
Unemployment Doesn't Have to Be So Damaging



By [Alexandra Roulet](#) , INSEAD

Adequate government policies can eliminate the health and death hazards that usually come with business shutdowns.

In theory, protracted unemployment can be hazardous to your health. Job loss can affect health not only through the income shock experienced, but also through non-financial means, such as damaged self-esteem.

The evidence linking ill health and unemployment goes a long way back. In 1933, sociologists studied an [Austrian village](#) whose 1500 inhabitants had remained jobless three years after a factory closure. They found that 85 percent of them were either resigned or broken, “heedless of the future and present”. The health of their children suffered: Medical collaborators classified a third of them as “physically infirm”. Fortunately since the Great Depression, many developed countries have implemented policies, notably unemployment insurance, to alleviate the financial burden of joblessness.

However, a long-term [U.S. study](#) by Daniel Sullivan, a researcher from the Federal Reserve Bank of Chicago, and Till von Wachter, a Columbia University economist, still found that the mortality rates of male high-

seniority Pennsylvanian workers who had lost their job in the 1982 recession was 50 to 100 percent higher than expected in the year following the event. Even 20 years later, their mortality rate remained 10 to 15 percent higher than normal.

The economic and health effects of business shutdowns

Some countries have gone much further than others in terms of insuring their workers against adverse shocks. Looking at the case of Denmark, I examined whether job loss still had a negative impact on health, including mental health and substance abuse, when workers had access to generous unemployment insurance and universal health insurance.

In my working paper titled “The Causal Effect of Job Loss on Health: The Danish Miracle?”, I compared the health of roughly 25,000 workers who lost their jobs between 2001 and 2006 due to a business closure to that of a control group (who did not experience a closure). The two groups were on a parallel trend in terms of health in the five years prior to the job loss shock. I also ensured a full match between the groups in terms of gender, exact age, tenure length, gross wage, occupation, marital status, region of residence and employment history.

In Denmark, unemployment insurance replaces 90 percent of lost wages, with a cap, which was roughly equivalent to US\$628 per week in 2015. During the period covered by the study, unemployed people were entitled to receive such transfers for up to four years. They also had access to job search assistance, training programmes and other active labour market policies. Lastly, Danes enjoy universal health insurance.

Due to the progressive tax system in place, the workers who lost their jobs only experienced a 6 percent drop in *post-tax, post-transfer household income* the year following the layoffs. Though the layoffs’ economic effects were not stark, they were long-lasting. Five years out, laid-off workers were twice as likely to have left the labour force altogether and their gross wage earnings lagged 12 percent behind those of the control group.

However, in terms of health, these workers were not worse off than their comparison group. They were not significantly more likely to purchase antidepressants, anti-anxiety drugs and sleeping pills, which I used as a proxy for mental health. Layoffs did not have any significant effect on purchases of opioid painkillers. I also did not observe any change in the

unemployed workers' regular health care usage, such as the number of visits to the general practitioner. There was no difference in terms of severe physical health outcomes requiring inpatient hospital care, including cardiovascular issues. The unemployed workers' mortality rate was not significantly affected either.

Policymakers can help make job loss a non-event

By combining generous unemployment insurance, active labour market policies and public health insurance, it is largely possible to make job loss a non-event in terms of health. Whether I looked at mental health proxies such as antidepressant purchases, mortality or severe physical health outcomes requiring inpatient care, I found that a strong social safety net eliminates the feared impact of job loss on health.

Find article at

<https://knowledge.insead.edu/economics-finance/unemployment-doesnt-have-be-so-damaging>

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