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The Penalties of Unemployment

by Amartya Sen



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Abstract

The extraordinary levels of unemployment in Europe call for a reassessment of the priorities and responsibilities of social and economic policies. Unemployment causes penalties not only in the form of loss of family incomes and national output, but also in many other ways: deterioration of people's skill and motivation; loss of personal freedom; worsening of health and psychological equanimity; weakening of self-esteem and motivation for future work and job search; aggravation of racial and gender inequalities; disruption of human relations and family life; weakening of social cohesion; and technical and organizational inflexibility related to induced pessimism about employment prospects. Employment policies need to be reconsidered in a more comprehensive way (involving demand management, employment incentives, retraining and skill formation, and research in labour-friendly technologies), going beyond a compartmentalized view of problems of work, reward, security and production. The growing emphasis in European countries on people's ability to help themselves, rather than be excessively dependent on the state, requires a big reduction of unemployment. Tolerating high levels of unemployment undermines the foundations of a society in which self-help is possible.

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(*) Harvard University. Paper prepared during Professor Sen's tenure as Visiting Scholar at the Research Department of the Bank of Italy.

1. Introduction¹

In 1790, when Edmund Burke offered his Reflections on the Revolution in France, he regretted that "the age of chivalry is gone," and added to it the complaint that the age of "sophisters, economists, and calculators, has succeeded." The result, Burke concluded, was that "the glory of Europe is extinguished for ever." Europe has not, in fact, done too badly since Burke's days. While chivalry may not have revived, the rise in living standards in Europe over the last two centuries has been not only unprecedented and unanticipated, but also really quite dramatic. Progress on the economic front has been matched by a great many social, cultural and educational achievements, and remarkable improvements in public health, longevity and comfort.

Not everything, however, is in fine order. If, at the present time, we look for grounds for doubting "the glory of Europe," we are unlikely to find a better reason than the extraordinary prevalence of unemployment and worklessness in this continent. With double-digit unemployment rates across most countries in Europe (around 12 per cent in France and Germany as well as Italy, 18 per cent in Spain), the basis of self-reliant and self-confident economic existence of a great many Europeans is severely undermined. This contrasts not only with the contemporary experience of other economically developed countries such as the United States and Japan (with

1. The Italian version of this paper, entitled L'occupazione: le ragioni di una priorità per la politica economica, will be included in Disoccupazione di fine secolo, edited by Pierluigi Ciocca and published by Bollati Boringhieri, Turin. For helpful discussion, I am grateful to Fabrizio Barca, Andrea Brandolini, William Darity, and Emma Rothschild.

unemployment rates not much more than 3 to 5 per cent), but also with Europe's own achievements of remarkably low unemployment not so long ago (with unemployment rates well below 3 per cent). The "glory of Europe" is more than a little tarnished with tens of millions of jobless people - suffering material hardship, psychological agony and a sense of being helpless and unwanted.

Yet this state of affairs seems to have become "acceptable" in Europe - feeble protests are combined with remarkable resignation. There is also an insufficient acknowledgement of the torments and disintegrations caused by high levels of unemployment and insufficient assessment of what is at stake. In this field, certainly, the "sophisters, economists, and calculators" (against whom Burke fulminated) can do a fuller job. We have to take more adequate note of the many different ways in which the wide prevalence of joblessness blights lives and liberties in Europe.

2. Reasons and Motivation

The joblessness that plagues Europe today inflicts damages in many different ways, and we have to differentiate between the different concerns. The distinct problems do, of course, interrelate, but they are significant in their own ways, and they have to be distinguished from each other. Their negative effects are cumulative, and they act individually and jointly to undermine and subvert personal and social lives.

The need to distinguish between the different ways in which joblessness causes problems is important not only for a better understanding of the nature and effects of unemployment, but also for devising appropriate policy responses. The descriptive interest in the consequences of unemployment is

supplemented by the urgency of policy concerns - the demands of practical reason integrate well with the need for a fuller assessment of what is at stake.

There is a further reason for wanting a discriminating analysis of the penalties of unemployment. Some of the adverse effects of unemployment may not be unique to unemployment and may well be shared by unsatisfactory employment as well. To get a clearer understanding of what the requirements of appropriateness in employment must cover, we have to see the different ways in which employment contributes to individual well-being and freedom, and to social life, and on the other side, the different ways in which joblessness imposes individual and social burdens. In assessing different types of employment, these distinctions would obviously be relevant: some jobs may remedy particular problems caused by unemployment without eliminating others.

3. Direct and Indirect Effects of Unemployment

What, then, are the various penalties of massive unemployment? The list would have to include at least the following distinct concerns.

- (1) Loss of Current Output: Unemployment involves wasting of productive power. A part of the potential national output is not realized because of unemployment. The magnitudes involved can clearly be quite large when unemployment rates are very high.²
- (2) Skill Loss and Long-run Damages: Just as people "learn by doing," they also "unlearn" by "not doing" - by being out

2. There are various ways of trying to measure this loss of potential GNP; see Okun (1962) and Gordon (1984).

of work and out of practice. Also, in addition to the depreciation of skill through non-practice, unemployment may generate loss of cognitive abilities as a result of the unemployed person's loss of confidence and sense of control. The relation between motivation and competence is not easy to quantify, but empirical studies have thrown light on a significant connection here.³

- (3) Income Loss and Inequality: In addition to the effect of unemployment on total output, joblessness has the immediate consequence of reducing the income of the unemployed worker. It is sometimes assumed that this particular consequence is already covered within the category of "output loss," since the lost income is a part of the lost total output. This, however, is a misleading way of examining the effects of unemployment. Consider a case in which the lost output due to unemployment is made up by increased activity by others, so that there is no loss of aggregate output. This does not, however, entail that there is no loss of income of particular individuals (and their families) who are rendered jobless and impoverished.

So the income effects on the victims have to be distinguished from the aggregate output effects. While this distinction was illustrated above with an extreme case in which there is no loss of aggregate output, the point is much more extensive than that. Unemployment influences the extent of inequality and also the incidence of poverty, and this is not in any sense

3. See, for example, White (1959), Lefcourt (1967, 1982), and Lefcourt et al (1973).

"subsumed" by the loss of aggregate output for the nation.⁴ It is necessary, in general, to distinguish the effects on individual incomes from the effects on aggregate output.

- (4) Loss of Freedom and Social Exclusion: Taking a broader view of poverty, the nature of the deprivation of the unemployed includes the loss of freedom that goes beyond the decline in income. A person stuck in a state of unemployment, even when materially supported by social insurance, does not get to exercise much freedom of decision, and attitudinal studies have brought out the extent to which this loss of freedom is seen by many unemployed people as a central deprivation.⁵

The recent interest in the notion of "social exclusion" has helped to highlight the absence of freedom of deprived people to enjoy opportunities that others can readily use. Unemployment can be a major causal factor predisposing people to social exclusion. The exclusion applies not only to economic opportunities, such as job-related insurance, and to pension and medical entitlements, but also to social activities, such as participation in the life of the community, which may be quite problematic for jobless people.

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4. In an earlier study on employment (Sen 1975), I distinguished between three different features of employment: (1) output aspect, (2) income aspect, and (3) recognition aspect. Several of the particular effects considered here relate to what was called, in that study, the "recognition" aspect: being recognised by others as well as oneself as a productive and sought-after person.
5. See Schokkaert and Van Ootegem (1990). Their investigation concentrated on the experience of the Belgian unemployed.

- (5) Psychological Harm and Misery: Unemployment can play havoc with the lives of the jobless, and cause intense suffering and mental agony.⁶ Empirical studies of unemployment have brought out how serious this effect can be.⁷ Indeed, high unemployment is often associated even with elevated rates of suicide, which is an indicator of the perception of unbearability that the victims experience.⁸ The effect of prolonged joblessness can be especially damaging for morale.⁹ The connection between psychological suffering and motivational impairment has been illuminatingly - and movingly - analysed by Robert Solow (1995).

Youth unemployment can take a particularly high toll, leading to a long-run loss of self-esteem of young workers and would-be workers (such as school leavers).¹⁰ There is some considerable evidence, based on American

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6. See, for example, the classic studies of Jahoda et al (1933), Eisenberg and Lazarsfeld (1938), Bakke (1940a, 1940b), Hill (1977). While particular communities are specially hit and go through great agony (as these studies bring out), periods of high unemployment can cause general distress that can be widely observed. On arriving at the London School of Economics, in 1931 - during the depression - young Paolo Baffi, later Governor of the Bank of Italy, was gripped by "the sight of Welsh miners trampling in single file along the edge of the sidewalk singing mournful dirges and begging pennies" (Baffi 1985, p. 2).
7. See, for example, Tiffany et al (1970), Tiggermann and Winefield (1984), Fryer and Ullah (1987).
8. See, for example, Boor (1980) and Platt (1984).
9. See, for example, Harrison (1976).
10. See, for example, Gruney (1980), Ellwood (1982), Tiggerman and Winefield (1984).

studies, that this damaging effect is particularly severe for young women (and it has to be examined whether a similar thing would apply to Europe as well).¹¹ Youth unemployment has become a problem of increasing seriousness in Europe, and the present pattern of European joblessness is quite heavily biased in the direction of the young. The results are particularly grave, perhaps more so in the case of young women.

- (6) Ill-health and Mortality: Unemployment can also lead to clinically identifiable illnesses and to higher rates of mortality (not just through more suicides). This can, to some extent, be the result of loss of income and material means, but the connection also works through the dejection and lack of self-respect and motivation generated by persistent unemployment.¹²
- (6) Loss of Human Relations and Family Life: Unemployment can be very disruptive of social relations.¹³ It may also weaken the harmony and coherence within the family. To some extent these consequences relate to the decline of self-confidence (in addition to the drop in economic means), but the loss of an organized working life can also generate problems of its own.¹⁴

11. Goldsmith, Veum and Darity (1996a, 1996b) discuss this issue among others, drawing on their own empirical study and on secondary material (derived from other studies). See also Cocoran (1982).

12. See, for example, Seligman (1975), Smith (1987), and Warr (1987).

13. See, for example, Jahoda et al (1933) and Hill (1977).

14. A crisis of "identity" can also be involved in this kind of disruption (see, for example, Erikson 1968).

- (7) Motivational Loss and Future Work: The discouragement that is induced by unemployment can lead to a weakening of motivations and can make the long-term unemployed more dejected and passive. Some have argued against this by suggesting that the unemployed may go into a more spirited response to overcome the problem (for example, under the theory of "reactance" outlined by Brehm 1966). There is, however, considerable evidence suggesting that the more typical effect, especially of long-term unemployment, is one of motivational decline and resignation.¹⁵

The motivational loss resulting from present unemployment can be very detrimental to the search for future employment. Based on his pioneering study of unemployment in the Welsh coal mines in the 1930s, Eli Ginzberg (1942) noted that the "capacities and morale of the unemployed had been so greatly impaired by years of enforced idleness that the prospect of returning to work was frightening" (p. 49).¹⁶ The studies of Goldsmith, Veum and Darity (1996a, 1996b) suggest that the motivational impact may be particularly significant for young women.

15. This type of effect can also be seen in terms of the notion of "social exclusion" broadly defined, including the difficulty in finding future jobs for those who experience unemployment. This tendency towards long-term exclusion resulting from a stretch of joblessness may be connected not only with psychological despair and pessimistic expectations, but also with loss of skill and competence as a result of unemployment (which has already been discussed).

16. On this issue. see also Solow (1995).

The "social psychological" effects of unemployment include the breeding of further unemployment in the future. Darity and Goldsmith (1993) have analyzed the "hysteresis" generated by the induced psychology of unemployment. The social costs of current unemployment are magnified by this process.

This general issue also relates to the composition and variation of what counts as the "labour force." The impact of prolonged unemployment can be severe in weakening the distinction between (i) being "in the labour force but unemployed," and (ii) being "out of the labour force." The empirical relevance of the distinction between these states (and possible transitions from the former state to the latter) can be important for the future of the economy as well as the predicaments of the particular persons involved.¹⁷

- (8) Gender and Racial Inequality: Unemployment can also be a significant causal influence in heightening ethnic tensions as well as gender divisions. When jobs are scarce, the groups most affected are often the minorities, especially parts of the immigrant communities. This worsens the prospects of easy integration of legal immigrants into the regular life of the mainstream of the society. Furthermore, since immigrants are often seen as people competing for employment (or "taking away" jobs from others), unemployment feeds the politics of intolerance and

17. See the studies presented by - and the debates between - Clark and Summers (1979), Heckman and Borjas (1980), Flinn and Heckman (1982, 1983), Goldsmith, Veum and Darity (1996a, 1996b).

racism. This issue has figured prominently in recent elections in some European countries.

Gender divisions too are hardened by extensive unemployment, particularly because the entry of women into the labour force is often particularly hindered in times of general unemployment. Also, as was mentioned earlier, the discouraging effects of youth unemployment have been found to be particularly serious for young girls, whose re-entry into the labour market, after a bout of unemployment, is more impeded by early experiences of joblessness.¹⁸

- (9) Weakening of Social Values: There is also evidence that large-scale unemployment has a tendency to weaken some social values. People in continued unemployment can develop cynicism about the fairness of social arrangements, and also a perception of dependence on others. These effects are not conducive to responsibility and self-reliance. The observed association of crimes with youth unemployment is, of course, substantially influenced by the material deprivation of the jobless, but a part is played in that connection also by psychological influences, including a sense of exclusion and a feeling of grievance against a world that does not give the jobless an opportunity to earn an honest living. In general, social cohesion faces many difficult problems in a society that is firmly divided between a majority of people with comfortable jobs and a minority - a large minority - of unemployed, wretched and aggrieved human beings.

18. See Goldsmith, Veum and Darity (1996a, 1996b).

- (10) Technical and Organizational Inflexibility: The possibility that the nature and form of technological change have greatly contributed to unemployment and its persistence in Europe has been analysed and investigated in the recent literature (see for example Pasinetti 1993). The impact of technology on unemployment is indeed important to investigate, but there is also a connection that goes the other way - the influence of unemployment in restricting the use of better technology. In a situation of widespread unemployment, when displacement from one's present job can lead to a long period of joblessness, the resistance to economic reorganization - involving any job loss - can be particularly strong. In contrast, when the general level of unemployment is quite low and displaced workers can expect to find another employment readily enough, reorganization may be less resisted.

It is possible to argue that the American economy has benefitted from its relatively high level of employment in making reorganization and rationalization relatively easier, compared with the situation in Europe. While the workers in an enterprise may have good reason to prefer, in general, not to have to change employment, the penalty of losing one's job is enormously larger when the alternative is unemployment, possibly for a long stretch of time. Unemployment can, thus, contribute to technological conservatism through organizational inflexibility, reducing economic efficiency as well as international competitiveness. The same applies to other types of organizational changes, such as raising the retirement age because of an increasing span of healthy

life, since any such change appears to be very threatening in an economy that already has much unemployment. I shall come back to this question of interdependence in the next section, dealing with policy issues.

4. Diagnosis and Policy

Much of this essay has been concerned with distinguishing between the different ways in which unemployment imposes social penalties in the contemporary world. With the high levels of unemployment that have now become the standard state of affairs in Europe, the social costs of these penalties are indeed heavy. The costs diminish the lives of all, but are particularly harsh on the minority - a large minority - of families severely afflicted by persistent unemployment and its far-reaching damages.

This sad state of affairs calls for economic reasoning as well as political responsibility and leadership. On the economic side, there is need to consider employment policies from different ends, including demand management and macroeconomic considerations, but going well beyond that. The market economy signals costs and benefits of different kinds, but does not adequately reflect the social costs of unemployment, which - as has just been discussed - can come through several different routes. There is, thus, a need for public policy that takes into account those burdens of unemployment which are not well reflected in market prices. This suggest the case for considering subsidies of various kinds that may increase the incentive to employ more people.¹⁹

19. Good examples to be considered include the proposals of Phelps (1994a, 1997) and Fitoussi and Rosanvallon (1996);

It also calls for scrutinizing the possible effectiveness of dedicated public action that operates not just by adjusting the effective prices (for example, through employment subsidies), but by creating more opportunities for appropriate training and skill formation, for more research on labour-friendly technology, and for institutional reforms that reflect the costs of unemployment into the industrial deliberations.

Taking compartmentalized views of problems of work, reward and security can produce social concerns that are artificially separated from each other. To give an example, consider the much-discussed problem of the rising ratio of older people. This is often seen as imposing an increasingly unbearable burden on the younger people who have to support the old. But a greater life span typically also goes with longer years of working ability and fitness, especially in less physically demanding jobs. One way of dealing with the rising age-composition problem, then, is to raise the retirement age, which would help to reduce the rise in the dependency ratio (the ratio of dependent people to those at work). But this may make it harder, it is thought, for young people to have employment. Thus, the employment problem is at the very root of the age-composition issue as well.

For one thing, a fall in the rate of unemployment would immediately reduce the dependency ratio if it is calculated as the ratio of dependent people to those at work (rather than those of working age). But more substantially, expansion of job opportunities can absorb not only the unemployed young, but

see also the symposium on this subject at the 1994 Annual Meeting of the American Economic Association, involving Fitoussi (1994), Lindbeck (1994), Phelps (1994b), and Snower (1994).

also the able-bodied people who have been forced to retire prematurely. These problems are, thus, interdependent. The interrelations involve both the actual job opportunities and also social psychology. In a situation where unemployment is a constant threat that worries many people, any proposal of raising the retirement age appears to be threatening and regressive (as was discussed earlier). But since there is no basic reason why employment opportunities should not adjust, when there is time and flexibility, to the size of a larger labour force (as the retiring age is raised), there is no immovable obstacle here. We do not tend to assume that a country with a larger population must have more unemployment since there are more people looking for work. Given the opportunity to adjust, availability of work can respond to the size of the working population. Unemployment arises from barriers to such adjustment, and must not be seen as vetoing the possibility of raising the retiring age and increasing the work force.

The long-term structural problem of rising age-composition simply has become, to a considerable extent, a prisoner of the contingent circumstances of present levels of high unemployment in Europe. Not surprisingly, there has been little difficulty in raising - indeed removing - the age of compulsory retirement in the United States, since it has so much lower levels of unemployment than Europe. This would not, in itself, eliminate all the problems of rising age composition (including the greater cost of medical care), but a lifting of the age of retirement can greatly help to reduce the burden of dependency. When the diverse effects of unemployment are considered, it can be seen how far-reaching its penalties are.

Taking note of different types of costs associated with unemployment is important in searching for proper economic responses to this large problem. This is because the enormity of the harm created by unemployment can be easily underestimated when many of its far-reaching effects are ignored. In addition, keeping track of the distinct types of bad effects of unemployment is important also because the remedy has to be sought in the light of the need to eliminate these different effects. The search, as was mentioned earlier, is not just for employment, but for appropriate employment.

It is possible to create extra jobs that deal with some of the deprivations but not others. For example, John Maynard Keynes's famous remark that it would help to reduce unemployment if people were paid to dig holes and to fill them up certainly points to a quick and effective way of passing on an income to some jobless people, but it would not do much to prevent skill loss, or to preclude a sense of social exclusion (if the new employees are seen as being on a kind of glorified dole, performing worthless activities).²⁰ Nor would it be a wonderful way of increasing national output, since filled-up holes are not seen, in most societies, as highly prized national assets.

Similarly, employment can be expanded in some clear sense through the creation of new jobs even when they involve very low wages, or very harsh terms. Though the unemployed may

20. Creating such ad hoc jobs can be a very effective way of preventing famines arising from loss of economic entitlement of particular groups hit by, say, a drought or a flood and consequent unemployment (on this see Drèze and Sen 1989). In that context, an immediate transfer of income is the basic priority and the other concerns are secondary.

feel, given their hapless circumstances, that they are not in a position to resist these terms and conditions, this may not prevent some of the psychological ills of unemployment and their manifold consequences. The creation of such jobs can co-exist with the perception that the new incumbents are getting little respect for their abilities or efforts, and also it may not prevent the new employee's sense of being marginalized and excluded from a proper position in a normally functioning economy. The characterization of appropriate employment must be sensitive to the diversity of harms done by unemployment, since the remedy sought has to be aimed at these harms, rather than simply at adding to the number of people who could be counted as being employed.

There is another issue that is brought out by the analysis of consequences of unemployment presented earlier. Many of the evil effects of unemployment relate to long-run deteriorations - of motivation, of skill, of social values - associated with stretches of unemployment at the present time. In seeking an appropriate combination of policy response, attention has to be paid not only to the short-run difficulties, but also their long-run implications. The problem of unemployment in Europe is particularly severe right now, but the questions it raises stretch over a long period into the future. The challenge is not only the maintenance of high levels of employment into the future, but also the avoidance of the negative consequences of past and current unemployment on the conditions of living and working in the future. Dealing with the unemployment problem calls for quickness, not for myopia.

5. Europe, America and the Demands of Self-help

Given the serious and many-sided nature of the unemployment problem in Europe, the need for a political commitment to deal with this issue is particularly strong at this time. It is certainly a subject in which the European Union can provide a forum for commitment. There has recently been much discussion in Europe on the need for coordinated reductions in budget deficits and in public debts. The Maastricht Agreement has specified a particular requirement for the ratio of deficit to the gross national product (GNP), and a somewhat less strict norm for the ratio of public debt to GNP. The connection of these conditions with the announced plan of inauguration of a single European currency is easy to appreciate.

While there is no officially declared "event" that calls for an all-round reduction of unemployment in Europe, the social urgency of such a move would be hard to deny. The different penalties of unemployment (discussed earlier on in this paper) bite hard into individual and social lives across Europe. Given the high magnitude of unemployment in virtually every country in the European Union, an appropriate response can sensibly be a European commitment, rather than a purely national one. Also, given the free movement of people between different countries in Europe, the employment policies certainly call for some coordination. There is, in fact, as yet no articulated commitment on reduction of unemployment in the way that the resolve to reduce budget deficits has been affirmed.²¹

21. There is also relatively inadequate public discussion on the penalties of unemployment. The role of public dialogues on the formation of ethical and political commitments,

It is interesting to contrast the types of political commitments that get priority in Europe vis-a-vis those that rule the roost in the United States. On one side, there is little commitment in American official policies on providing a basic health care for all, and it appears that more than 30 million people are, in fact, without any kind of medical coverage or insurance in that country. A comparable situation in Europe would be, I believe, politically intolerable. The limits on governmental support for the poor and indigent are too severe in the US to be at all acceptable in Europe. On the other hand, in America double-digit unemployment rates would be political dynamite. I believe no US government could emerge unscathed from the doubling of the present level of unemployment, which would still keep the US unemployment ratio below what it currently is in Italy or France or Germany. The nature of the respective political commitments differ fundamentally.

The contrast may relate, to some extent, to the fact that the value of being able to help oneself is much stronger in America than in Europe. This value does not translate into providing medical care or social insurance for all. On the other hand, denying employment hits at the very root of being able to help oneself, and there is much more public engagement on this issue. Thus, the American self-help culture provides a much stronger commitment against unemployment than against being medically uninsured or falling into deep poverty.

especially dealing with deprivation, can be quite central. On this issue and the challenge of unemployment and poverty, see Atkinson (1996, 1997) and Sen (1996, 1997).

The contrast is worth examining at this time. Europe is increasingly being persuaded into putting more emphasis on people's ability to help themselves, rather than on the state doing things for them. While this shift of emphasis can be over-done (it would be sad indeed for European civilization to lose the basic protections of the welfare state against deep poverty or the absence of medical care), to a considerable extent, a rethinking on these lines is inescapable and overdue. I have tried to argue elsewhere (in Sen 1997) that in disciplining public spending, the axe need not fall on the basic protections and that there is a strong case for scrutinizing the possibilities of economy in many other areas of state expenditure. But the need for greater emphasis on self-help, whenever possible, will certainly receive more support, with reason, in the years to come in Europe.

In examining the requirements of a greater role of self-help, nothing is as important as a big reduction of European unemployment from its enormously high level. Such unemployment does, of course, create a heavy burden of transfer payments on the state. But furthermore, a situation in which a person, especially a young person, has a high probability of being jobless is not the best preparation for a psychology of independence. A school-leaver who cannot find a job and falls immediately into the necessity of being supported by the state is not being particularly encouraged to think in terms of being self-reliant. There is, I would even argue, a basic political schizophrenia in wanting people to rely more on themselves, and at the same time, finding the present levels of European unemployment to be "regrettable but tolerable."

In terms of public values and private virtues, Europe - like the rest of the world - is very much at the cross roads

now. The old value of social support for people in adverse circumstances is weakening very fast - possibly too fast - with growing insistence on the importance of self-help.²² And yet the political implications of having a society in which people can help themselves are not adequately seized. There are dilemmas in other countries as well. The US, for example, has to come to grips with the problem that the self-help philosophy has its serious limits, and that the state has to play a bigger role in providing medical coverage and safety networks.²³

Europe, on the other hand, has to give more acknowledgement to the basic demands of the philosophy of self-help to which it is increasingly attracted. Tolerating enormously high levels of unemployment certainly goes against the foundations of a society in which self-help is possible. The penalties of unemployment not only include issues of income loss, but also far-reaching effects on self-confidence, work motivation, basic competence, social integration, and the appreciation and use of individual freedom. I have tried to discuss what these penalties are and why they are important.

22. For a reasoned critique of proposals to "roll back" the welfare state, see Atkinson (1997). On related issues, see also Van Parijs (1995).

23. The fact that African Americans - American blacks - have a lower chance of reaching a mature age than the immensely poorer population of China, or Sri Lanka, or the Indian state of Kerala (on this see Sen 1993) is not a glory for the richest country in the world.

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