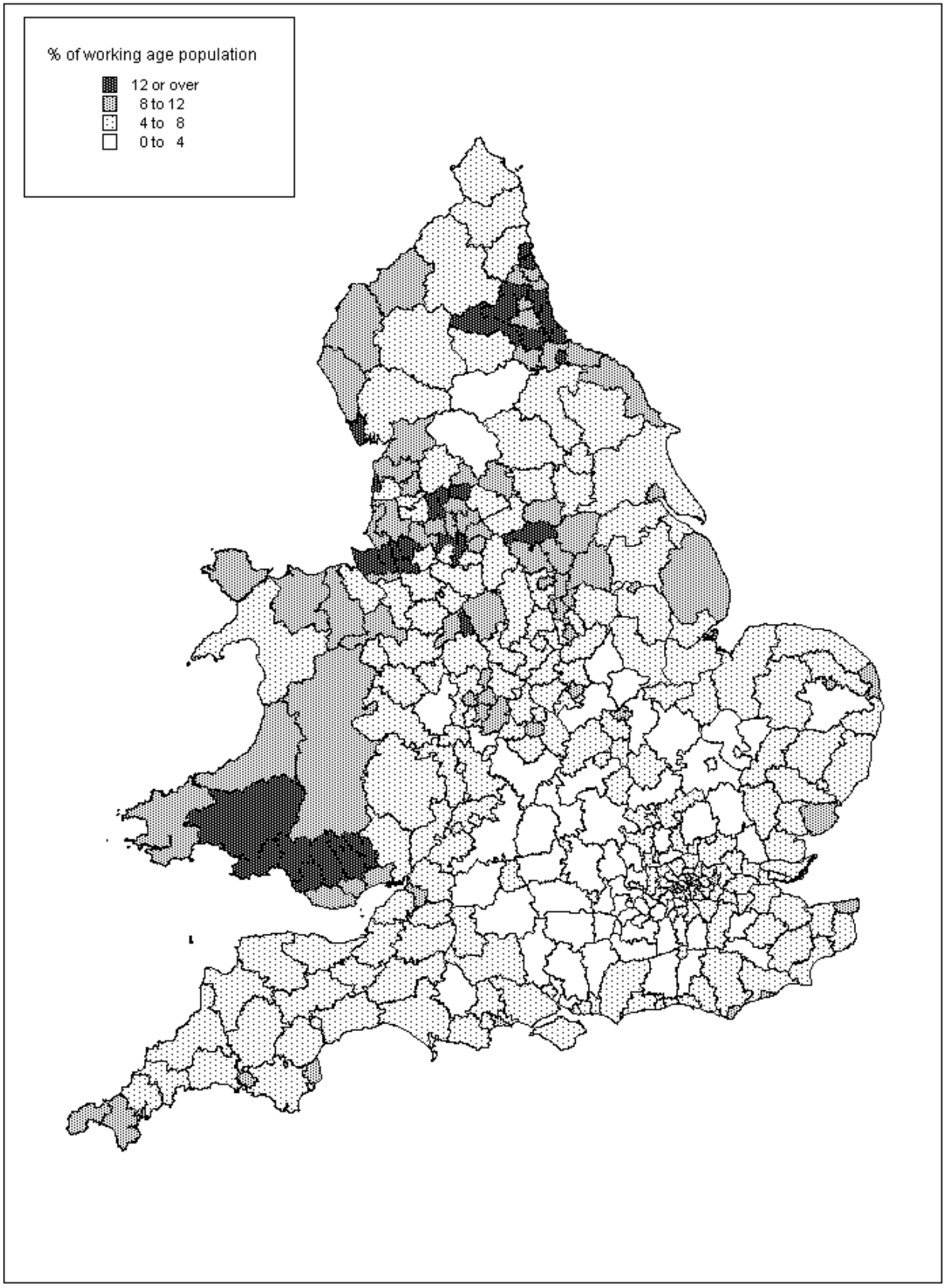

Fig. 2. *Adults of working age claiming sickness-related benefits, England and Wales, August 2003*

Sources: Department for Work and Pensions and Office of National Statistics mid-year population estimates. Digital Boundary source: Geoplan

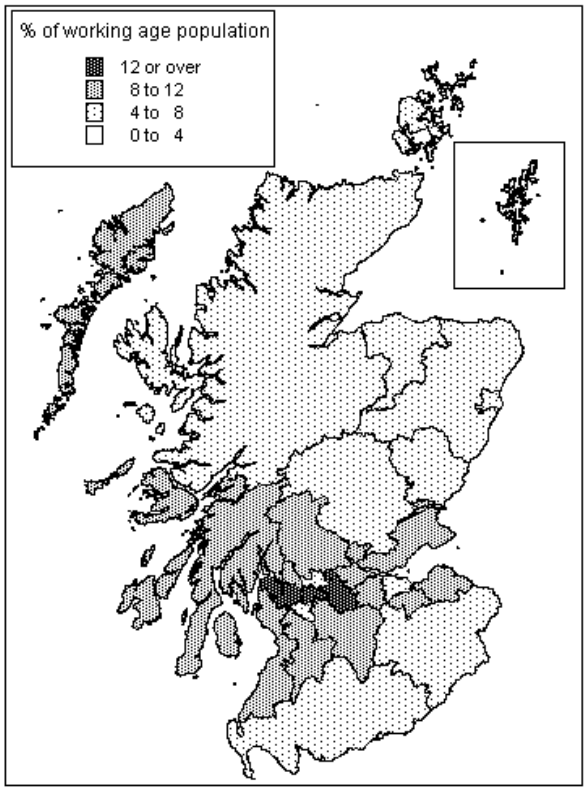

Fig. 3. *Adults of working age claiming sickness-related benefits, Scotland, August 2003*

Sources: Department for Work and Pensions and Office of National Statistics mid-year population estimates. Digital Boundary source: Geoplan

Table 1. *Districts with the highest and lowest sickness claimant rates, August 2003*

		Percentage of the total working-age population
Top 20:		
1	Easington	21.1
2	Merthyr Tydfil	20.7
3	Blaenau Gwent	19.1
4	Neath Port Talbot	17.2
5	Glasgow	17.2
6	Rhondda Cynon Taff	16.7
7	Liverpool	16.1
8	Knowsley	16.0
9	Caerphilly	15.6
10	Bridgend	14.7
11	Barrow-in-Furness	14.4
12	Wear Valley	14.4
13	Torfaen	14.4
14	Barnsley	14.4
15	Inverclyde	14.2
16	North Lanarkshire	14.1
17	Stoke on Trent	14.0
18	Sedgefield	13.4
19	Manchester	13.3
20	Gateshead	13.0
Bottom ten:		
397	Surrey Heath	2.8
398	Wycombe	2.8
399	Vale of White Horse	2.8
400	Elmbridge	2.8
401	South Northamptonshire	2.7
402	West Berkshire	2.7
403	Waverley	2.7
404	South Cambridgeshire	2.7
405	Wokingham	2.0
406	Hart	1.7

Note: Sickness claimants refers to Incapacity Benefit (including NI credits only) and Severe Disablement Allowance.

Sources: Department for Work and Pensions and Office of National Statistics.

population claiming sickness-related benefits. The top 20 are without exception older industrial districts in the North, Scotland and Wales. Around half are former coalmining areas, and no fewer than seven cover the Welsh Valleys. The top 20 also includes some substantial cities: Glasgow, Liverpool, Stoke and Manchester. Inner London boroughs, which often have relatively high claimant unemployment, are conspicuous by their absence from this list. At the other end of the scale, the bottom ten are all small town and rural districts in the south and east of Britain. The difference between the extremes is considerable – there are 12 times as many sickness claimants, in relation to the local population, in Easington district, County Durham, as in Hart district, Hampshire.

The list of districts with the highest and lowest sickness claimant rates has barely changed at all since the mid-1990s (e.g. Beatty *et al.*, 1997). A sustained economic upturn and the election of a Labour Government committed to welfare-to-work programmes have made little difference either to the absolute levels or to the areas that routinely appear in the rankings.

In Easington and in Merthyr Tydfil in the Welsh Valleys, more than one in five of all adults of working age, i.e. of all 16–64-year-old men and all 16–59-year-old women, are out of work and on sickness benefits. In Glasgow and in Liverpool, the proportion is one in six. In Glasgow, 63 600 men and women of working age are on these benefits. In Liverpool, the figure is 45 000. The proportions among men are still worse. In Easington and Merthyr Tydfil, 24% of all working age men – just under one in four – are out of work and claiming sickness benefits. None of these men is included in the claimant unemployment figures.

Within specific segments of the workforce, the incidence of sickness claimants is even greater. Men are more likely than women to be sickness claimants, but within the male workforce it is older, manual workers with few formal qualifications who are most likely to claim these benefits (Alcock *et al.*, 2003). The likelihood of claiming sickness benefits rises sharply with age, which is consistent with the view that older workers are more likely to experience the health problems that enable them to claim IB rather than JSA.

In Merthyr Tydfil, admittedly an extreme case, just over half of all men aged between 50 and 64 years were sickness claimants in May 2002 (BEATTY and FOTHERGILL, 2002b). In Glasgow, the proportion was 44%, in Liverpool 38% and in Manchester 36%.

In total there are 68 districts in England, Scotland and Wales where in August 2003 10% or more of the entire working-age population was out of work and claiming sickness-related benefits. Not a single district was in London, the South East, South West or Eastern England.

MEASURING THE DIVERSION

The crucial issue is the extent to which these huge numbers represent hidden unemployment. The key analytical problem is that the headline figures for IB claimants conflate two groups – those whose health problems are so severe that they would remain on sickness benefits in all circumstances, and those who would have been in work if suitable jobs had been available. At the level of the individual, in particular, the dividing line is not easy to draw. Additionally, there are differences between areas in the underlying health of the population, which mean that the number of sickness claimants is always going to vary from place to place.

Partly the problem is one of definition. This paper sets out to measure the number of sickness claimants who *could reasonably be expected to have been in work in a fully employed economy.* This is not the same as the number who are actively looking for work. Nor is it the same as the number who have actually moved directly from unemployment-related benefits (mainly JSA) to sickness-related benefits (mainly IB), since large numbers move directly from employment onto sickness benefits.

The basic approach adopted here is to establish a 'benchmark' reflecting what is achievable in a fully employed economy, and to compare actual levels in each district with that benchmark. Levels above the benchmark are deemed to represent hidden unemployment. In principle, this is the method used in earlier studies (e.g. BEATTY and FOTHERGILL, 1996), but here an improved and more robust version is deployed.

There are two components to the benchmark used here. The first is the proportion of men and women of working age who are sickness claimants in fully employed parts of Britain. The area chosen here to represent a 'fully employed economy' comprises the seven counties of Berkshire, Buckinghamshire, Hampshire (minus Portsmouth and Southampton), Hertfordshire, Oxfordshire, Surrey and West Sussex. These make up a block to the north, west and south of London, where by 2003 there had effectively been full employment for 4 or 5 years. The share of the working-age population in work (the 'employment rate') averaged in excess of 80% in each county in 2003. The employment rate in neighbouring counties to the east and south east of London (Essex, Kent, East Sussex) fell a little below this 80% threshold.

In August 2003, 4.1% of working age men and 3.3% of working age women were sickness benefit claimants in this fully employed part of southern England. This low level illustrates what can be achieved in contemporary Britain, at least in some areas, in the context of full employment. It should nevertheless be noted that even in this part of the South, sickness claimant rates are neither unusually low by international standards nor in comparison with the rates of 'permanent sickness' recorded in the same areas in, for example, the 1981 Census of Population. They do not therefore represent the absolute lowest rates that might be achieved in any conceivable circumstances. However, they do show what is possible, at least in some areas, in the context of the contemporary UK economy and benefits system.

The second component of the benchmark is the underlying deviation in sickness levels in each district from the level in this fully employed part of southern England. Here, as a guide, the estimates use the proportion of men and women of working age who were recorded as 'permanently sick' by the 1981 Census, when the figures were still largely unaffected by the subsequent diversion into hidden unemployment.[1] This is the approach first deployed by ARMSTRONG (1999). The excess in the proportion of 'permanently sick' in each district in 1981, over the comparable figure for 1981 for the fully employed part of the South, is added to the sickness claimant rate in the fully employed part of the South in 2003 to give an overall benchmark for the district. The higher underlying level of incapacitating ill-health in some areas is therefore built into the benchmark.

In each district, the benchmark therefore takes account not only of the level of sickness claimants achievable in a fully employed part of Britain, but also of geographical variations in underlying ill-health. The benchmarking exercise has been carried out separately for men and women.

An example will make the procedure clearer. Take the case of men in Barnsley shown in Table 2. Barnsley, a former coalmining district in South Yorkshire, has a total population of around 230 000 and a working-age population of just over 130 000. In Barnsley in August 2003, 12 000 men of working age were out of work and claiming sickness-related benefits. This represented 17.4% of the entire male working-age population. The benchmark for Barnsley, as elsewhere, comprises two elements. First, there is the sickness claimant rate among men in the fully employed parts of the South: 4.1%, equivalent to 2800 men in the Barnsley context. Second, there is the excess sickness among working age men in Barnsley, over the level in this part of the South, recorded in 1981 before the figures became badly contaminated by the diversion from unemployment: 3.4%, equivalent to 2400 men. This excess reflects the poorer underlying standard of health in Barnsley, not

Table 2. Diversion from unemployment to sickness benefits: a worked example for men in Barnsley

	Number	Percentage of the male working-age population
Male sickness claimants, August 2003	12 000	17.4
Benchmark:		
(1) Male sickness rate in employed part of the South, August 2003	2800	4.1
(2) Excess 'permanent sickness' in Barnsley over full employed part of the South, April 1981	2400	3.4
Benchmark for Barnsley	5200	7.5
Estimated diversion (actual – benchmark)	6800	9.9

Sources: Department for Work and Pensions, Census of Population.

least as a result of employment in the coal industry. These figures give an overall benchmark of 7.5%, or 5200 men. This is the number of male sickness claimants that would be expected in Barnsley in the context of full employment. The difference between this figure and the actual number of male sickness claimants, 6800 or 9.9% of the male working-age population, is what is identified as the diversion from unemployment. For comparison, the number of men who were claimant unemployed in Barnsley in August 2003 was just 2217.

Barnsley is a fairly extreme case: it has the 11th highest male sickness claimant rate in Britain. The point is, however, to illustrate the estimation process. Later we subject the resulting estimates to cross-checking by other methods, but at this point it is worth noting that the estimation procedure implicitly assumes that the underlying geography of incapacitating ill-health has not changed between 1981 and 2003. In practice, there will of course have been changes, but whether these will have greatly altered the relativities between districts is questionable bearing in mind the considerable stability of socio-economic disparities at the district scale that underpin differences in standards of health. Additionally, even in 1981 there may have been limited spill-over from unemployment to sickness benefits in some districts. The figures on the diversion to sickness benefits generated by these methods therefore need to be treated as estimates. On the other hand, they do attempt to take account not only what has been shown to be achievable in fully employed areas, but also of underlying differences between districts.

NEW ESTIMATES OF THE DIVERSION FROM 'UNEMPLOYMENT' TO 'SICKNESS'

Beatty *et al.* (2002) first applied the method outlined above to data for August 2001. Here we present new estimates for every district in Great Britain based on sickness benefit data for August 2003.

Figs 4 and 5 show the scale of estimated diversion from unemployment to sickness benefits. A profoundly uneven distribution is shown. At one end of the scale are 30 districts where there is estimated to be no diversion at all. These are, in effect, the districts where full employment already prevails and there is no reason why anyone needs to remain on IB if they want to work and are able to work. These districts are nearly all concentrated in the south and east of Britain, especially in an area west of London.

At the other end of the scale, there are a large number of districts in the older industrial areas of the North, Scotland and Wales where the diversion from unemployment appears to be substantial. In a handful, including Glasgow and Liverpool, the estimated diversion exceeds 10% of the entire adult workforce. By and large, the areas where this large diversion is estimated to occur are the same districts where the overall share of the working-age population claiming sickness benefits is particularly high. In other words, even after adjusting for differences in underlying ill-health, these areas have large numbers of men and women who appear to have been diverted from unemployment.

Table 3 shows the regional pattern of the estimated diversion from unemployment to sickness benefits. This confirms the skewed regional distribution evident in the figures. In the North East, North West, Scotland and Wales, 5–6% of the population of working age is estimated to have been diverted from unemployment. The proportion in the South East of England is below 1%, and only 1–2% in London, the South West and Eastern England. The Midlands and Yorkshire fall between the two extremes.

Across Britain as a whole, it is estimated that 1 130 000 people have been diverted from unemployment to sickness benefits: 650 000 men and 470 000 women. For comparison, total claimant unemployment across Britain at the same time (August 2003) stood at just 911 000. The comparison is illuminating: it suggests that Britain has more 'hidden' unemployed among sickness claimants than 'visible' unemployed on the claimant count.

Table 4 compares these national estimates with the total numbers of sickness-related benefit claimants. This is also illuminating because it suggests that despite the enormous scale of the apparent diversion from unemployment, it accounts for only just over 40% of all sickness claimants of working age. This observation holds for both men and women. In effect, what this comparison is saying is that even if genuine full employment could be achieved in every part of the country, the total number of sickness claimants, currently nearly 2.7 million, could be expected to fall no lower than about 1.5 million.

Sickness benefit numbers around 1.5 million, even in the context of full employment, would still represent

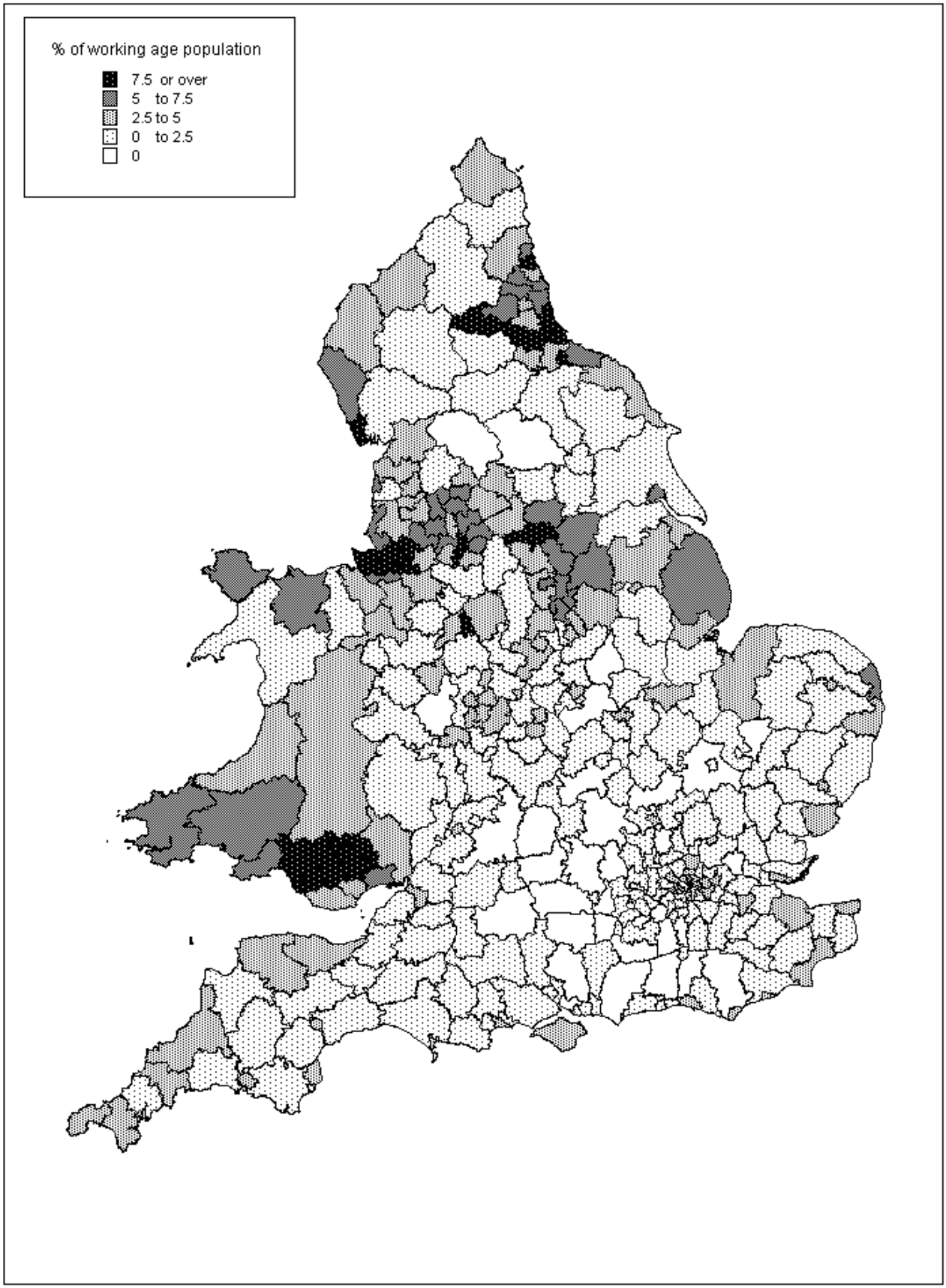

Fig. 4. *Hidden unemployment amongst sickness-related benefit claimants, England and Wales, August 2003*

Sources: Department for Work and Pensions, Office of National Statistics mid-year population estimates and authors' estimates. Digital Boundary source: Geoplan

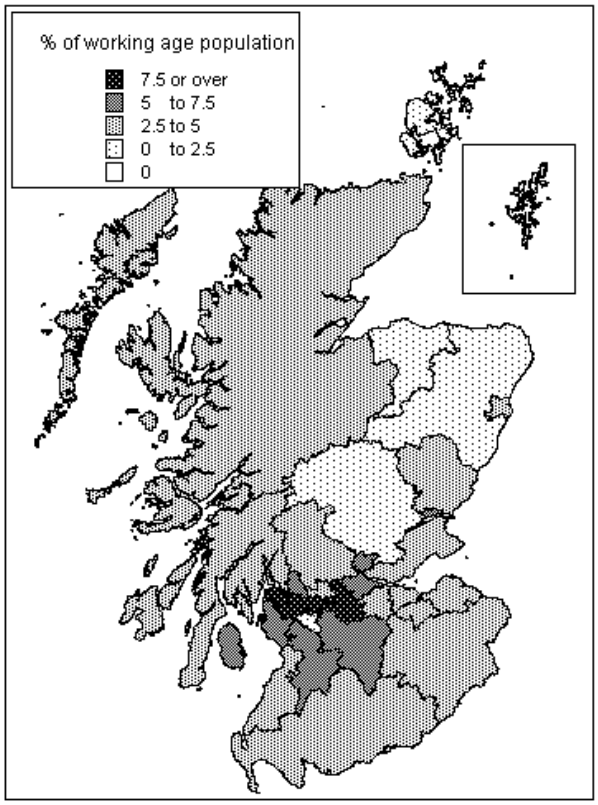

Fig. 5. *Hidden unemployment amongst sickness-related claimants, Scotland, August 2003*

Sources: Department for Work and Pensions, Office of National Statistics Mid-year population and authors' estimates. Digital Boundary source: Geoplan

Table 3. *Estimated diversion from unemployment to sickness benefits by region, August 2003*

	Number	Percentage of the total working-age population
North East	95 000	6.1
Wales	101 000	5.8
North West	231 000	5.6
Scotland	172 000	5.4
Yorkshire & Humber	100 000	3.3
West Midlands	107 000	3.3
East Midlands	73 000	2.8
London	103 000	2.1
South West	56 000	1.9
Eastern	47 000	1.4
South East	45 000	0.9
Great Britain	1 130 000	3.2

Source: Authors' estimates based on Department for Work and Pensions data.

a substantial increase on historic levels, which in the early 1980s were well below the 1 million mark. In purely statistical terms, what this reflects in the calculations is the fact that even in the fully employed parts of the South, sickness claimant rates are now higher than they were in the early 1980s. A little of the increase through time may reflect an ageing population of working age – fewer younger workers and more over 50 years of age. The rising number of women in paid employment, who therefore accrue the NI credits that entitle them to IB, may account for a little more of the increase.

Table 4. *Estimated diversion from unemployment to sickness benefits, by sex, for Great Britain, August 2003*

	Total number of sickness claimants of working age	Estimated diversion from unemployment	
		Number	%
Men	1 587 000	650 000	41.2
Women	1 075 000	470 000	44.2
Total	2 662 000	1 130 000	42.2

Source: Authors' estimates based on Department for Work and Pensions data.

More likely, changes in the workplace explain the largest part of the underlying increase in the number of sickness claimants. Whereas the numbers in physically strenuous or dangerous industries such as mining has declined, it is often argued that the pace and pressure in most workplaces has increased. Thus, whereas at one time employers might have moved workers with health problems onto lighter or less demanding duties, it is questionable whether the scope for this practice now exists on anything like the same scale. The space for the less healthy worker has often gone, and sickness that was once hidden in the workplace has become visible in the benefits system.

Table 5 makes the point that the apparent balance between 'underlying permanent sickness' and 'hidden unemployment' varies markedly between regions. It shows the proportion of sickness claimants in each region estimated to have been diverted from unemployment. Whereas the national average is just over 40%, as

Table 5. *Proportion of sickness claimants estimated to be diverted from unemployment, by region, August 2003*

	As a percentage of all sickness claimants
North East	53
North West	53
Scotland	53
Wales	49
Yorkshire & Humber	42
West Midlands	41
East Midlands	41
London	35
South West	31
Eastern	28
South East	20
Great Britain	42

Source: Authors' estimates based on Department for Work and Pensions data.

Table 6. Estimated diversion from unemployment to sickness benefits, top 20 districts, August 2003

		Number	Percentage of the total working-age population
1	Easington	8100	14.5
2	Merthyr Tydfil	4100	12.0
3	Blaenau Gwent	4700	11.3
4	Glasgow	41 400	11.2
5	Knowsley	9900	10.8
6	Neath Port Talbot	8300	10.4
7	Liverpool	29 000	10.4
8	Barrow-in-Furness	4300	10.1
9	Barnsley	11 900	8.9
10	Caerphilly	9000	8.7
11	Rhondda Cynon Taff	12 100	8.7
12	North Lanarkshire	17 300	8.5
13	Inverclyde	4300	8.4
14	Halton	6200	8.4
15	Middlesbrough	6800	8.3
16	Stoke on Trent	12 200	8.3
17	Hartlepool	4200	8.0
18	Blyth Valley	4100	7.9
19	Renfrewshire	8500	7.9
20	Bridgend	6000	7.7

Source: Authors' estimates based on Department for Work and Pensions data.

Table 7. Estimated diversion from unemployment to sickness benefits, principal cities, August 2003

	Number	Percentage of the total working-age population
Glasgow	41 400	11.2
Liverpool	29 000	10.4
Middlesbrough	6800	8.3
Stoke on Trent	12 200	8.3
Manchester	20 600	7.5
Sunderland	12 200	7.0
Swansea	9300	6.9
Dundee	5100	5.7
Newcastle upon Tyne	9000	5.4
Hull	7600	5.1
Nottingham	8400	4.8
Birmingham	27 800	4.6
Coventry	8300	4.4
Norwich	3500	4.4
Plymouth	6400	4.3
Leicester	6900	3.9
Bradford	10 800	3.8
Bristol	9400	3.8
Cardiff	7200	3.7
Derby	4900	3.6
Aberdeen	4800	3.5
Sheffield	10 500	3.3
Edinburgh	8400	2.8
Brighton	4200	2.6
Southampton	3300	2.3
London	103 000	2.1
Leeds	9200	2.0
Portsmouth	2300	1.9

Source: Authors' estimates based on Department for Work and Pensions data.

noted above, in the four regions at the head of the table – the North East, North West, Scotland and Wales – the share is around half. The proportion falls further down Table 5, reaching just 20% in the South East. What these statistics tell us is that not only is the sickness claimant rate lower in the South, but also far fewer of the claimants in the South would seem likely to be drawn back into work by full employment.

Table 6 shows the top 20 districts in terms of the estimated share of the working-age population diverted from unemployment to sickness benefits. Easington once more tops this list – one in seven of the entire working-age population is estimated to fall into this category. The top 20 again includes Glasgow and Liverpool. Middlesbrough and Stoke-on-Trent also figure on the list. In these top 20 districts alone, more than 210 000 people are estimated to have been diverted from unemployment to sickness benefits.

Finally, Table 7 shows the scale of the estimated diversion in each of Britain's 28 principal cities. The range varies from 11.2% of the working-age population in Glasgow to 1.9% in Portsmouth, illustrating the point that a large-scale diversion is not something that is common to all Britain's cities. Rather, it is the former industrial cities of the North, Scotland and Wales that are estimated to have experienced proportionally the largest diversion.

London is unusual. Although it is estimated to have experienced the largest absolute diversion from unemployment of any British city (just over 100 000), this figure mainly reflects London's immense size. As a proportion of the working-age population, the estimated diversion from unemployment in London is one of the lowest – only just over 2%. By contrast, London's claimant unemployment is quite high relative to other parts of Britain, especially in inner-city boroughs such as Hackney, Newham and Tower Hamlets. The figures here therefore suggest that the balance between 'visible' and 'hidden' unemployment in London is different to that in other parts of the country, with the diversion onto sickness benefits playing a less significant part in the overall jigsaw. The Welsh Valleys are at the other end of the spectrum, with high numbers on IB in relation to those on JSA. Quite why London has relatively low numbers of IB claimants, and a low estimated diversion from unemployment, remains unclear. One possibility is that there is less incentive in London to claim non-means tested IB, rather than means-tested JSA, because high housing costs would anyway bring many IB claimants within the scope of means-tested Income Support top-ups.

HOW RELIABLE?

The estimates of the number diverted from unemployment to sickness benefits (or more particularly, the

men within this group) can be cross-checked against estimates derived by four alternative methods. Two are statistical comparisons using alternative benchmarks. One uses South East sickness data for 1991, when this region had just come to the end of an earlier period of effectively full employment. This 1991 South East benchmark was the basis of earlier published estimates of hidden unemployment (e.g. BEATTY *et al.*, 1997). The other statistical comparison uses national sickness data for 1981, before the figures became badly contaminated by the diversion from unemployment.[2] The third and fourth alternative estimates are based on survey data for male IB claimants (ALCOCK *et al.*, 2003).

In Britain as a whole in August 2003, 1 470 000 men of working age were claiming IB. The four alternative methods generate the following estimates of hidden unemployment among this group of men across Britain as a whole:

- Using the level of 'permanent sickness' in the South East in 1991 as the benchmark: 680 000.
- Using the national (Great Britain) level of 'permanent sickness' in 1981 as the benchmark: 730 000.
- Using the share of male IB claimants who say they would like a full-time job (47%): 690 000.
- Using the share of male IB claimants who lost their last job mainly for reasons other than ill-health or injury (52%): 760 000.

The number of men diverted from unemployment to sickness benefits across Britain, generated by the methods used in this paper, is 650 000. The fact that five separate methods point to a diversion of between 650 000 and 760 000 gives considerable confidence. The method adopted in this paper, however, remains the one most likely to generate robust figures at the district scale because it takes account not only of what has already been shown to be possible in fully employed areas, but also of underlying geographical variations in incapacitating ill-health.

A further check on the reliability of the estimates comes from a comparison with Labour Force Survey data. An analysis of this information for 2001–02 (LABOUR MARKET TRENDS, 2002) shows that of the 7.2 million men and women of working age in the UK who had a current work-limiting health problem or disability, 15.7% or 1.13 million were economically inactive but said they would like a job. By comparison, the total number of men and women in Great Britain in August 2003 who are estimated to have been diverted from unemployment to sickness benefits using the methods in this paper is identical at 1.13 million, though our methods point to around 50 000 more men and 50 000 fewer women than this comparison with Labour Force Survey disability data.

There must nevertheless be a residual question mark about the estimates for women. The rising number of women claiming sickness-related benefits sits oddly alongside what is generally recognized to be a labour market that is providing growing job opportunities for women. This might have been expected to result in *lower* numbers of women in receipt of these benefits. On the other hand, there is a close relationship between male and female sickness claimant rates at the district scale: the areas where male sickness claimant rates are high are also those where female rates are high, though virtually everywhere female rates are below those for men. This indicates that locality remains central to any explanation.

A key factor may be that men and women often compete for the same jobs, at least away from a few occupations that tend to remain the preserve of one or the other. A difficult local labour market for men will therefore often mean a difficult market for women as well. In practice, too, at least part of the increase in the number of women claiming sickness-related benefits may represent a diversion from benefits such as Income Support for lone parents rather than from unemployment itself. The dynamics of women's labour market participation are indeed more complex than for men, and differ between younger and older cohorts. Exactly how many of the 1.1 million women of working age on sickness benefits might have been in work in a fully employed economy is a question that really requires further research.

IN WHAT SENSE UNEMPLOYED?

It is important to be clear about the nature of the diversion from unemployment to sickness benefits that our methods identify. These are people who might reasonably be expected to have been in work in a fully employed economy. As noted above, they are not necessarily active job seekers. However, the fact that some do not actively look for work should not disqualify them for inclusion because where appropriate jobs are in short supply, many people are realistic enough to know that they are unlikely to find suitable employment. They therefore give up looking for work, but that does not make them any less unemployed.

It is also important to emphasize that there is nothing fraudulent about the behaviour of the large number of people who now claim IB. All these men and women will have been given the appropriate medical certification to entitle them to IB. The health limitations are genuine, even if not necessarily always fully incapacitating in all circumstances. What has happened is that job loss has fallen disproportionately on less healthy workers, many of whom are also older and less well qualified. These people have then found themselves at the back of the queue for jobs. The benefits system and the employment services have then interacted to divert large numbers away from recorded unemployment and into recorded sickness.

Because IB claimants mostly do not look for work, and because they have health problems that make them less attractive to potential employers, it is hardly

surprising that the number of sickness claimants has not fallen as the UK economy has grown since the mid-1990s. It was always going to be the case that the conventional unemployed, in receipt of JSA, would be the first to be taken on in an up-turn. This is what has happened, with claimant unemployment in the UK falling from around 3 million to below 1 million over 10 years. Moreover, the normal process of turnover and competition for jobs has ensured that in those places where the labour market remains difficult, it has been the men and women with health problems that have often continued to lose out, so slowly rising numbers on IB have co-existed with falling numbers on JSA.

Hidden unemployment, on IB, is nevertheless different in some ways from conventional claimant unemployment. Because so many of the men and women on IB have given up actively seeking work, their unemployment may be less painful than for JSA claimants. They no longer have to endure failed job applications and dashed hopes. Also, because of their detachment from the labour market they do not form part of the stock of potential workers from whom employers choose and consequently they exert no downward pressure on wage inflation. Often the hidden unemployed may have become reconciled to their position outside the labour market. In a sense what has happened after two decades in which labour markets have been slack in many parts of the country is that unemployment has filtered down to rest with the groups who find it most difficult to hold onto jobs – older workers, the less healthy, less skilled and women with young children at home. As their status on the margins of the workforce has been consolidated, these groups have increasingly drawn on benefits other than JSA or have been denied access to benefits altogether. Their unemployment has slipped from view.

But none of this changes the fact that very large numbers of who now claim sickness-related benefits, above all IB, could have been expected to be in work in a genuinely fully employed economy. Indeed, the much smaller number of sickness claimants before the 1980s and 1990s indicates that far more people with health problems were once in employment.

Furthermore, although claiming sickness benefits may for some individuals be preferable to claiming unemployment benefits, their exclusion from employment still represents an immense waste of productive talent and a huge burden on the taxpayer. Indeed, the 1.1–1.2 million 'hidden unemployed' on sickness-related benefits probably now represent the largest single labour reserve available to the UK economy. Add to this the fact that so long as people remain excluded from employment on sickness benefits they are also failing to accrue occupational pension entitlements, thereby storing up a problem of poverty for old age. Sickness and disability benefits may hide unemployment, but that does not mean that most or all of the harmful consequences of joblessness have been averted.

THE QUESTION OF CAUSATION

The implicit assumption in using fully employed areas in the South of England as a guide to what might be achievable elsewhere in the country is that the diversion from 'unemployment' to 'sickness' is primarily an issue of labour demand. In other words, if the strong demand for labour found in parts of the South were to be replicated elsewhere, the numbers claiming IB would be far lower.

It is important to note that this assumption is disputed. In particular, in a report *Full Employment in Every Region* (H. M. Treasury and Department for Work and Pensions, 2003), the UK government sets out a quite different interpretation. This is that the geographical distribution of people claiming inactive benefits (primarily but not exclusively IB) owes little to labour demand but mainly reflects the ability of local residents to compete successfully for the vacancies available. For example, they lack skills, financial incentives and active support to return to work. The key evidence offered in support of this proposition is a correlation between the 'jobs ratio' (i.e. the number of jobs located in an area in relation to the number of residents of working age) and the share of the working-age population claiming inactive benefits. Using district-level data, this exercise shows only a very weak relationship.

Nickell and Quintini (2003) share the view that the large differences between localities in the incidence of IB claimants is primarily a reflection of skills. Their argument is that a huge decline in the demand for unskilled workers has outstripped the fall in their supply. This has led to falls in their relative pay and large increases in their unemployment, inactivity and sickness and disability rates. This process has created large differences between localities, they argue, because areas with a high proportion of low skill workers can be expected to have high rates of unemployment, inactivity, and sickness and disability.

Two further studies explain the increase in the number of sickness claimants in broadly similar terms. One from the Bank of England (Bell and Smith, 2004) again highlights the decline in demand for unskilled labour and argues that the generosity of the disability insurance system relative to that of unemployment insurance encouraged over half a million men of working age to exit the UK labour market during the 1990s. The other study, by Autor and Duggan (2003), argues that in the US context, falling demand for low skill labour has lowered the earnings of low skill workers relative to disability benefits, making dropping out of employment more attractive, and that the incentive is greatest in low-wage states where as a result the increase in disability benefit rolls has been greatest.

Differences in social security benefit rates do undoubtedly help explain the balance between the

numbers claiming unemployment and sickness benefits. It is also true that low skill workers have been the most exposed to falling demand. However, in the UK context it is hard to argue that the financial attractiveness of IB relative to wages for low skill workers has much to do with the trend increase in numbers. In practice, the real value of IB has been declining through time, even though for most claimants it continues to be worth more than JSA. Since the 1995 reforms, new IB claimants have been unable to claim additional allowances for dependents, and IB itself has for the first time been treated as taxable income. Since 2001, new IB claimants with pension income above a threshold have had their benefit entitlement reduced, and eliminated altogether for those with the largest pensions.

Other evidence still points strongly towards variations in labour demand as the key factor underpinning the regional and sub-regional scale of the diversion from unemployment to sickness benefits.

The variation in employment rates between skill groups in different localities certainly points in this direction. Erdem and Glyn (2001) show that there are large variations between UK regions and sub-regions in the likelihood of low-skill workers (and other skill groups too) being in employment. Low skill workers everywhere are less likely to be in employment than other groups, but place matters enormously. They are much more likely to be in work in the South East than in Merseyside, for example. This finding is echoed by Coombes and Raybould (2004) in a comparison between English cities, towns and rural areas. They observe that employment rates among unqualified workers are consistently lower than for other groups, but there is far bigger variation between areas, e.g. between provincial conurbations (where employment rates for all groups are relatively low) and rural areas (where they are relatively high). These findings make it hard to explain away the geographical pattern of the diversion onto IB simply in terms of the composition of the local workforce. The evidence indicates that locational influences – e.g. the strength of local labour demand – need to be pivotal to any explanation of the local and regional incidence of joblessness.

More direct confirmation of the role of labour demand comes from a reworking of the UK government's own evidence. Although jobs ratios have considerable merits as a measure of labour demand, their application at the district scale, as in *Full Employment in Every Region*, is badly flawed. This is because at the district scale, jobs ratios mostly reflect net commuting patterns. Districts covering metropolitan cores have a high ratio of jobs to residents because they are the focus of commuting networks, whereas suburban and rural districts are generally net exporters of commuters and therefore have a low jobs ratio. In a sense, the jobs located in any one district do not 'belong' exclusively to residents of that district. Job ratios in travel-to-work area are likewise distorted, though less seriously, by net commuting.

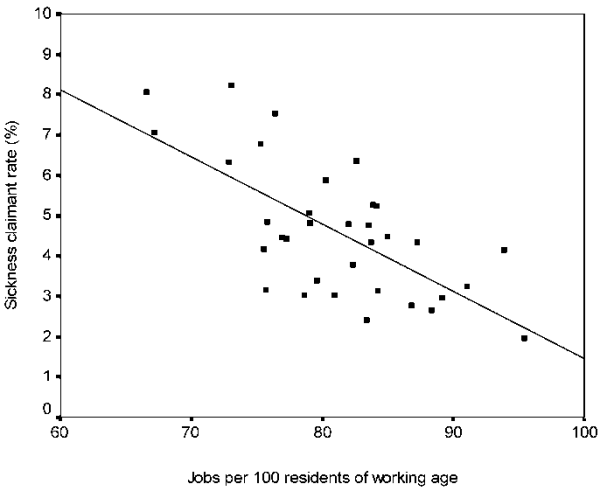

Fig. 6. *Jobs ratio and sickness claimant rate at NUTS 2 level, 2002/03*

Regression model: $y = -0.167x + 18.13$, where y is the sickness claimant rate and x is the jobs ratio

	B	*β*	*t*	Significance *t*
Constant	18.130		6.914	0.000
Jobs ratio	−0.167	−0.675	−5.170	0.000
$n = 34$, $R^2 = 0.455$				

Note: Data exclude London.

Sources: Department for Work and Pensions and Office of National Statistics.

To get around this problem, Fig. 6 compares the jobs ratio and sickness claimant rate at NUTS 2 level across Great Britain. NUTS 2 units – part of the standard European Union-wide classification of areas – mostly cover groups of counties and/or unitary authorities, and at this larger scale net commuting flows are a less distorting influence on jobs ratios. Fig. 6 shows data for all 36 NUTS 2 areas across Britain with the exception of London, where the jobs ratio remains badly distorted by net inward commuting. It reveals clear evidence that the lower the jobs ratio (i.e. the lower the local demand for labour), the higher the share of the working-age population that is out of work and claiming sickness benefits. In purely statistical terms, this relationship explains just under half of the variability in sickness claimant rates at this spatial scale. Bearing in mind that even at NUTS 2 level the jobs ratio in some areas remains distorted by net commuting flows, and the fact that there are anyway underlying variations in incapacitating ill-health, this offers strong confirmation of the labour-demand hypothesis.

In practice, the sickness claimant rate in any given district will mainly reflect two overlapping influences. One is demand in the relevant sub-regional labour market. The stronger the demand for labour, the fewer can be expected to be claiming sickness benefits. The

other is residential 'sorting' within that labour market. Inner urban districts, with a high proportion of lower-skill and often less healthy workers, will tend to have higher sickness claimant rates; more middle-class commuter districts within the same labour market will have lower rates. The fine-grain geography of sickness claimant rates needs to be interpreted within this framework.

PERCEPTIONS OF THE BRITISH LABOUR MARKET

The analysis presented in this paper represents a challenge to the way that the contemporary British labour market is perceived. The conventional view, largely rooted in claimant unemployment data, is that the economy is close to full employment with residual joblessness on only a modest scale in some parts of the country.

There is nothing in the evidence presented here that contradicts the view that the British labour market has improved a great deal during the long period of continuous economic growth from around 1993 onwards. This has cut the number of claimant unemployed by around two-thirds. However, the figures presented here show that economic growth has had no discernible impact on the number of jobless people claiming sickness benefits. The men and women on these benefits now constitute by far the largest group of working-age claimants. Furthermore, analysis indicates that more than 1 million of the men and women claiming sickness benefits have been diverted from unemployment. In other words, the true extent of unemployment is much greater than official figures indicate.

Labour ministers are therefore entirely correct in arguing that too many people have become 'parked' on IB. However, what the same ministers have failed to acknowledge is the extent to which this now hides the real level of unemployment.

The other important conclusion from the analysis is that the regional imbalances in British labour markets are far more severe than has generally been recognized, and certainly far worse than claimant unemployment figures suggest. The problem is not simply that large numbers have been diverted from unemployment to sickness benefits but that this diversion has happened predominantly in the older industrial areas of the North, Scotland and Wales. These areas have not only above average claimant unemployment (which is recognized already), but also exceptionally large numbers who have been diverted from unemployment to sickness benefits. In contrast there are substantial parts of the South of England where, even after taking account of the diversion onto sickness benefits, full employment (or something close to it) genuinely does appear to exist.

It is undoubtedly true that many of the men on IB are the workers who were displaced during the last two decades from industries such as coal, steel and heavy engineering, and that many of these men are now in their 50s and early 60s. As they reach state pension age they will move off IB. Crucially, however, when this marginalized cohort finally reaches retirement age, they will not free up jobs for the generations behind them, including the young people continuing to enter the workforce each year. What this means for many areas is that the present imbalance in the labour market is likely to be perpetuated. Only job creation (on the labour demand side) or out-migration and out-commuting (on the labour supply side) would restore the balance that is currently missing. Furthermore, there is the real prospect that with tighter rules now controlling access to IB more of the continuing imbalances in weaker local labour markets will eventually begin to show up as claimant unemployment. In other words, the extensive local joblessness identified by our figures will not just fade away as the large groups of ex-miners, ex-steelworkers and others finally reach pension age.

IMPLICATIONS FOR POLICY

The UK government is well aware of the need to bring down the very large numbers claiming IB in order to boost labour supply, raise the capacity of the economy and cut the benefits bill. Its current approach is a variant of the policies deployed in New Deal programmes for the claimant unemployed. The emphasis is on the individual – on providing advice and training, re-motivation and the removal of financial disincentives to return to work. In the case of IB claimants, the measures are backed up by the intention to introduce more regular medical assessments.

It is hard to be critical of advice and practical support when it is generally welcome to those who benefit from it. On the other hand, the government's approach to IB claimants can be criticized because the resources made available to date fall far short of those devoted to unemployed JSA claimants. As a result, the employment services have so far barely scratched the surface of the IB problem, with the government's own figures showing that in relation to the large stock of IB claimants, few people have yet benefited from the emerging initiatives.

A more serious criticism, supported by the data presented here, is that the starting point of the government's efforts is simply wrong. The initiatives implicitly assume that this is a *labour supply* problem. The marked concentration in Britain's older industrial areas, on the other hand, suggests that in fact it is a *labour demand* issue. Very large numbers have been diverted from unemployment to sickness benefits in these areas because there have not been enough suitable jobs in these places. Indeed, the rising numbers on IB in these areas represents the principal labour market response to job destruction in the 1980s and 1990s.

The counter-argument to this criticism is that even if job destruction was the ultimate cause of the large-scale shift onto IB, these marginalized workers will not be re-engaged with the labour market without significant supply-side intervention. There is probably some truth in this. In practice, substantial numbers of older men on IB will probably not now be re-engaged with the labour market in any circumstances. Their marginalization has become entrenched by years without work and they can just about get by on a combination of IB, other top-up benefits, perhaps a small pension from a former employer and possibly a spouse's income as well. Some still harbour aspirations to work, but others have given up entirely and now see themselves as retired. In this sense, IB acts as a bridge to state pension.

The trouble is that labour supply measures are most relevant where there is a strong demand for labour. Putting aside certain skills that are in short supply everywhere, in the UK context the areas where there is unquestionably a strong demand for labour are mostly in the South of England. Yet, it is in the South that the diversion from unemployment to sickness benefits appears to be modest at best. There therefore seems to be only limited scope for boosting labour supply in the South through targeting IB claimants, though if IB claimants there can be re-engaged with the labour market they are likely to find a ready demand for their skills.

The much larger problem in the older industrial areas of the North requires a different approach. Fundamentally, labour demand in these regions needs to be boosted. This has happened as a result of national economic growth over the last 10 years but, as explained, the main effect has been to reduce claimant unemployment leaving the stock of IB claimants largely untouched. Unfortunately, further macroeconomic stimulus to growth, e.g. through lower interest rates, would now run up against the constraint of an already tight labour market in large parts of southern England. This in turn would risk fuelling inflation.

There is an inexorable logic here that points to urban and regional economic policy as the way forward. The pressing need is for policies that divert incremental demand for labour to the parts of the country where there remains substantial labour market slack among the claimant unemployed but more particularly among the very large numbers diverted onto sickness benefits. Indeed, with full employment in parts of the South, regional economic policy is arguably now the essential tool to achieve the government's stated goal of full employment.

The rhetoric emerging from the UK's Labour Government is in this respect sending all the right messages. Regional policy is higher on the agenda than for more than two decades. However, whether the aspirations are yet matched by practical policies that can really deliver economic convergence between the UK regions still remains in doubt. Moreover, until central government acknowledges the true extent of unemployment in some areas, highlighted in this paper, and abandons the claim that there are plenty of jobs available in every locality, it will continue to undermine its own case for the urban and regional policies that are required.

NOTES

1. In a small number of mainly rural districts, the data on permanent sickness in 1981 are inflated by the location of large psychiatric institutions, which subsequently have virtually all closed. To adjust for this potential distortion, in the districts where according to the 1981 Census of Population the proportion of the working-age population living in such institutions exceeded 1%, the excess is deducted from the 1981 permanent sickness data for that district.
2. Both statistical comparisons deduct short-term (i.e. less than 6 months) IB claimants from the headline figure to improve comparability with Census 'permanent sickness' data.

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