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Financial, Economic and Social Crisis



On the social
consequences of
unemployment

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DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICIES

**EUROPEAN PARLIAMENT'S SPECIAL COMMITTEE ON THE
FINANCIAL, ECONOMIC AND SOCIAL CRISIS**

On the social consequences of unemployment

NOTE

Abstract

The world economy presently suffers from a financial crisis. As a result, unemployment has risen considerably in many countries and it may continue to rise even further. This note attempts to explore the social consequences of unemployment. In doing so, this note concentrates on the individual level. It asks whether the social networks of unemployed individuals are affected. A further significant issue is how unemployment impinges on individual satisfaction and well-being. There is no reason to believe that the present crisis is an isolated phenomenon. Also in the future, there are likely to be recurrent serious economic downturns and as a result unemployment levels will vary substantially across time. To some extent, these variations can be counteracted by national economic policies, but with an increasingly integrated global economy the possible actions by national governments are rather circumscribed.

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1. INTRODUCTION

The world economy presently suffers from a financial crisis starting in the United States a few years ago. As a result, unemployment has risen considerably in many countries and it may continue to rise even further. Large numbers of people are thus negatively affected in different ways. The consequences of the crisis are visible also among European Union member states. In Table 1 we find that—in November 2009—France, Hungary, Ireland, Latvia, Portugal, Slovakia and Spain had two-digit unemployment rates and the levels were particularly high in Latvia and Spain, with 22.3% and 19.3% respectively. For some of the countries the most recent information refers to September 2009 and among these both Estonia and Lithuania show two-digit figures. Moreover, we should notice that unemployment rates increased everywhere over the last year (or ten months) and the escalation is often quite substantial. The most dramatic change occurred in Latvia, followed by the other two Baltic countries, Spain and Slovakia. Only Germany, Luxemburg and Malta had an increase lower than 1 percentage point.

Table 1. Seasonally adjusted unemployment rates (%) in EU member states, November 2008 and 2009

	November 2008	November 2009	Change
Austria	4.0	5.5	1.5
Belgium	6.9	8.1	1.2
Bulgaria	5.1	7.8	2.7
Cyprus	3.7	6.2	2.5
Czech Republic	4.5	7.9	3.4
Denmark	3.8	7.2	3.4
Estonia	7.7	15.2*	7.5
Finland	6.7	8.9	2.2
France	8.3	10.0	1.7
Germany	7.1	7.6	0.5
Greece	7.9	9.7*	1.8
Hungary	8.1	10.8	2.7
Ireland	7.7	12.9	5.2
Italy	7.1	8.3	1.2
Latvia	10.2	22.3	12.1
Lithuania	8.1	14.6*	6.5
Luxemburg	5.2	6.0	0.8
Malta	6.2	7.0	0.8
Netherlands	2.7	3.9	1.2
Poland	6.8	8.8	2.0
Portugal	7.9	10.3	2.4
Romania	5.9	7.2	1.3
Slovenia	4.2	6.8	2.6
Slovakia	9.0	13.6	4.6
Spain	14.0	19.4	5.4
Sweden	6.8	8.9	2.1
UK	6.3	7.9*	1.6

* September 2009.

Source: Eurostat 2010: 3 (data from Labour Force Surveys)

To be able to analyze the specific social consequences of the current unemployment situation we need new empirical research, which as yet remains to be carried out. However, we have access to a sizeable body of knowledge from previous studies—still largely valid although circumstances have changed in certain respects. A great deal of the research to appear in this paper is based on data collected in the 1990s; it thus seems to be about time to start planning for new and/or follow-up studies.

In our attempts to explore the social consequences of unemployment, we can concentrate on different analytical levels. On the societal level, increased unemployment rates obviously mean that fewer individuals have jobs, the number of hours worked drops, and production of goods and services is lost (for a brief overview of such changes, see Eurostat 2009). This in turn implies that central and local governments obtain lower incomes from taxation, making it more difficult for them to provide various kinds of social benefits and services. The basis for the welfare state is hence weakened in a situation when social security is most needed.

Another analytical level is the individual level, which is the focus of attention in the present paper. It is impossible here to cover but minor parts of the available empirical research and I have therefore limited the presentation to three different dimensions on which light can be shed with the help of existing studies. First, there is the issue of resource deprivation. What does it mean in terms of financial resources to become unemployed? In this connection, the welfare state—offering unemployment benefits and other kinds of support—certainly has a crucial role. Other institutions—and above all the family—are also important for sustaining individuals' standard of living. Financial deprivation among the unemployed is sometimes thought of as merely an economic issue, but economic and social aspects are intertwined; if individuals get lower incomes—losing purchasing power and changing their consumption patterns—they may also, for example, be bereaved of social status and opportunities of interacting with others.

Second, we can ask whether the social networks of unemployed individuals are affected. Is joblessness associated with a higher degree of social isolation? Having a job normally means having workmates and being unemployed entails that such social contacts cease to exist, at least during working hours. In addition, lacking a regular wage or salary, the unemployed may have limited possibilities of participating in various social arenas where financial assets are required. Yet, the absence of workmates may be compensated for by other social contacts as the unemployed are hardly short of time to spend with friends and family.

A third significant issue is how unemployment impinges on individual satisfaction and well-being. Besides the research on resource deprivation and social networks, many studies have devoted to examining how unemployment influences people's health, their use of alcohol and other drugs, the risk for marriage breakdown and the like. Results are not always conclusive, but unemployment commonly turns out to have negative consequences for individuals. Satisfaction and well-being are also affected by the stigma often hitting those who are unable to find a job. Unemployment is then explained with reference to individual shortcomings; it is assumed to be the individuals' own fault that they are out of work.

2. RESOURCE DEPRIVATION

When people become unemployed, they lose their income from employment or—in the case of being new entrants to the labour market—they do not earn the income expected. Being out of work might thus lead to resource deprivation, unless there are efficient mediating factors. A first such factor is the systems of unemployment benefits which provide some basic support for those on the dole. These systems differ a lot across European Union member states. A second factor in furnishing protection for the unemployed is the family. Youths who become unemployed can often rely on their parents for backing. The unemployed who have a family of their own also have some protection, at least if their spouse or other next of kin has a job.

The available research indicates that—in comparison with people at work—the unemployed tend to run larger risks of being poor and experiencing financial hardship (e.g., Whelan et al. 1991; Haataja 1999; Gallie et al. 2000; Hauser et al. 2000; Nolan et al. 2000; Gallie & Paugam 2004; CSO 2006). We must, however, observe that poverty also exists among the employed and that all unemployed are not poor. Several recent studies have been concentrated on what is referred to as the ‘working poor’ (e.g., Andreß & Lohmann 2008).

With respect to poverty, we can compare the unemployed with people at work and students by using data from the EU-SILC (Survey on Income and Living Conditions). Table 2 gives us ‘at-risk-of-poverty’ rates—defined as the proportion of individuals with less than 60% of the median equivalised household income—for these three categories in 25 EU member states. Figures include social transfers, accounting for almost 20% of gross household income, and cover two years: 2004 and 2005. The at-risk-of-poverty rate has the advantage of being an objective measure, but has the drawback of being relative to the standard of living in each country; thus, poverty means different things in different countries.

Table 2 At-risk-of-poverty rates after social transfers (with 60% threshold) among people at work, unemployed and students in 25 EU member states, 2004 and 2005

	2004			2005		
	Male	Female	Total	Male	Female	Total
At work	7.5	6.4	7.0	7.1	6.9	7.0
Unemployed	41.0	25.9	37.2	45.5	27.4	40.6
Students	19.7	27.8	23.6	29.6	29.3	29.5

Source: CSO 2006 (EU-SILC data).

As we can see, at-risk-of-poverty rates among the unemployed are more than five times higher than for people at work, but they are also higher than for students. An interesting observation is that the totals for the unemployed increased from 2004 to 2005. This happened for students as well—and even to a larger extent—whereas no such change is found for people at work. We should not make too much of a minor change between two years, but it should be worth keeping an eye on the issue when we have data for the current crisis period.

To provide additional information on the financial difficulties among the unemployed, Table 3 presents some data from the mid-1990s for 11 EU member states. The information comes from the European Community Household Panel (ECHP). In the first two columns of figures we get poverty rates, actually defined in the same way as the at-risk-of-poverty rates above. The second measure is a subjective indicator of financial hardship. Respondents have been asked whether they have difficulties or not in making ends meet and figures show the proportions reporting great difficulty or difficulty in this respect. This measure is thus relative to people’s wants or desires. Individuals with the same income may differ from one another in their answers, because some (want to) consume relatively more whereas others are satisfied with less. Correspondingly, two individuals answering in the same way must not have the same financial situation.

Without going into the details of Table 3, a few observations should be made. Denmark—with its generous unemployment insurance—has the lowest poverty rate for the unemployed as well as for the population at large. Among the unemployed the highest proportion is found for the United Kingdom, in spite of its low general poverty rate—it thus seems to be relatively more disadvantageous to be jobless in this country. Portugal shows the smallest difference between the two categories compared, with Denmark as second. As to the financial hardship item, Danish unemployed respondents again come out with the lowest score, but the German figure is almost the same. The highest proportion is found for Greece, followed by Spain, Ireland and Portugal. These are all countries in which also the proportion of all respondents (aged 18-65) reporting financial hardship is high. In the last column the smallest gap this time appears for Denmark and the second smallest for Portugal. Ireland and the United Kingdom show the largest differences.

Table 3 Resource deprivation among the unemployed and all aged 18-65 in 11 EU member states, mid-1990s

	Poverty rate (% <60% of median equivalised household income) 1996			% reporting great difficulty or difficulty making ends meet 1994		
	All aged 18-65	Unemployed	Difference unemployed—all aged 18-65	All aged 18-65	Unemployed	Difference unemployed—all aged 18-65
Belgium	9.1	33.9	24.8	8.3	32.6	24.3
Denmark	7.0	17.8	10.8	10.6	26.6	16.0
France	12.0	39.0	27.0	16.3	41.0	24.7
Germany	7.3	30.2	22.9	6.5	26.7	20.2
Greece	16.1	32.1	16.0	51.0	72.6	21.6
Ireland	10.3	27.8	17.5	19.8	55.4	35.6
Italy	13.4	36.3	22.9	16.9	44.8	27.9
Netherlands	9.8	32.1	22.3	7.8	30.6	22.8
Portugal	18.8	25.3	6.5	34.6	53.1	18.5
Spain	16.8	37.1	20.3	33.6	56.1	22.5
UK	9.6	42.8	33.2	11.9	45.0	33.1

Source: Gallie & Paugam 2004: 38-39 (ECHP data).

To put it briefly, the main conclusions from Table 3 are the following. No matter whether an objective measure (poverty rate) or a subjective indicator (experience of financial hardship) is used, we find substantially higher scores among the unemployed in all countries. It often seems better to be unemployed in developed welfare nations than in other nations, but this pattern is inconclusive. In another comparison—between the United Kingdom, Bulgaria, the Czech Republic and Slovakia—the weak welfare arrangements in the transitional, former socialist states turned out to be associated with significantly stronger financial stress and no signs of compensatory mechanisms in the local community could be discovered (Gallie et al. 2001).

The political discussion on the financial situation of the unemployed is to a large extent concentrated on the public provision of unemployment benefits. An overriding question is whether the welfare state sustains incentives or creates disincentives for the unemployed to look for work and to accept job offers. The data shown here indicate that being out of job is associated with some considerable resource deprivation. It is, however, unlikely that this is sufficient to do away with the controversy. Recalling that not all of the unemployed are poor or experience financial hardship and that there is also a category of working poor, the issues connected with government financial support for the unemployed will unquestionably remain politically controversial matters.

3. SOCIAL CONTACTS AND SOCIAL ISOLATION

This section deals with the issue of how or to what extent people's relations with others are affected when they become unemployed. As a consequence of poorer financial resources, the unemployed may run into difficulties maintaining family and friendship relations. If they have had to leave a previous job, they also lose (some of) their daily contacts with workmates. Furthermore, social contacts with friends might decrease, as friendship relations are partly based on mutual exchange demanding certain financial resources. There are also more formally organized social activities which are associated with costs.

To begin with, empirical research shows that unemployment increases the risk of family conflict and instability (Popay 1985; Targ & Perrucci 1990; Dew et al. 1991; Lampard 1993), which might be one factor behind social isolation. However, data from the ECHP reveal that in many countries it is quite unusual that long-term unemployed individuals live alone, although the cross-national differences are considerable (Table 4). It is evidently very rare that long-term unemployed live alone in Portugal, Spain, Italy and Greece, whereas particularly Denmark but also the Netherlands have higher proportions. Germany and the United Kingdom score relatively high as well, but in the latter case the figure is only about half of the Danish. These cross-national differences have to do with variations in whether young people live with their parental family or not.

In addition, Table 4 contains another type of information—on the difference between the long-term unemployed and people with stable jobs, when a number of variables are controlled for: age, sex, educational level, household composition and vandalism or crime in the local area. For the statistically significant differences, signs indicate whether they are positive or negative (for details, see the note under table). The results on the variable 'living alone' are indeed mixed. For five of the countries—Belgium, France, Germany, Portugal and Spain—we discover that the long-term unemployed do not deviate significantly from people in stable jobs. Only in Denmark, the Netherlands, the United Kingdom and Ireland is long-term unemployment more often associated with living alone and, interestingly, in Greece and Italy data even point in the opposite direction.

Table 4 Sociability among long-term unemployed and differences* compared to people in stable jobs, in 11 EU member states, 1994

	% who lives alone	% who meets friends most days	% who participates in club or organization
Belgium	7.9	41.9	18.7 ---
Denmark	30.2 ---	39.3 +	47.6
France**	10.3	55.2 ---	33.0 -
Germany	17.2	30.4 --	29.5 ---
Greece	3.7 ++	55.8 -	10.4
Ireland	7.1 -	59.0 -	21.0 ---
Italy	2.4 (+)	62.0 +	11.8 ---
Netherlands	23.5 ---	31.1	39.0 --
Portugal	1.1	39.3	9.3
Spain	1.5	67.4	21.6 ---
UK	15.7 ---	48.4	33.0 ---

*The comparisons between the long-term unemployed and people in stable jobs are based on a series of ordered logistic regressions for each country. People in stable jobs are taken as the reference category and age, sex, educational level, household composition, and vandalism or crime in the local area are kept under control. Minus and positive signs mean lower and higher sociability respectively; (+/-) = $p < 0.10$; +/- = $p < 0.05$; + +/- = $p < 0.01$; + + +/- = $p < 0.001$; no sign = not significant.

**Data in France for meeting with friends are not fully comparable with the others.

Source: Gallie & Paugam 2004: 41-42 (ECHP data).

Two further pieces of information on sociability are presented in Table 4. Regarding the first of these, the overall result is that roughly between one and two thirds of the long-term unemployed meet with friends most days. Figures are particularly high in some southern European countries— the two top scores are found for Spain and Italy—and particularly low in Germany and the Netherlands. Whether people are long-term unemployed or have stable jobs does not seem to matter very much in five of the countries: Belgium, the Netherlands, Portugal, Spain and the United Kingdom. In the remaining six, long-term unemployment means lower sociability in four (France, Germany, Greece and Ireland) and higher sociability in two (Denmark and Italy).

The third column of figures refers to participation in clubs and other organizations, that is, it covers a more formal kind of social activity. Again, the country differences are considerable. The highest proportions appear for Denmark and the Netherlands, whereas Portugal, Greece and Italy show the lowest. It should be added that—compared to having stable jobs—long-term unemployment is most often associated with a lower degree of activity. This is true for all countries except Denmark, Greece and Portugal, but in none it is the other way around as found on the previous two indicators.

Some major conclusions can be drawn. First, the long-term unemployed relatively seldom live alone, which implies that they are likely to rely on their families—their parents, spouses and/or other next of kin. Youths living with their parental family may not be able to move out and those who have already left home may sometimes be forced to move back again, but the evidence in this respect is not always that unambiguous (e.g., Avery et al. 1992; Jones 1995; Whittington & Peters 1996; Nilsson & Strandh 1999). There are also some significant cross-national differences and they seem to be associated with a North-South divide. Family bonds are generally tighter in the South and this is reflected in the data presented above. In contrast, it is more common in the North, particularly among young people, to live on one's own, which is of course helped by the relatively generous benefits supplied by the welfare state.

Second, the outcome on 'meeting with friends most days' partly resembles the North-South 'living-alone' pattern, but only partly. Moreover, on contacts with friends the long-term unemployed often score lower than individuals in stable jobs, but this does not hold in all the European countries for which we have comparable data. In some cases it is actually the other way around, which might have something to do with the fact that unemployed individuals have more time than others to see friends. The results on participation in organized activities are less divided; the degree of participation among the long-term unemployed is generally lower in the South than in the North. Furthermore, on this item, compared to having stable jobs long-term unemployment is associated with lower scores in most of the countries included and there is no clear pattern related to their location on the map.

4. SATISFACTION AND PSYCHOLOGICAL WELL-BEING

The final dimension to be dealt with here is satisfaction and psychological well-being, which in turn entail many different components. There are numerous studies on the relationship between unemployment and (mental) health, mortality, suicide, use of alcohol, smoking and the like (e.g., Fryer & Payne 1986; Warr 1987; Björklund & Eriksson 1998; Mathers & Schofield 1998; Whelan & McGinnity 2000; Taylor & Morrell 2002; Kieselbach et al. 2006). It has been repeatedly shown that unemployment is correlated with many negative qualities of life, but researchers have at times had difficulties in establishing the mechanisms of causality. The typical controversy is whether the unemployed run a greater risk of having bad health or whether bad health increases the risk of becoming unemployed. A problem is that sometimes only cross-sectional rather than longitudinal data are available.

Table 5 offers some information on the relationship between unemployment and satisfaction for 10 European member states. Figures indicate satisfaction among people with varying experience of unemployment relative to a reference category, made up by individuals who were employed in 1994 and who had never been unemployed during the preceding five years. Satisfaction is measured by an index based on three survey items dealing with work or other main daily activity, financial situation and housing situation. Besides the reference category, the comparison involves four categories: individuals unemployed in 1994 with more than six months of unemployment in 1993, individuals unemployed in 1994 with up to six months of unemployment in 1993, persons employed in 1994 with some unemployment in 1993 and, finally, persons employed in 1994 with some unemployment in the previous five years. The idea is to provide a ranking in which length and immediacy of the unemployment experience play the key role.

Table 5 Satisfaction by unemployment experience relative to those employed in 1994 and never unemployed in previous five years, in 10 EU member states

	Unemployed in 1994 and for more than six months in 1993	Unemployed in 1994 and for six months or less in 1993	Employed in 1994 and unemployed in 1993	Employed in 1994 and unemployed in previous five years
Belgium	0.69	0.73	0.92	0.95
Denmark	0.80	0.81	0.93	0.94
France	0.61	0.70	0.88	0.93
Germany	0.66	0.70	0.86	0.91
Greece	0.63	0.75	0.82	0.86
Ireland	0.59	0.72	0.87	0.91
Italy	0.56	0.70	0.84	0.91
Portugal	0.60	0.65	0.84	0.91
Spain	0.64	0.75	0.87	0.91
UK	0.62	0.76	0.89	0.92

Source: Whelan & McGinnity 2000: 305 (ECHP data).

The main messages from Table 5 are straightforward and can be summarized in three points. First, all four categories score lower than the reference category and this goes for all the countries. Second, figures increase with the rank order of the four categories, that is, the shorter and the further back the unemployment experience is the higher is satisfaction. Although the differences are sometimes indeed tiny, this pattern is again consistent throughout the table. Third, there are some notable cross-national differences, for example the high score for Denmark in the first column of figures compared to all other countries and above all Italy and Ireland.

It is also common to measure psychological well-being by employing the so-called General Health Questionnaire (GHQ). This measure has been validated in many countries and has often been applied in cross-national comparisons. One example is a survey, financed by the European Commission and carried out in 1996 (Gallie 1999). GHQ scores were used to examine the prevalence of psychological distress in the 15 countries which were members of the European Union at the time. A most striking result was that psychological distress was higher among the unemployed than among the employed in all the countries (Gallie 1999: 158-61). Again, there were some clear cross-national differences. The highest distress level among the unemployed was found in Germany and the lowest in Denmark, just ahead of Finland. The differences between the unemployed and the employed were generally quite large, but still varied a great deal across countries. Finland showed the smallest difference—followed by Italy, Portugal and Denmark—and Germany the largest.

Undoubtedly, unemployed individuals are dissatisfied and experience psychological distress to a larger extent than others. This is the general pattern, but we still have to be cautious regarding the causal mechanisms. Negative feelings may have an impact on people's ability to keep their job or to find a new job. Individuals who are ill, miserable or generally unhappy might more often be in the risk zone of being among the first to be laid off in case of redundancy or of not being hired in competitions over job vacancies. Unemployment probably affects people emotionally in a negative way, but the mechanisms involved may very well operate in both directions.

The lower satisfaction and higher psychological distress among the unemployed may be due to many different factors. Resource deprivation is one element; with declining purchasing power some of people's needs or wants are likely to remain unfulfilled. This may include declining possibilities of participating in various organized social activities. We should, however, also be aware of another aspect. Developed societies are work societies in the sense that working-age individuals are supposed to provide for themselves through paid work—unless they have some legitimate excuse for not doing so. It is rather common to regard unemployment as caused by individual shortcomings, lack of work motivation, insufficient skills and competence, etc. This implies stigmatization or a risk of stigmatization (e.g., Goffman 1963; Eales 1989; Rantakeisu et al. 1997; Paugam & Russell 2000: 261-63). Insofar as unemployed individuals accept the interpretation that their joblessness is their own fault, they tend to feel shameful. Feelings of shame lower life satisfaction and possibly create psychological distress, but they may be weakened—or even vanish—if unemployment is shared by many (e.g., Clark 2003; Lalive & Stutzer 2004).

Stigmatization is a phenomenon that cannot easily be done away with. Paid work is a key factor behind the high standard of living in modern societies. If we want to sustain that level of living, a great deal of work must continuously be carried out. Hence, it is difficult to avoid having strong norms in this regard. There are of course exceptions to the norms, as people must stay outside working life in certain situations—when being students, when taking care of small children or elderly relatives, when being seriously disabled, etc. A main task for the modern welfare state is to define the rules according to which citizens do not have to work but can be supported by the welfare state.

5. DISCUSSION

Although it can be a tricky puzzle to clearly determine the chain of causality, a large volume of research gives rather overwhelming evidence that unemployment has many negative social consequences. This holds for European Union member states as well as elsewhere—still, however, with considerable differences across countries. Generous unemployment insurance and connected welfare systems do mitigate some of the problems, but there are also other moderating mechanisms, above all the family which has a crucial role particularly in the southern parts of Europe.

We have no reason to believe that the present crisis is an isolated phenomenon. Also in the future, there are likely to be recurrent serious economic downturns and as a result unemployment levels will vary substantially across time. To some extent, these variations can be counteracted by national economic policies, but with an increasingly integrated global economy the possible actions by national governments are rather circumscribed. We must be prepared for periods of time in which unemployment becomes a highly critical problem and it is therefore necessary to develop policies to ease its negative social effects.

A key issue is to have sustainable welfare arrangements. The family will no doubt continue to be essential for the unemployed, but many individuals have no family to rely on and they risk having great difficulties without a robust public welfare system. It also becomes gradually harder to hinge on families insofar as the ongoing processes of individualization continue to extend in modern societies. Regardless of this, for the purpose of minimizing the risk that the unemployed end up in poverty and financial hardship, generous unemployment insurance is central. We must then carefully examine the interaction between public welfare arrangements and family relations to be able to organize the systems appropriately. Another crucial issue is to look after people's rule compliance, not least because making fraud difficult increases the possibilities of having a generous system. Fraud is perhaps sometimes an exaggerated problem, but by arousing the suspicion that free riding is a common behaviour among the unemployed, it undermines the legitimacy of the welfare state.

The provision of unemployment benefits is thus decisive, but it must be combined with other policies. Unemployed individuals should not only receive income protection, they should also be supported in their search for jobs. This entails active labour market policies including public employment service, labour market training and similar programs. The ambition must be to help the unemployed to find suitable work as soon as possible—although not just any job but lasting jobs matched to individual interests and qualifications. Then again, expectations have sometimes been too high regarding what can be accomplished through active labour market policies. Some measures have been successful, but others have not (cf. Martin & Grubb 2001). It is important to continuously carry out high-quality evaluations—which require advanced professional expertise—and to learn from the outcome of these. Programs may sometimes be rather poorly organized and especially in periods when they are being expanded too fast—due to rapidly rising unemployment—the risk is high for organizational malfunctioning to build up.

In order to become employed (again), the unemployed must often improve or alter their skills and qualifications. Data from European labour force surveys (Eurostat Statistics Database) show significant differences across educational categories with respect to the likelihood of becoming unemployed. Unemployment rates are much higher among individuals with less than secondary education than among individuals with secondary and, in particular, those with tertiary education. It frequently happens that the unemployed do not have the skills and qualifications in demand in the labour market. Sometimes people even lose their jobs because their skills have become obsolete. Moreover, it is possible that the unemployed waste the competence they have if they do not work at all for a long time.

People who do not have the qualifications in demand need to be willing to go through training or re-training; otherwise they have little chance to be recruited to jobs. One problem is that the unemployed may not be sufficiently motivated. The fact that they often have less than secondary education suggests that they have not been very enthusiastic about education previously in life. Motivation is also age-related, as the payoff of human capital investments is normally much greater for younger individuals. It is at any rate a main challenge for active labour market policy to offer training programs which are both attractive in the eyes of the unemployed and closely linked to the existing demand for labour. To the extent that programs are successful in these two respects, the chances will increase for the unemployed to be hired in jobs suitable for them.

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