While Australia is in a stronger position than many others, the global recession generated by the financial crisis in 2008 is nevertheless having a significant impact on the Australian economy. The full impacts of the global recession remain uncertain, but unemployment has risen from 4.3% in September 2008 to 5.8% in July 2009 (Australian Bureau of Statistics [ABS], 2009b) and is likely to rise further (Treasury, 2009). The Organisation for Economic Co-operation and Development (OECD), in its June 2009 Economic Outlook report, concluded that while Australia is being affected by the global recession, the recession’s impact will be less severe than the OECD average. Australia’s highly expansionary fiscal and monetary policy setting, combined with its resilient financial sector, have been important contributors to the relative strength of its economy.

Despite the relatively strong position of the Australian economy compared to other OECD economies, the increases in unemployment will have negative effects on Australian families. This article provides a summary of research on the consequences of previous economic recessions for families over both the short- and longer term. It also draws some broad implications for policy responses to mitigate the negative impacts. Others have provided detailed analysis of the likely impact of economic downturns on the Australian labour market (e.g., Borland, 2009) and therefore in this article we summarise the wider range of likely impacts and focus on the flow-on effects for families.

There are a number of mechanisms by which a recession may affect families. The main ones are:

- falling output and consequent reductions in labour demand, resulting in reduced working hours and unemployment;
- diminishing asset values;
- reduced capacity to manage living expenses and service debt;
- geographic concentration of disadvantage; and
- increased uncertainty and fear about the future.

Recessions can also have significant behavioural impacts that can extend to groups beyond those who become unemployed. A few examples are:

- elevated joblessness among young people, which influences their decisions to enter and/or remain in education, and delays in leaving home;
- delayed formation of committed relationships and reduced rates of fertility;
- decreased demand for child care or use of cheaper, potentially lower quality, unregulated child care;
- deferral of retirement or premature retirement in response to job losses; and
- return of retirees to the labour market, in competition with younger workers for existing jobs.

The remainder of this article is structured as follows. The next section provides a summary of the impacts of the
The impacts of recessions on the labour market

The primary effects of recessions on families are via their impacts on unemployment and reductions in working hours. This section provides a brief overview of trends in unemployment and long-term unemployment since 1980.

Figure 1 shows the number of unemployed and the unemployment rate over the period June 1980 to June 2009. Over this period there were two recessions. The precise start and end dates of recessions depend upon the method used to date the turning points in the business cycle. Borland (2009), using the dates at which the rate of unemployment reached cyclical peaks and troughs, dated the recessions as being from the second quarter (April–June) of 1981 to the second quarter of 1983 and the fourth quarter (October–December) of 1989 to the third quarter (July–September) of 1993. The main points to be taken from Figure 1 are:

- during previous recessions, the unemployment rate and the number of unemployed increases very quickly and then decreases slowly during subsequent periods of stronger economic growth; and
- the unemployment rate and the number of unemployed were lower at the start of the current economic downturn than they were at the start of the early 1990s recession. The unemployment rate was 5.8% in December 1989 and 4.4% in December 2008 (the first quarter of negative GDP growth during the current economic downturn).

Figure 2 shows the number of long-term unemployed (12–24 months) and very long-term unemployed (24 months plus) and the unemployment rate over the period 1980–2009. The main points to be taken from this figure are that:

- the number of long-term and very long-term unemployed increases dramatically during recessions;
- the number of long-term and very long-term unemployed continues to increase after the unemployment rate has ceased increasing; and
- the total number of long-term unemployed in December 2008 was 65,600, compared to 107,400 at the start of the early 1990s recession (December 1989).

The fact that the number of long-term unemployed is lower at the start of the current downturn than at the start of previous recessions places Australia in a relatively strong position. This does not mean, however, that long-term unemployment will be any less significant an issue this time around or that the impacts on families will be less significant. This is because the increases in the number of long-term unemployed over the next 12–24 months will be driven largely by inflows into unemployment, which then flow through to long-term unemployment 12 months later.

Figure 1 Number unemployed and unemployment rate, June 1980 to June 2009

Despite the relatively strong position of the Australian economy compared to other OECD economies, the increases in unemployment will have negative effects on Australian families.

The experience of the previous two recessions can be used to provide a guide as to the possible impacts of the current economic downturn on the number of long-term unemployed. We use the Australian Treasury forecast that the unemployment rate will roughly double from its low point of 3.9% in February 2008 to reach 8.5% in June 2011. This forecast matches closely the actual experience of the two most recent recessions, during which the unemployment rates roughly doubled. In the 1982–83 recession the number of long-term unemployed approximately tripled and in the 1989–93 recession the number increased by a factor of roughly 3.5. Assuming that the current economic downturn follows a similar pattern, at least in terms of the relationship between the unemployment rate and the number of long-term unemployed, then we can assume that the number of long-term unemployed will roughly triple. This means that the number of long-term unemployed could increase from around 65,000 to around 200,000 by mid-2011. It is important to emphasise that these estimates are based on the simplest possible method and are merely designed to illustrate the likely impact of increasing unemployment rates on the number of long-term unemployed.

For a sophisticated analysis of the relationship between the unemployment rate and the number of long-term unemployed, see Chapman, Junankar, and Kapuscinski (1992), and Chapman and Kapuscinski (2000).

While the unemployment rate is a useful measure of the impact of recessions on the labour market, it has several limitations. Firstly, the unemployment rate is calculated...
as the number unemployed divided by the number unemployed plus the number employed (the labour force). Movements from being not in the labour force (NILF)\(^2\) into employment or unemployment and movements from being employed or unemployed to being not in the labour force will affect the unemployment rate. This means that the unemployment rate may not fully capture the impact of an economic downturn on the number of people who are involuntarily jobless. This can occur if people without a job become discouraged from looking for work and hence withdraw from the labour force (the discouraged or marginally attached workers). Secondly, the different rates of participation in the labour force for men and women make comparisons of the unemployment rates between men and women complex. An alternative measure that is not sensitive to the proportion of the not-employed who are unemployed or not in the labour force is the proportion of the working-age population (15–64 years) that is not employed.

Figure 3 shows the trends in the proportion of the working-age men and women who were not employed for the period June 1980 to June 2009. For women, there is a long-run trend to a decrease in the proportion who are not employed (52.1% in June 1980 to 33.7% in June 2009) and, conversely, a higher proportion who are employed (47.9% in June 1980 to 66.3% in June 2009). In contrast, for men, there is a long-run trend towards a higher proportion being not-employed (17.9% in June 1980 to 22.8% in June 2009).

The impact of the previous two recessions on the proportion of the working-age population who are not employed differs between men and women. For men, the proportion who are not employed increases quite sharply during recessions and then comes down very slowly during periods of stronger economic growth. It never recovers to the pre-recession rate. For women, there is only a slight increase in the proportion who are not employed during recessions, and then the longer-term trend of increasing employment rates resumes (see Borland, 2009, for a detailed analysis of this issue, including differences between men and women in the trends in participation in the labour force).

Borland (2009) analysed the sources of change in the rate of unemployment in Australia over the period 1977 to 2008 and found that most of the increase in unemployment during recessions is driven by the decrease in the full-time employment rates of males. The early evidence from the current economic downturn that the decreases in employment have been much larger for men than women (ABS, 2009b) is similar to the experience of the last two recessions.

Another way to look at the impact of recessions and economic downturns is to examine changes in the aggregate hours worked, calculated monthly for all employed people in Australia (ABS, 2009b). For example, if there is a reduction in hours worked by those that are employed. In the recession from 1989 to 1993 the aggregate monthly hours worked closely followed the reduction in the number of employed people. However, a notable feature of the current economic downturn is that there have been much larger decreases in the number of employed people and in hours worked, calculated monthly for all employed people in Australia (ABS, 2009b).

Receipt of income support payments

The proportion of the working-age population receiving income support payments\(^3\) (not including family tax benefit [FTB] or child care payments) has increased over the last thirty years, although there has been some decrease in recent years as a consequence of the strong economic conditions from the mid-1990s through to 2008 (Harmer, 2008).
While the proportion of the working-age population receiving income support payments has decreased somewhat in recent years, the proportion receiving the Disability Support Pension (DSP) has continued to grow. The majority of those receiving the DSP remained on this payment for almost the entire 11-year period from 1996 to 2007 (Gregory, 2009). For men receiving unemployment payments (Newstart) in 1996, one-third spent more than 5 of the next 11 years in receipt of this payment. A proportion of these men also moved from Newstart to other income support payments (Gregory, 2009).

The current economic downturn will result in a large inflow of new recipients to unemployment-related benefits and a reduction in the rate of outflow to employment. For example, between February 2008 and July 2009, the number of Newstart recipients increased 26.1% from 443,916 to 559,577, and the number of Youth Allowance (other) recipients increased 20.1% from 69,728 to 84,065 (Department of Education, Employment and Workplace Relations [DEEWR], 2009). It is also possible that there will be an increased rate of movement onto DSP among those of working age. If this occurs, it will further exacerbate long-term disengagement from the labour market.

Families with dependent children and the labour market

Maternal employment

Women are now more likely to be employed than they were in previous recessions. In June 2008, 40% of mothers in couple families with dependent children were employed part-time and 25% were employed full-time (ABS, 2008). The increases in female employment have meant that families have become more dependent on the incomes of both parents and are therefore vulnerable to job loss by either parent.

Jobless families with children

For families with children, having an employed parent is an important means of avoiding financial hardship. The majority of children live with two parents, and in only a minority of these families is neither parent employed. Further, a trend towards a higher rate of female employment has meant that families often have two incomes to draw on, which can provide some protection in the event of job loss by the main earner. However, families’ financial commitments often rely on the contribution of two incomes, and they may therefore still face considerable difficulties if the labour market income of one parent is reduced or lost.

Single-parent families are particularly vulnerable in a recession, as job loss can lead to considerable financial difficulties. Compared with other OECD countries, Australia has relatively low rates of employment of single mothers and a relatively high proportion of children growing up in a single-mother household (Whiteford, 2009). This means that, overall, compared with other OECD countries, Australia has a relatively high rate of families with children in which no adult is employed. The number of jobless households in Australia has fallen only relatively slowly over the last decade (from 18% in 1983 to 13% in 2007), despite the strength of the economy over this period (Hayes, Gray, & Edwards, 2008).

During the previous two recessions, the proportion of families with children that were jobless increased and fell at a slower rate during the recovery than did the general unemployment rate (Whiteford, 2009).

Impacts of unemployment on families

Unemployment and subsequent labour market outcomes

The experience of long-term unemployment can have a permanent scarring impact on the future labour market incomes of individuals in the form of lower employment rates and lower wages if a person is re-employed (Arulampalam, 2001; Arulampalam, Gregg, & Gregory, 2001; Narendranathan & Elias, 1993). Long-term unemployment has long-lasting negative impacts upon future earnings, but for those who experience short-term unemployment, earnings generally recover over time.
Mental and physical health impacts

Unemployment can have a detrimental effect on the mental health of those becoming unemployed. The effects of unemployment on mental health cannot be explained purely by the negative impacts of unemployment on income (Clark, 2003; Paul & Moser, 2009).

Unemployment has a greater negative impact upon:
- those living in a household in which the other members are not employed (Clark, 2003; Mendolia, 2009, but see also Scutella & Wooden, 2008);
- younger workers (less than 25 years of age) (Morrell, Taylor, Quine, Kerr, & Western, 1994);
- older workers (over 50 years) (Paul & Moser, 2009; Scutella & Wooden, 2008); and
- those who are psychologically vulnerable prior to unemployment (Mendolia, 2009).

The longer the duration of unemployment, the greater the negative impact upon mental health. There is evidence that there is a sharp increase in the impact of unemployment on mental health after three months of unemployment, with a further increase occurring after about 30 months of being out of work (Paul & Moser, 2009). While it appears that individuals can adapt to being unemployed in the medium term, over the longer run the cumulative psychological effects are substantial.

Research suggests that counselling and other therapeutic interventions can result in an improvement in mental health as well as an increased rate of finding paid employment (Butterworth & Berry, 2004; Paul & Moser, 2009). However, such interventions are very resource-intensive and therefore difficult to bring to the scale required following a serious economic downturn.

Studies that follow the same group of people over time have found that becoming unemployed is associated with a slightly higher risk of suicide (Mortenson et al., 2000).

Crime

It is unclear as to the extent to which an increase in unemployment leads to increased crime rates in the short term. In general, otherwise law-abiding individuals do not respond to unemployment by becoming criminals (Weatherburn, 2002). However, in the longer term, the poverty and stress associated with unemployment may have a disruptive effect on parenting, increasing the risk that children from long-term jobless households will become involved in antisocial behaviour, including crime (Weatherburn, 2002; Smart et al., 2005).

Family functioning

The economic and psychological impacts of unemployment can place relationships under strain (Conger & Elder, 1994; Elder, 1999; Liker & Elder, 1983), and in previous downturns rates of relationship breakdown have increased slightly (Charles & Stephens, 2004; Kraft, 2001; Mendolia & Doiron, 2008). The longer the duration of unemployment, the greater the risk of detrimental impacts on relationships (Kraft, 2001). Again, relationship vulnerability that exists prior to a recession is a risk factor (Mendolia & Doiron, 2008).

Children’s development

Although there is surprisingly little evidence about the direct impact of parental job loss on children’s development, there is strong evidence that poverty has detrimental impacts (e.g., Duncan & Brooks-Gunn, 1997). On balance, the evidence is that children from low-income families are more affected by parental job loss than their peers in more affluent families (e.g., Coelli, 2005). There is also evidence that the psychological impacts of unemployment on parents can adversely impact upon parenting and, consequently, children’s wellbeing. Evidence on this dates from the Great Depression and studies of the impacts of subsequent recessions (e.g., Elder, 1999; Solantaus, Leinonen, & Punamäki, 2004).

Recent Australian evidence has also identified the detrimental impact that long-term unemployment can have on the educational outcomes of the next generation. Children growing up in a household where their parent received six or more years of income support payments were less likely to complete Year 12 and less likely to obtain a tertiary entrance score than children who lived in households that had no income support (Baron, 2008).

There are some studies that directly examine the detrimental impacts of parental job loss on children’s educational prospects. For instance, primary school children with fathers who lost their job were more likely to repeat a grade, be suspended or expelled (Kalil & Zio-Guest, 2008), while adolescents were more likely to drop out of secondary school or not go on to attend university (Coelli, 2005).

Parental job loss has also been found to have an impact on the economic prospects of their children 13 to 18 years later (Oreopoulos, Page & Stevens, 2005). For young people whose fathers had lost their jobs when the young people were teenagers, their average earnings over a 5-year period were 9% lower than other young people and they were more likely to receive unemployment benefits and other forms of social assistance (Oreopoulos et al., 2005).

Housing

Australian households currently have high levels of debt and interest payments as a proportion of household disposable income compared to the long-run average, notwithstanding a decrease in debt levels following recent interest rate cuts (Reserve Bank of Australia [RBA], 2009).

Although arrears rates on housing loans are relatively low, many families are now reliant on having two income earners. For these families, a decrease in hours or loss of a job are likely to result in very significant financial hardship and, for a small proportion, foreclosure on their housing loan or default on other debts.

Geographic concentration of unemployment and disadvantage

Job losses in recessions tend to be concentrated geographically. Recent work has identified two types of suburbs that are likely to be most affected by job losses (Baum & Mitchell, 2009):
educational opportunities and job prospects (Edwards children and poorer health in adults, as well as reduced 
tage, which in turn is associated with poorer outcomes for 
areas will exacerbate levels of neighbourhood disadvan-
In summary, concentration of unemployment in particular 
rents.

- traditionally disadvantaged areas in metropolitan and 
rural areas, where unemployment is compounded by 
other problems; and

- newer suburbs in the outer metropolitan fringe and 
rural areas that have ties to manufacturing.

Over the period 1976 to 1991, locational inequality in-
creased as a consequence of reduced demand for workers in 
manufacturing in particular geographic areas and in-
creased demand for workers in the service sector in other 
areas (Hunter, 1995). Geographically concentrated job losses 
will result in further concentration of such locational 
disadvantage. More disadvantaged areas will also attract still 
greater concentrations of unemployed people and their 
families through residential mobility because of cheaper 
rents.

In summary, concentration of unemployment in particular 
areas will exacerbate levels of neighbourhood disadvan-
tage, which in turn is associated with poorer outcomes for 
children and poorer health in adults, as well as reduced 
educational opportunities and job prospects (Edwards & Bromfield, 2009; Galster, Marcotte, Mandell, Wolfman, & 

The impact of falling asset values on 
families

There have been very substantial falls in the value of assets 
over the past 12–15 months. The Australian share market 
fell 54% from its peak in November 2007 to its trough in 
March 2009 (Debelle, 2009). While this decline is similar in 
percentage terms to that in other countries, the Australian 
market has returned to the levels of mid-2005, and recently 
the US and European stock markets have returned to their 
2003 and 2004 levels (Bloomberg, 2009).

Following the introduction of the Superannuation Guarantee during the 1990s, 91% of the em-
ployed population now have superannuation savings (ABS, 2009d). The value of superannuation 

tunds' assets under management fell by 14% over the 
year to December 2008, compared with a decade-av-
erage annual growth rate of around 16% (RBA, 2009). 
It is estimated that over the first 9 months of 2008, the 
value of superannuation investment funds fell by around 
$100 billion.

While there have also been falls in house prices, these have been much more modest, with signs of a recent recov-
ery. In March 2009, it was estimated that house prices in 
Australia had fallen by around 4% since their peak in March 
2008 (RBA, 2009). This compares to falls of 10–25% in the 
US and 20% in the UK. More recent data on house prices 
for the eight Australian capital cities suggests that while the 
previous four quarterly changes in house prices were nega-
tive, there was a 4.1% increase in house prices from the 
March to June 2009 quarters (ABS, 2009a).

The falls in asset values only have a major direct impact on 
those with significant assets. The majority of households’ 
assets are in property. Superannuation and shares comprise 
only a small proportion of households’ assets, with the ex-
ception of the highest net worth households. The majority 
of debt is related to property loans (ABS, 2007). This means 
that the majority of families will not be greatly affected by 
the fall in asset prices, the impacts of which will be over-
whelmingly felt by higher net worth families.

While the direct impacts of the falls in asset values will be 
relatively small for most families, there are some groups, 
apart from higher income families, who are likely to be 
significantly affected. These include older workers who are 
about to retire, retirees who rely to a significant degree on 
investments (including superannuation) for their income, 
and families who experience significant income drops as 
a result of unemployment or reduced hours and, as a con-
sequence, are unable to manage their living expenses or 
service their mortgages or other debts. Again, the impacts 
are likely to be disproportionately severe for lower income 
families.

One of the key factors in deciding to retire is financial 
security. More than half of Australian men and two-fifths 
of women who intend to retire expect that superannua-
tion, an annuity or an allocated pension will be their main 
source of income (ABS, 2009c).

On the other hand, falls in asset values will mean that some 
persons will postpone their retirement. Others who have 
recently retired may seek to return to the labour market. 
A result of this is that highly skilled retirees who return 
to the labour market may crowd out younger, less skilled 
people from employment, although the extent to which 
they compete for entry-level jobs is debatable. Involuntary 
joblessness may also lead to early retirement and a greater 
reliance on the Age Pension.

Many employees transition into retirement by switching to 
a less demanding but also less secure job that is part-time, 
casual or on a contract basis, or they become self-em-
ployed. These jobs are more vulnerable in a recession.

A consequence of the falling value of assets of middle- 
to upper-wealth households is that their capacity to provide
financial transfers within the family is reduced. Examples include financial assistance to children in post-secondary education, to adult children who are purchasing a home or to elderly parents.

Concluding comments

The experience of previous recessions is that involuntary unemployment typically has negative economic, social, physical health and psychological impacts, which can flow on to other family members, including children. However, most of the negative effects are reversible if the unemployed person is re-employed relatively quickly. For those who are unemployed for extended periods, however, the negative impacts become much greater, and in some cases they are permanent (the so-called “scarring impact of unemployment”). Those most likely to experience unemployment during a recession are young people leaving education, the low-skilled (i.e., those with low levels of human capital) and recent migrants (Borland & Kennedy, 1998).

This means that the single most important priority for reducing the negative impacts of recession on families is to minimise the loss of jobs and to maintain workers’ connections with the labour market whenever possible. A part-time or lower skilled job than that available in pre-recession times is better than no job at all. Given that long-term unemployment is most damaging, particular attention will need to be paid to maximising the movement of the long-term jobless (including those on income support) to employment.

Another key learning from previous recessions is that long-term unemployment will not be significantly reduced unless there is a long period of strong economic growth. Alongside macroeconomic policies, social policies and service responses that reduce the adverse social consequences of unemployment will need to be a priority.

The impacts of unemployment, and in particular long-term unemployment, can result in a person experiencing multiple disadvantage, leading to increasing social exclusion over time. The experience in Australia, the UK and the EU over the last fifteen years is that, despite a period of very strong economic growth, too many people are socially excluded (Hayes et al., 2008). Targeted policy and service sector responses are needed to overcome social exclusion—in particular, entrenched, deep-seated and geographically concentrated social exclusion.

There are long-run costs from the intergenerational impacts of economic downturns, and addressing these are imperative. The early child care, education, health, family relationship and mental health sectors have an important role to play in protecting from these impacts children, particularly in families experiencing unemployment. One challenge is that children are often removed from child care for economic reasons by families experiencing unemployment. This is likely to be a particular issue for children from disadvantaged families, for whom the evidence is that they will benefit the most from high-quality child care. Policies aimed at addressing geographically concentrated disadvantage will also be important.

The demand for social services provided by governments (e.g., Centrelink at the Commonwealth level, and many state and territory departments) and private and community sectors is already rising, and will rise very substantially as unemployment rates increase. This will place great demands upon all of these sectors. Examples of services for which the demand will increase include mental health and family relationship services, financial and material support, housing, and employment/training services (Access Economics, 2008). A risk is that in responding to the newly unemployed, the long-term disadvantaged may be crowded...
out, thereby perpetuating their disadvantage and further
entrenching their exclusion.

Just as with the economic stimulus, early attention to so-
cial policy responses will be important if the likely short-
medium- and long-term negative impacts on families of
the recession are to be effectively anticipated and mitigated.

Endnotes
1 Unemployment rates are from the seasonally adjusted series.
2 The category “not in the labour force” consists of those who are not em-
ployed and who are not classified as being unemployed because they do not
want to be in paid employment or they want to be in paid employment but are
not available to start a job or are not actively looking for employment and
therefore do not meet the criteria for being classified as being unemployed.
3 Income support payments include payments such as Parenting Payment,
Newstart, Disability Support Pension and Carer Payment.
4 Mother’s involuntary job losses have not been found to be associated with
poor child outcomes. The reason for this is not clear: The data from these
studies were relatively recent and are from the US and Canada, and therefore
would reflect the contemporary shift from sole breadwinner to dual-income
families (Coelli, 2005; Kahl & Zuo-Guest, 2008).

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