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IZA
World of Labor
Evidence-based policy making

Recessions adversely affect mental health and have considerable negative impacts on the careers of young labor market entrants

A number of high profile economists have recently been predicting a recession in the US. Politicians should consider now the potential effects a contraction in GDP and initiate adequate policy responses. Two new reports just published on IZA World of Labor provide guidance:

Economist Nick Drydakis of Anglia Ruskin University, UK, finds that recessions have negative effects on mental health and lead to an increase in suicides. Recent studies from the US show that a one percentage point increase in the unemployment rate is estimated to increase suicide rates by 1.3%. These patterns become stronger in young population groups.

According to a number of studies this results from loss of employment, fear of losing one's job, income reductions, loss of savings, foreclosure, and eviction. Indeed, unemployment and income loss severely frustrate the human desire for agency and self-directedness. In addition to this, high-risk lifestyle behaviors, such as smoking and alcohol consumption, typically increase during unemployment and after income loss. Moreover, income loss is expected to decrease investments in health-enhancing goods, and can result in both poor physical and mental health.

Drydakis suggests that relevant welfare policies such as labor market programs, family support programs and minimum-income benefits, should be implemented in order to minimize the consequences of recession on people's health.

In another report now published on IZA World of Labor economist Bart Cockx of Gent University, Belgium presents latest evidence that youths graduating in a recession incur permanent losses. According to a number of recent studies in the US and Europe, it takes about ten years for young cohorts that enter the labor market during a downturn to catch up with cohorts that did not. The negative impacts of a recession on the careers of young labor market entrants differ according to the flexibility of the labor market and the education level of entrants.

The findings for the US show that adverse conditions at labor market entry for low-educated youth with 12 years of schooling or less have immediate and important negative effects on wages and earnings. These fade after about two years. In the case of a severe recession (defined as a four percentage point rise in the unemployment rate), the year-one average wage falls by 16%, hours worked decline by 28%, and earnings fall by 45%. Graduating from college during a recession imposes a modest but long-lasting penalty on earnings that fades out over about ten years

This evidence reveals that the cost of recessions can be significant and can last well beyond the immediate impact. Bart Cockx therefore suggests that policy reforms should aim to combine greater job flexibility measures with job security and social safety net provisions—"flexicurity." Fostering geographic and job mobility would be key measures.

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Notes for editors:

- IZA World of Labor (http://wol.iza.org) is a global, freely available online resource that provides policy makers, academics, journalists, and researchers, with clear, concise and evidence-based knowledge on labor economics issues worldwide.
- The site offers relevant and succinct information on topics including diversity, migration, minimum wage, youth unemployment, employment protection, development, education, gender balance, labor mobility and flexibility among others.
- Established in 1998, the Institute for the Study of Labor (www.iza.org) is an independent economic research institute focused on the analysis of global labour markets. Based in Bonn, it operates an international network of about 1,300 economists and researchers spanning more than 45 countries.