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HAPPINESS, WORK, AND IDENTITY*

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Abstract

This chapter introduces identity utility to the study of (un)employment and (un)happiness. The concept is described in terms of an augmented utility function, the implications of which are assessed in light of the empirical literature on unemployment and well-being. Studies on unemployed persons' affective and cognitive well-being allow assessing the importance of the loss of identity utility relative to other nonmonetary consequences of joblessness, such as fewer social contacts and a lack of a structure in daily life. Unlike life satisfaction, unemployment leaves affective well-being mostly unaffected, which points to a major relevance of the loss of identity. This view is corroborated further by studies on the importance of the social norms to work and be self-reliant for the life satisfaction of the unemployed, as well as by studies showing the positive life satisfaction effect of retirement on unemployed workers. Based on this strong evidence for identity utility losses of unemployed persons, the notion of identity utility is used to explain heterogeneity in the effect of unemployment on life satisfaction. It is also linked to further consequences of unemployment, such as social exclusion and stigmatization. Moreover, this chapter uses identity utility to assess the likely effectiveness of labor market policies in alleviating the misery of the unemployed. Finally, research on work, happiness and identity is reconciled with a more standard economics view on labor supply based on studies examining the impact of working hours on workers' well-being.

Keywords: employment status, identity, subjective well-being, affective and cognitive well-being

JEL classification: D91, I31, J26, J60

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1 The happiness from holding a job

For as long as industrial societies have evolved and grown, they have been subjected to economic crises, causing suffering for the millions and millions of people who lost their jobs. It is this individual shock, in combination with the inability to regain employment quickly, that enables social scientists from different disciplines to empirically identify the crucial role employment plays in human life. Their research reveals a substantial positive impact of holding a job on people's happiness. In this chapter, the literature on unemployment and well-being is used to describe the crucial role social identity plays in establishing this importance of work for well-being.

Drawing on Akerlof's and Kranton's (2000) pioneering work, a standard utility function that is augmented by an identity component is used to elaborate on how employment allows meeting an ideal self-concept and thus affects social identity. Based on this, a wide range of recent findings on the effects being out of work has on affective well-being, cognitive well-being and related outcomes are explained. As this chapter is concerned with the impact work itself has on well-being, it does not pay attention to the potential part identity may play in the happiness differences between occupations, industries or in the happiness effects of certain job characteristics. Having said that, the chapter sheds light on the impact of employment protection legislation, job creation schemes, workfare programs and working hours on different indicators of well-being. The insights presented also extend to the role of identity in the happiness of self-employed workers (e.g. Binder and Blankenburg forthcoming) and retirees (e.g. Radó and Boissonneault in press).

Research on happiness has tested, refuted and confirmed a wide range of economic models, developed new empirical tools for the purpose of cost-benefit analysis and derived important policy conclusions (for a review see, e.g., Weimann et al. 2015). A major finding of this field is that unemployed people are much less satisfied with their lives than employed people, whereby unemployed men seem to suffer more strongly than unemployed women (e.g. Gerlach and Stephan 1996, Suppa forthcoming). The negative correlation between unemployment and life satisfaction does not establish that unemployment causes dissatisfaction. People who are generally less satisfied due to their personality or bad health may bear a higher risk of becoming unemployed. However, the major reason for the difference in life satisfaction between unemployed workers and employees is, in fact, the negative impact a job loss has on life satisfaction, as Suppa (forthcoming) argues based on a large body of research. These studies have identified unemployment as decreasing life satisfaction more strongly than most other life events. In addition, it is one of the rare events people do not adapt to over time (e.g. Clark et al. 2008).

The positive impact of holding a job on life satisfaction largely persists even if the loss of income is statistically eliminated as a reason for the misery of the unemployed. This is contrary to standard economic reasoning which postulates that losing work should improve workers' well-being if there was, hypothetically, no income loss, as they gain leisure time. However, Knabe and Rätzel (2011) show that differences in current and also in permanent income between employees and the unemployed cannot fully account for the gap in life satisfaction. They estimate that the well-being cost of unemployment, which comes on top of the immediate and future income loss, roughly translates into 80 percent of former income for men and to 55 percent for women.

Often, these additional costs are labelled 'non-monetary' or 'psychological' costs (e.g. Suppa forthcoming). Social psychologists were the pioneers in the investigation of these non-monetary costs. As early as the 1930s, a research group around Marie Jahoda and Paul Lazarsfeld identified non-monetary aspects of working in the course of their groundbreaking field study in which they analyzed the effects of a textile plant closure on the laid-off workers and other citizens from the

town of Marienthal near Vienna. They concluded that employment is not only important because it generates income, but that it also entails important non-monetary, latent benefits:

> "Employment imposes a time structure on the waking day, implies regularly shared experiences and contacts with people outside the nuclear family, links individuals to goals and purposes that transcend their own, enforces activity, and defines aspects of personal status and identity" (Jahoda 1981, p. 188, slightly shortened).

While standard economic theory tells us that the cost of unemployment is less than the loss in income because the unemployed can enjoy more leisure, Jahoda's conclusion is quite the opposite: The unemployed

> "do not enjoy their 'leisure'; they become disheartened, lose their self-respect and their sense of time, and feel on the scrap heap." (Jahoda 1981, p. 181)

The concept of a utility function that is augmented by an identity utility component can resolve the apparent discrepancy between the two views as shown in the next section. While there is a gain in leisure time that, as such, benefits the unemployed, there is also a concurrent and dominating loss in identity utility such that, in total, well-being drops by more than what is attributable to the income loss.

We proceed as follows. In Section 2, the chapter provides a theoretical framework for the analysis of the well-being cost of unemployment using a concept of identity-augmented utility. Section 3 (re-)interprets the empirical literature on work and well-being in light of this concept. Afterwards, policy implications (Section 4) and the role of working hours (Section 5) are discussed. Section 6 concludes.

2 The role of identity: theoretical considerations

To date, economic research on the non-monetary factors that make unemployment so harmful particularly focusses on the loss of one of the latent benefits of employment emphasized by Marie Jahoda, the loss of status and identity. The violation of the social norm to work and making a living based one one's own efforts results in the loss of social identity (Schöb 2013). By attributing a utility value to identity, one can translate this finding into economic terms: people who become unemployed lose identity utility.

The identity utility concept, which was brought into economics by Akerlof and Kranton (2000), can be traced back to the socio-psychological theories of social identity and self-categorization (see e.g. Tajfel and Turner 1986). People form an ideal self-concept from different identities they try to adopt. One's self-concept is partly individualistic, but also depends on social solidarity and belonging. According to social categorization theory by Turner (1985), people do not form groups for the satisfaction of mutual needs, but because they define themselves in terms of membership of a shared social category. A shared social identity emerges on the basis of cognitive criteria, such as shared fate, situations, or attributes (see Turner and Reynolds 2010, p. 20). Belonging to a social group requires the fulfilment of the shared norms of this group, i.e. conforming to a certain group behavior.

To discuss the non-pecuniary cost of unemployment in an identity utility framework, Schöb (2013) assumes that, in the world of work, people who have finished their education and are below retirement age normally consider themselves as members of a social grouping of 'working-age people'. While employed, they rarely consciously perceive themselves as of 'working-age', even though they share values and goals with members of this social group. Thus, the belonging to the group of working-age people barely becomes salient. Being laid off, however, makes the values and

goals of the working-age group salient, causing laid-off individuals to feel that they have shifted from the subgroup 'employed' to the subgroup of 'unemployed'. Deviating from major norms of the group of working-age people, i.e. being employed and able to provide for oneself, lowers the utility they derive from being part of the social grouping of 'working-age people'. Furthermore, the sudden perception of the norm violation increases this component's influence on one's self-conceived personal identity compared to before the job loss (see e.g. Turner and Reynolds 2010, p. 21).

Following Akerlof and Kranton (2000), an individual's (j) utility function U_j allows for social categorization and the minimization of the utility loss from deviating from social norms. It consists of a standard part $V_j(a_j, a_{-j})$, which results from one's own actions a_j (e.g. consumption of private goods) and the actions of others a_{-j} (e.g. consumption of public goods, externalities). Another argument of the utility function is an identity utility component $I_j(a_j, a_{-j}, c_j, \varepsilon_j, P)$. It also depends on one's own actions and the actions of others, but, in addition, on the set of social categories (c_j) an individual belongs to. Different social categories generate different levels of status and thus utility. In many dimensions, people can choose to what social categories they want to belong to, such as by choosing a national identity or the way of praying to god(s). But choosing a different social category may lead to identity losses. When changing categories becomes too costly, so that it is optimal not to change one's social category, one has to adhere to the group's norms (P, 'prescriptions'), over which the individual has hardly any (here assumedly no) control, which in turn also affects utility. Deviating from these norms results in an identity utility loss. The success of the self-categorization, i.e. whether one actually feels accepted as a member of the group, depends on the individual's actions and characteristics (ε_j) to meet these group norms as well as the actions of others. The utility function, if additively separable, may be written as

$$U_j(V_j, I_j) = V_j(a_j, a_{-j}) + I_j(a_j, a_{-j}, c_j, \varepsilon_j, P).$$

The total individual cost of unemployment can now be described by means of this utility function as $\Delta U_j = U_{j,\,unemployed} - U_{j,\,employed}$. Standard utility V_j declines as less income is available for the consumption of goods. Furthermore, as Jahoda's conclusions suggest, the loss of activity, a structure in daily life as well as the decline of social interactions outside the family might raise the loss of standard utility. At the same time, however, people may also benefit from job loss as they gain leisure time, which economic theory traditionally considers as the main reason why working comes at a non-pecuniary cost.

Regarding identity utility, unemployed people, during their working age, obviously do not conform to the norm to work (a_j does not match P). This reduces identity utility compared to periods of employment. As social identity becomes unsatisfactory, involuntarily unemployed people might try to change their situation, but are restricted in their choices which makes it impossible to divest themselves of the unsatisfactory, underprivileged, or stigmatized group membership (Tajfel and Turner 1986, p. 9). The resulting identity utility loss thus explains part of the loss of well-being.

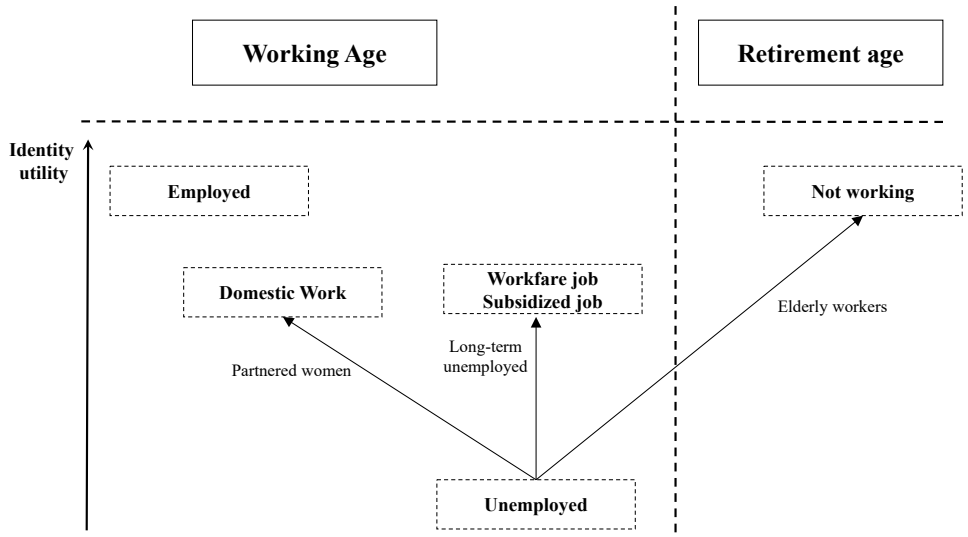
Figure 1 provides some examples to illustrate that the loss of identity utility may vary across individuals (see also Schöb 2013). Parents, particularly women, may fall back on the role of housekeeping when they become unemployed. In the process, they can still contribute to the welfare of the family and, to the extent that they perceive a traditional gender role as part of their identity, meet the norms of another social category (e.g. Grogan and Koka 2013). This could explain why women suffer considerably less from unemployment than men. Elderly workers who leave the workforce and retire change their respective social category and thus the set of norms

they need to adhere to. As a result, they are not required to work anymore which should raise their identity utility if they were unemployed before, as discussed in greater detail below (Subsection 4.3).

From a political perspective, the question arises as to whether and how passive and active labor market policies affect the identity utility of unemployed workers. Passive income support is essential for unemployed workers to make a living, but may hardly improve their well-being beyond satisfying their basic needs. For instance, Wanberg et al. (2020) show that perceived generosity of passive labor market policy ('the safety net') alleviates the misery of the unemployed as it reduces financial strain and time pressure. It may thus partly offset the loss of standard utility. At the same time, however, passive income support could have adverse effects on recipients' identity utility. Relying on public assistance, they fail to provide for themselves and their families based on their own efforts, violating a defining norm of the social category of working-age people (Elster 1989; Chadi 2012, 2014; Chadi and Hetschko 2017).

Measures of active labor market policies aimed at job finding, such as workfare programs and employment subsidies, may help job seekers to fulfill the norm to work, hence increasing their identity utility. However, those who receive income support while participating continue to be unable to make a living based on their own efforts. They might thus not reach the level of identity utility enjoyed by employees who are self-reliant. Against this background, empirical evidence on the well-being effects of labor market policies is discussed in Section 5.

Figure 1: Employment states and identity utility



Source. Revised figure based on Schöb (2013, Figure 1, p. 156)

3 Empirical evidence

This section presents empirical evidence on the role of identity for explaining the negative impact of unemployment on well-being. The first subsection presents findings from studies that empirically separate the standard and identity parts of the utility function. The second subsection discusses changes in the strength of norms within given categories, while the third subsection looks at individual changes in the social categories.

3.1 Separating standard and identity utility: Affective and cognitive well-being

One approach to examine the relationship between employment status and identity utility can be developed from Jahoda's model of the latent, non-monetary benefits of work. As mentioned in Section 2, Jahoda (1981) argues that employment is psychologically beneficial because it gives a time structure to the day, allows people to get in contact with others outside the family, forces people to be active, links people with broader goals, and defines personal status and identity. To understand the relative importance of each of these channels, one would have to empirically separate and quantify each of these five latent benefits of work, or at least subgroups of them (for an example, see Zechmann and Paul 2019). To that end, it is useful to differentiate between the first three latent benefits and the latter two. If people benefit from employment because it imposes a time structure on their day, enables contacts with others and enforces activity, this should be apparent in their everyday experience and have an impact on how they feel in everyday situations. The connection to transcendental goals and one's personal perception of status and identity, however, affect people's well-being on a different level. Issues of purpose and identity are not constantly on people's minds, but they require conscious introspection and reflection of one's general life circumstances and achievements that go beyond everyday life. To relate this distinction to the previous section's theoretical analysis, it is assumed that the former three benefits mainly affect utility via the standard part of the utility function, whereas the latter two are elements of identity utility. Even though Jahoda separates between the establishment of life goals and identity as latent benefits of work, here goals are regarded as part of the identity-utility component to the extent that they follow from the prescriptions of the chosen social category.

The distinction between emotional experience of everyday situations and the evaluation of general life circumstances resembles the distinction between affective and cognitive well-being (Diener 1984, Nikolova and Graham forthcoming, Frijters forthcoming). Cognitive well-being is a psychological construct that people form when asked to evaluate how satisfied they are with their life in general. To answer such a question, respondents have to choose their criteria for a good life and to compare them to their actual life achievements. Affective well-being reflects individuals' emotional situations on a moment-to-moment basis. It measures how people feel and which emotions they experience at specific points in time. Contrary to questions about cognitive well-being, affective well-being measures the strength of people's emotions and mostly consists of unconscious, spontaneous responses to events.

One way of measuring affective well-being is the Experience Sampling Method (ESM), also known as Ecological Momentary Assessment (EMA). Respondents carry electronic devices (e.g. smartphones) and are asked at random times during the day to report their current emotional state. Since this reduces recall biases, it is seen as the gold standard of measuring affective well-being (Stone and Shiffman 1994). Another way of measuring affective well-being is extending traditional time-use studies with questions about emotional experience during the reported activities (Robinson and Godbey 1999, Kahneman et al. 2004a), which is known as the Day Reconstruction Method (DRM). Respondents are asked to first recall what they did on the day preceding the interview and fill out a diary in which the day is divided into separate episodes. For each episode, respondents describe what they did, whom they were with, and how strongly they experienced various emotions.

As argued above, the first three of Jahoda's five latent benefits of work should predominantly affect everyday experience. Thus, they may be visible in measures of daily emotional well-being, whereas purpose and identity should have a weaker impact on the emotional well-being as people do not

constantly reflect over their life. Instead, they may be revealed through cognitive well-being which measures to what extent a person's actions and achievements correspond to this person's life goals. If these goals coincide with the prescriptions of the chosen social category, cognitive well-being is an empirical measure of identity utility.

Empirical measures of subjective well-being are never totally free of both judgement and affect, i.e. they all contain cognitive as well as affective elements, albeit to varying degrees. While subjective evaluations of life satisfaction typically contain cognitive and affective well-being elements, empirical measures of emotions experienced in everyday activities are located closer to the affective end of the spectrum (Diener et al. 2009). Even though there is no pure measure of either dimension of well-being, a differential impact of some variable on both well-being measures may allow identifying its relationship with each dimension. If changes in the employment status affect emotional well-being and life satisfaction in different directions, this indicates a specific relationship between employment status and cognitive well-being. For instance, if one finds that unemployment reduces life satisfaction, but does not affect emotional well-being, one can conclude that unemployment has reduced the cognitive component of subjective well-being. As mentioned in the introduction, it is therefore again the event of unemployment that allows us to empirically identify how working affects identity.

While the relationship between life satisfaction and unemployment has been studied extensively, only a few studies address the connection between unemployment and affective well-being. These studies show that there are two different channels through which unemployment affects emotional well-being. First, there is a *saddening effect* of being unemployed. When engaged in similar activities, the unemployed feel worse than the employed. Collecting DRM data with phone surveys in the US, Krueger and Mueller (2008) compare the emotional well-being of employed and unemployed persons during similar activities and find that the unemployed feel more sadness, stress and pain than the employed. The second main finding is that there is a *time-composition effect* because the unemployed and the employed differ in how they spend their time. In their first DRM study (with employed women in Texas), Kahneman et al. (2004a,b) find that positive feelings are strongest during leisure activities and when interacting with friends and family, while negative feelings prevail mostly during episodes of work and work-related activities. This finding has been confirmed by Krueger and Mueller (2008) with US data, by White and Dolan (2009) with British data, and – more recently – by Bryson and MacKerron (2017) using the Experience-Sampling-Method with data collected via a smartphone app in Britain. Becoming unemployed thus implies that people can substitute more enjoyable leisure activities for less enjoyable working time. This time-composition effect works against the saddening effect so that it is *a priori* unclear which of the two groups feels better over the course of the day.

Knabe et al. (2010) conduct a DRM survey in Germany with more than 1,000 respondents. In line with the aforementioned studies, they find that employed people rank working and work-related activities among the least enjoyable activities but experience more positive feelings than the unemployed when engaged in similar activities. Their main finding is that the duration-weighted average emotional state of an unemployed person does not differ from that of an employed person. This result is obtained for different aggregate measures of momentary experienced utility, such as the Net Affect (the difference in the average strength of positive and negative emotions during each episode), the U-Index (the share of time spent on episodes during which the strongest emotion is a negative one), or answers to a single question how satisfied respondents felt in each episode (episode satisfaction). The unemployed seem to be able to compensate the lower affective

well-being in similar activities by spending the time the employed have to spend at work and in work-related activities in more enjoyable ways. In line with the literature, the unemployed report substantially lower levels of life satisfaction (Table 1).

Table 1: Life satisfaction and affective well-being by labour market status

	Life Satisfaction	Net Affect	U-Index	Episode Satisfaction
Employed	**7.074**	**4.404**	**0.142**	**7.282**
Unemployed	**4.385**	**4.572**	**0.153**	**7.181**
Difference between unemployed and employed	−2.689 (0.000)	+0.168 (0.371)	+0.011 (0.397)	−0.101 (0.334)

Source. Knabe et al. (2010), p. 878.
Note. Life satisfaction and episode satisfaction measured on scales from 0 to 10. The net affect can range from -10 to +10, the U-index from 0 to 1. p-values for the null hypothesis in parentheses.

These results suggest that being deprived of those latent functions of work that should have a bearing on people's affective experience, such as a structure in daily life, does not explain the utility loss of the unemployed. This implies that the lack of latent functions that influence people's cognitive evaluation of life, such as status and identity, is responsible for the well-being loss. The external validity of Knabe et al.'s (2010) central finding, which is based on a convenience sample in Germany, has been examined by studies that use nationally representative data, which became available in recent years when various statistical agencies started to include well-being questions in their time-use surveys. Krueger and Mueller (2012) examine the first wave of the American Time-Use Survey's (ATUS) well-being module. They find that the unemployed feel sadder and more in pain than the employed not only when they engage in the same type of activities, but also on average over the entire day. They speculate about the reasons for this saddening effect, mentioning that the abundance of free time might lead the unemployed to thinking more about their situation, or that the marginal utility of leisure might diminish with respect to the additional leisure time the unemployed have. However, they also find that the employed feel more often tired than the unemployed, and there are no differences in day-average experience of happiness or stress. Krueger and Mueller (2008, 2012) do not aggregate the strength of the different emotions to a unidimensional measure.

Dolan et al. (2017) analyze later waves of ATUS. Similar to Krueger and Mueller (2012), they find that the unemployed have significantly lower cognitive well-being than the employed, but that there is no difference in their reported experience of episodic happiness over the day, supporting Knabe et al.'s (2010) conclusions. The average scores of tiredness, stress, sadness and pain suggest, however, that the unemployed even experience lower negative affect than the employed. Hoang and Knabe (2021) show that the differences between the studies by Krueger and Mueller (2012) and Dolan et al. (2017) critically depend on the definition of unemployment, i.e., whether or not long-term unemployed workers and voluntarily unemployed workers are included, and if specific emotions or aggregate well-being measures are analyzed. The wider the definition of unemployment the more favorable appears the average emotional well-being of the unemployed.

Similar observations have been made also with nationally representative survey data from other countries. Flèche and Smith (2017) analyze French time-use data and find that negative emotions,

measured by the U-index, are less intensive for unemployed men compared to employed men, whereas they are similar for employed and unemployed women. Von Scheve et al. (2017) analyze German panel data in which respondents are asked to report how often they felt certain emotions in the past four weeks. They find that unemployment reduces life satisfaction and affective well-being, but only in the short run.

Using German data, too, Wolf et al. (2019) analyze a four-year panel DRM study and find that the unemployed spend, on average, even more time in pleasurable activities than the employed. Hoang and Knabe (2020) examine data from the UK Time-Use Survey (UKTUS). They do not find evidence that the unemployed enjoy their time less than the employed enjoy their non-work time. Since working is found to be one of the least enjoyable experiences of the day, the unemployed enjoy even higher average affective well-being than the employed. While the employed and the unemployed enjoy their weekends equally well, the employed enjoy weekdays less than the unemployed, but only if they actually have to work, supporting the idea of a time-composition effect of unemployment. Overall, these studies provide persuasive evidence that the relationship between unemployment and affective well-being is not as strong as that with life satisfaction, if there is any such relationship at all. Applying these findings to the argument made above, this suggests that unemployment affects subjective well-being mainly through its cognitive, and not its affective component. This supports the claim that unemployment hurts because it causes a loss in social status and identity. However, there may be further aspects of unemployment that reduce cognitive well-being only, such as shattered future income expectations, which do not necessarily reflect losses of identity. Unemployment generally causes future incomes to be lower and, due to less stable employment relationships, they also become more volatile (Arulampalam 2001, Böheim and Taylor 2002). Hence, alternative identification strategies are needed to confirm the presence of identity losses.

3.2 The strength of the norm to work

A second strategy to provide evidence for identity-related utility effects of unemployment is to examine the role of changing norms (i.e. P in the identity utility component above) within a given social category. Clark (2003) shows for the UK that the loss in mental health due to one's own unemployment is lower the higher the regional unemployment rate, a finding that Howley and Knight (2020) have recently confirmed at the neighborhood level. Similar results have been found for Australia (Shields et al. 2009), South Africa (Powdthavee 2007), and Germany (Clark et al. 2010). At first glance, one might have expected the opposite effect, as a high unemployment rate points to bad individual prospects of finding a new job, making unemployed people feel even more anxious about the future and thus less satisfied with their lives (Piper 2014). However, the regional unemployment rate also leads to changes in the strength of the prescription P to work when in working age, which in turn affects the identity component I_j: When the regional unemployment rate is high, being employed is less of a norm among people in the working-age group. Those who look for jobs share the fate of unemployment with many others, which reduces self-blame and stigmatization (e.g. Kevin and Jarrett 1985). Chadi (2014) distinguishes between unemployment and welfare-dependence and finds the social-norm effect only in the latter group. The fewer people rely on social benefits in the same region the lower is the recipients' life satisfaction. Hence, the norm to be self-sufficient might be particularly important for the well-being of working-age people.

Stutzer and Lalive (2004) use an alternative proxy for the strength of the norm to work using the regional support for cuts in unemployment benefits revealed through a referendum in Switzerland.

They show that lower political support for cuts reduces the gap in life satisfaction between employed and unemployed people. Furthermore, being jobless seems to harm the well-being of protestants and people living in protestant regions in particular (Van Hoorn and Maseland 2013), which is indicative of a strong protestant work ethic. Hence, for protestants, being employed seems to be key to meeting the norms of two social categories, the working-age group and their religious community.

Winkelmann (2009) tests the hypothesis that people with a larger social network and better opportunities to use their increased leisure time might not be as exposed as others to the adverse psychological mechanisms of unemployment. In light of an identity-augmented utility function, embeddedness in a social network will attenuate negative effects on both the standard utility component V_j and the identity component I_j: social capital may serve as substitute for employment as a source of self-esteem and a structured life. However, Winkelmann (2009) shows that social capital has no effect on life-satisfaction differentials generated by unemployment, despite the fact that it is positively correlated with life satisfaction in general. One possible explanation is that social capital may alleviate part of the psychological burden, through providing time structure and regular activities. However, at the same time, closer social contact with people who are mostly norm compliers may make one's own norm deviation more salient and thus more accentuated in one's identity.

3.3 Changing the social category

The aforementioned empirical strategies to isolate identity-utility effects in unemployed workers' well-being require specific assumptions. The first strategy assumes that identity utility is captured by the cognitive, and not the affective, part of subjective well-being. The second strategy assumes that the local unemployment rate affects well-being because it reflects the strength of the social norm to work. An alternative empirical strategy that requires only weak assumptions is proposed by Hetschko et al. (2014). They focus on retirement as a life event that changes virtually nothing in the lives of the unemployed except their social category and thus the set of norms they are to adhere to. When unemployed people retire, they switch from the social group working-age to the group of pensioners to whom the social norm to work no longer applies. The transition modifies the norms to be fulfilled, unlike formerly unemployed workers daily lives, routines, social contacts and future income prospects. Hence, while the transition might affect identity utility, standard utility should remain the same.

Hetschko et al. (2014) consider people one year before retirement in Germany, who were unemployed and thus already out of work, hardly searched for a job and could anticipate the timing of retirement as well as their prospective pension, and compare the change in their life satisfaction upon retirement to those who were employed in the year before they retired. As Figure 2 illustrates, the life satisfaction of formerly unemployed people improves substantially upon retirement while former employees continue to report the same well-being level on average (cf. points in time U and R0 in the upper panel and R-1 and R0 in the middle panel). As the positive change in life satisfaction is only observed for the unemployed workers, Hetschko et al. (2014) conclude that this is an effect of leaving the status of unemployment and not an effect of entering retirement, from which employees would need to benefit, too. Switching from working age to retirement age seems to release the pressure on unemployed people to work, restoring their identity utility. In turn, the loss of identity utility reduced well-being when they became unemployed is thus an important

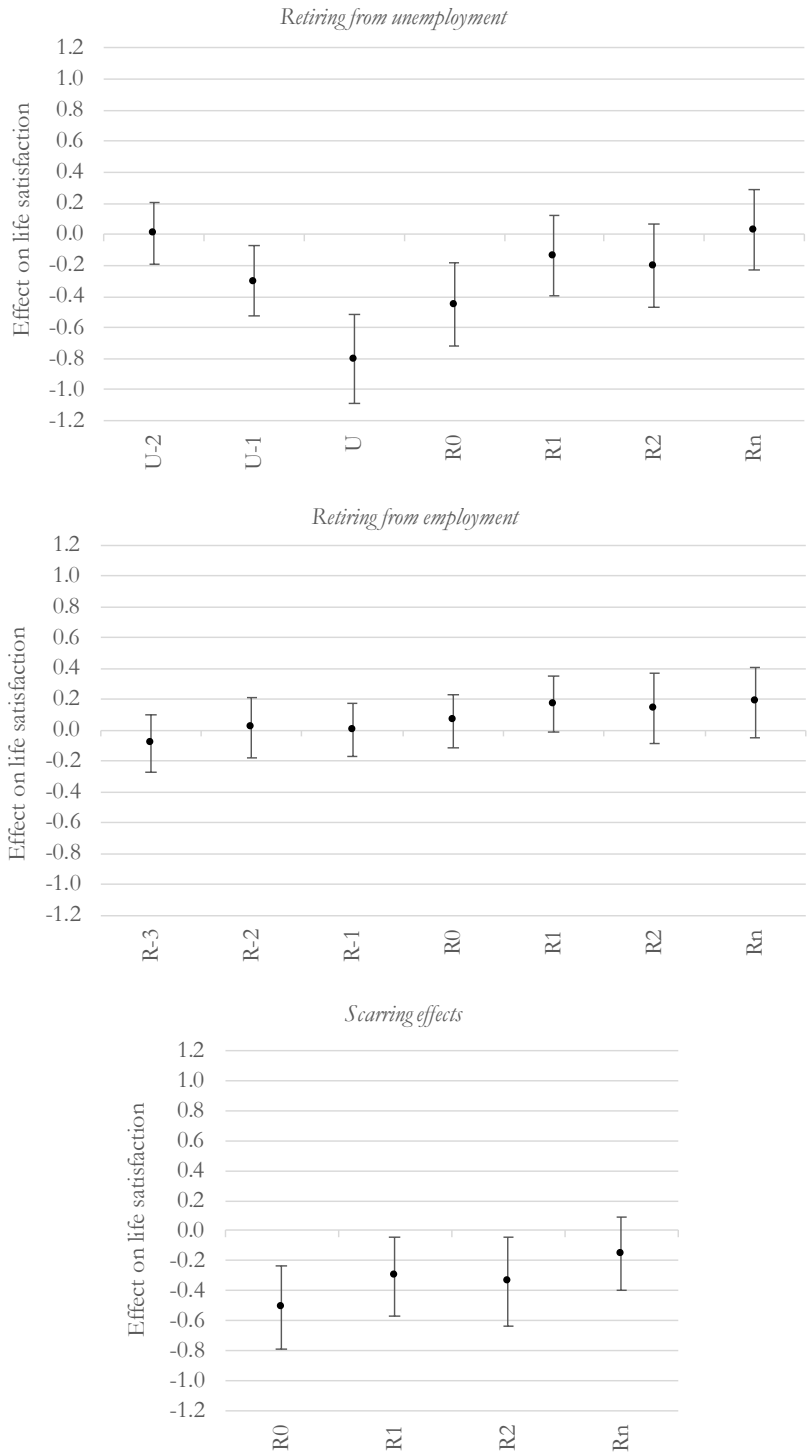
component of the non-pecuniary cost of job loss. Ponomarenko et al. (2019) replicate this analysis for several European countries and come to the same conclusion.

These findings raise the question whether or not retirement allows unemployed workers to restore their life satisfaction fully. Hetschko et al. (2019) compare the levels of life satisfaction of people who retire from unemployment before the loss of work and after entering retirement (lower panel of Figure 2). Though leaving the workforce substantially improves the well-being of the unemployed, they do not reach their pre-unemployment level of happiness. The experience of unemployment leaves a scar of about 0.5 points on an eleven-point life satisfaction scale in the first year of retirement (R0 in the lower panel of Figure 2). Hence, having deviated from the norm to work and thus not successfully concluding one's working life may even decrease the identity utility of fresh retirees. At least, as the lower panel of Figure 2 shows, the scarring effect of unemployment that goes beyond working life diminishes over time in retirement.

People who are homemakers before retirement, i.e. they are economically 'inactive' but do not consider themselves as unemployed, do not significantly gain life satisfaction when retiring (Ponomarenko et al. 2019). Possibly, homemakers do not identify themselves as part of the working population already before retiring, which is why the transition is less of a relief compared to retiring job seekers, who switch social categories. A prerequisite for the unemployed's gain in identity utility upon retirement is therefore that they identify themselves as part of the working population before the transition, but not afterwards.

Employees, in contrast, may experience a similar, but reversed effect if they retire involuntarily. They do not deviate from the social category working-age before retirement, but might not want to immediately identify themselves with the group of retirees if they wish to stay employed. The retirement age in many companies is predefined, often corresponding to a statutory retirement age so that people have to retire once they reach that age. In other cases, employers experiencing economic difficulties may use early retirement as a way of making workers redundant that seems less harsh than laying off younger workers. Bonsang and Klein (2012) use a survey item on retired respondents' intentions to return to the workforce in the future to identify cases of involuntary retirement. These people suffer a loss of about 0.5 points on the life satisfaction scale from zero to ten upon retirement. Calvo et al. (2009) as well as Bender (2012) obtain similar results for the US.

Figure 2: Retirement and life satisfaction



Source. Hetschko et al. (2019); calculations based on data of the German Socio-Economic Panel (SOEP 1991-2015).
Note. The figure presents OLS individual fixed effects estimations of life satisfaction of over-50-year old individuals that either retire from unemployment or employment. The reference status are employment spells at least three years before retirement. U-2 (U-1) is the second-last (last) year before an unemployment spell that takes place directly before retirement. U is any year of a continuous unemployment spell directly before retirement. In R-3 (R-2, R-1) respondents are employed in the third-last (second-last, last) year before retirement. R0, R1, R2 are the years directly after retirement; Rn is any later year. The scarring effects (lower panel) denote the difference in the estimated changes in satisfaction from employment to retirement between formerly unemployed retirees and formerly employed retirees, distinguished by the respective points in time after retirement. Life satisfaction is measured on an 11-point scale from 0 to 10. Whiskers denote 95% confidence intervals.

3.4 Complementary evidence

The notion of identity utility presented in Section 3 is an abstract term, which raises the question what the concrete psychological effects are that translate the loss of identity utility into changes of life satisfaction in the event of unemployment. The loss of identity utility originates from a deviation from one's ideal self, which might harm self-confidence and self-belief. Thus, the empirical finding that self-efficacy reduces in response to unemployment might be seen as a concrete psychological manifestation of the loss of identity (e.g. Mortimer et al. 2016).

Drawing on the existence of a social category of working-age people assumed above, unemployed people fail to adhere to the norms of a major part of society. Hence, the loss of identity utility may theoretically explain why a job loss is accompanied by a lack of perceived social inclusion (Pohlan 2019). In addition, social groups have ways of enforcing compliance with the respective group norms. As a result, failing to comply with the norms to work and be self-sufficient could lead to the experience of stigmatization, exerted by unemployed persons themselves as well as by others (Stuber and Schlesinger 2006). This could also explain the phenomenon that people who lost their jobs refrain from activities in public (Kunze and Suppa 2017).

As the loss of identity is purely cognitive, one might also speculate whether there are cognitive ways of limiting the loss of life satisfaction, as people in general tend and find ways to reduce cognitive dissonance as much as possible. Unemployed people perceive the degree to which one can exert control over what happens in their lives to be lower compared to times before job loss and after reemployment. They possibly reduce self-blame in this way, which could be a way of controlling the damage done to their self-image, self-confidence and ultimately well-being (Preuss and Hennecke 2018).

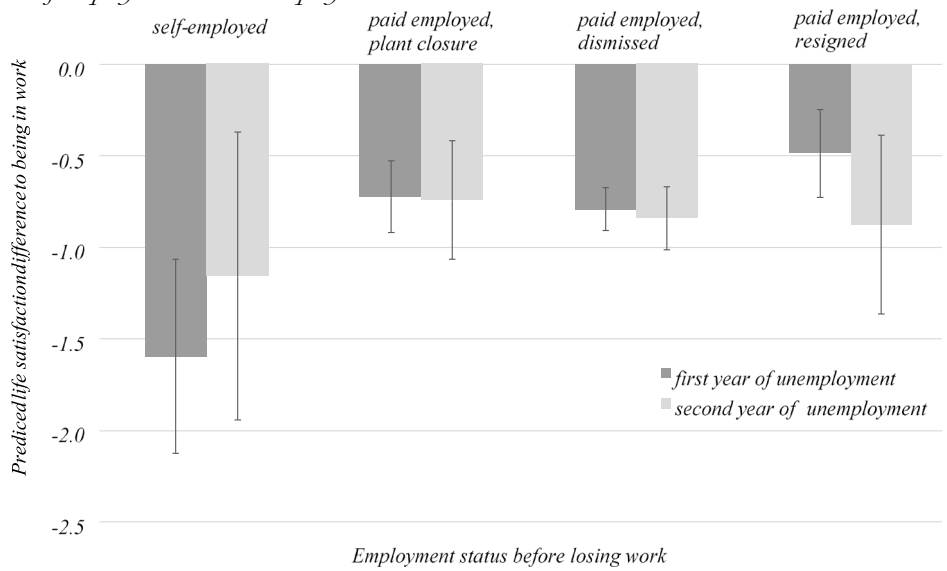
Identity utility may also explain some of the heterogeneity researchers identify in the impact of unemployment on well-being (see, again, the chapter by Suppa forthcoming). Dependent on their personality, people's identity utility might depend to varying degrees on meeting the norms of certain groups, analogous to the comparison between Protestants and other workers discussed above. Another example may be relatively conscientious people who lose more life satisfaction than others when losing work (Boyce et al. 2010), presumably due to the fact that they tie their ideal selves closer to the social category of able-bodied working members of society.

Self-employed people constitute a group of workers that seem to derive a large part of their identity in work. Compared to paid employees, they work far more hours although they earn less per hour and experience lower earnings growth (Blanchflower 2000, Hamilton 2000). Despite these apparently worse job attributes, self-employment increases job satisfaction compared to paid employment, as it provides greater occupational autonomy. Accordingly, people who value independence benefit in particular from being self-employed (Fuchs-Schündeln 2009). The impact on overall well-being, as measured by life satisfaction, is unclear, though (Binder and Blankenburg forthcoming). And when the self-employed need to close their business and become unemployed, they even lose a larger share of their well-being compared to salaried workers (Hetschko 2016, Nikolova et al. 2020).

To some extent, this result might originate from the severer monetary consequences self-employed workers have to bear when losing work, i.e. a higher loss of overall income, over-indebtedness and low social protection. But the self-employed still suffer more from becoming jobless even when these monetary consequences are factored out (Figure 3). Possibly, unemployment hurts their self-image even more than that of dependent employees. The self-employed are less able to blame others for their fate and might suffer particularly from a loss of identity as an independent human

being. Alternatively, one might suspect a greater loss of autonomy to explain why the self-employed suffer more than paid workers from losing work. This seems unlikely, however, as the self-employed do not start off at a higher level of life satisfaction before job loss when greater autonomy could make a difference but end up at a lower level of life satisfaction afterwards when their autonomy does not differ anymore from formerly salaried workers (Hetschko 2016).

Figure 3: Self-employment and unemployment



Source. Hetschko (2016), based on data of the German Socio-economic Panel study (1997-2013).
Note. The bars show predicted life satisfaction differences of first and second year unemployment to being in work while controlling for income in logs, financial debt, various socio-demographic characteristics, time and individual fixed effects (OLS estimates). Life satisfaction is measured on an 11-point scale from 0 to 10. Whiskers denote 95% confidence intervals.

4 Labor Market Policy

The implications of research on happiness, work and identity for labor market policies are at least threefold. In what follows, they are discussed with regard to employment protection legislation, job creation schemes, and workfare programs.

Insights from the research discussed in this chapter help to inform the debate on employment protection legislation since people already suffer from the threat of future unemployment (e.g. Sverke et al. 2002; Luechinger et al. 2010; Helliwell and Huang 2014; Lepinteur 2018). Again, the loss of identity utility plays its part. Clark et al. (2010) show that the norm to work, as measured by the regional level of unemployment, affects not only unemployed workers' life satisfaction. A high unemployment rate moderates the effect of job insecurity on the well-being of employees. They suffer less from individual uncertainty about future job stability when many people in the same region are already unemployed and the potential loss of identity utility in the event of a job loss is thus low. In turn, fearing a loss of identity utility contributes to the harmful impact of job insecurity on worker well-being.

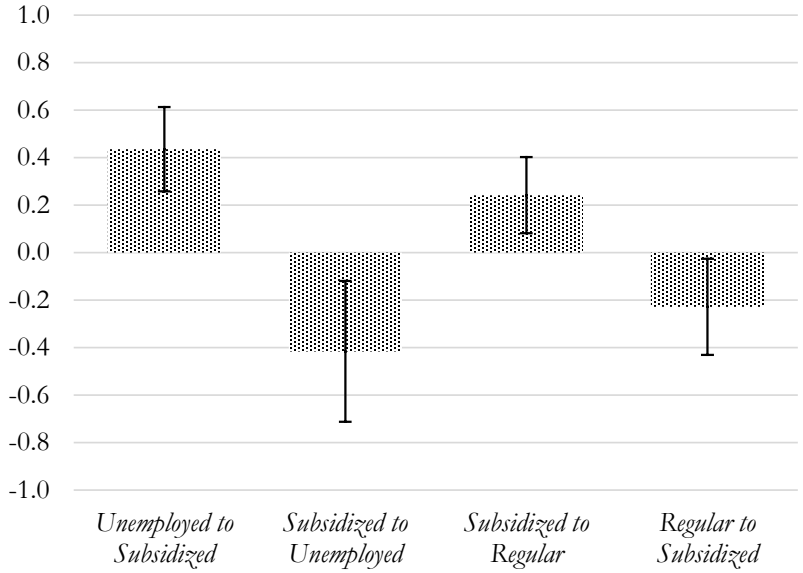
These findings point to benefits of employment protection legislation. As the feeling of job insecurity reduces employees' well-being, limiting employers' ability to dismiss workers, or employ them on temporary contracts, might benefit employees (Origo and Pagani 2009; Ochsen and Welsch 2012; Chadi and Hetschko 2016). There is also an implication for firm policies here. Mass layoffs may not only decrease the well-being of workers who are made redundant, but also that of workers who survive in the firm, as observing the decline of employment makes them feel less

certain about their own employment stability (Reichert and Tauchmann 2017). At the same time, employment protection can also have negative well-being effects on other groups. Temporary workers, for example, suffer from employment protection of permanent workers because it reduces their perceived chances to obtain a permanent job themselves (Luecke and Knabe 2020). In France, the Delalande tax protecting older workers from being laid off increases the perceived job security of the target group at the cost of insecurity among younger workers (Georgieff and Lepinteur 2018).

The long-term unemployed, i.e. people who are unable to find a job for more than one year, are often targeted by job creation schemes or workfare programs. With regard to the former, governments may either subsidize firms to offer jobs (wage subsidy) or workers to supply labor (in-work benefit). Ivanov et al. (2020) examine a specific German wage subsidy aimed at workers who have been long-term unemployed for four years and exhibit further characteristics that limit their job prospects, such as health impairments and/or minor children. Program participation, i.e. being employed in a subsidized job provided by public employers or charities, greatly improves life satisfaction, mental health and the perceptions of belonging and social status.

Hetschko et al. (2020) analyze the general German in-work benefit scheme that, similar to tax credits in other countries, creates financial incentives for all long-term unemployed workers to supply at least a few hours of work. They show that taking up such a subsidized job increases life satisfaction. However, those who earn more and leave the receipt of in-work benefits also improve their life satisfaction (see Figure 4). These results continue to hold if the authors account for parallel changes of income or job attributes. A plausible explanation is identity utility. While a subsidized job ensures compliance with the norm to work, it does not allow workers to make a living based on their own efforts. Hence, they may still violate a defining norm of the social category of working-age individuals.

Figure 4: The life satisfaction effects of subsidized employment



Source. Hetschko et al. (2020); calculations based on data of the Panel Labour Market and Social Security (PASS, 2007-2018).
Note. The bars depict predicted changes of life satisfaction for different employment transitions based on difference-in-difference estimates. These are computed as the difference in the life satisfaction changes between people who make the respective transition (e.g. unemployed to subsidized employed) and people who remain in the respective initial labor market status (unemployed). The comparison points in time are the last PASS interview before the transition and the first interview afterwards. The time span is roughly one year. The estimates are based on matched samples of the respective transition and control groups. Parallel changes in income, household size and other potential confounders are controlled for. Life satisfaction is measured on an 11-point scale from 0 to 10. Whiskers denote 95% confidence intervals.

Even though low-wage jobs, which maybe topped up with in-work benefits, fail to make workers as well off as regular employment, they may be a stepping stone to bring involuntarily unemployed people back into regular work (Knabe and Plum 2013). In addition, the remaining well-being difference between subsidized employment and regular employment creates a non-pecuniary incentive to continue to search for regular work, adding to the pecuniary incentive. But there may also be cases where, for individual reasons, a transition into regular employment is out of reach. If these workers only find employment through job creation schemes, they will form a group of working poor who bear a permanent non-negligible well-being cost. Here, replacing the creation of subsidized jobs by a general change of the tax and transfer system that fosters the job prospects of low-skilled workers may eliminate the detrimental effect of norm violation. This could be a negative income tax or a reduction of social security contributions at the lower end of the wage distribution.

Wulfgramm (2011), Crost (2016) as well as Knabe et al. (2017) examine the well-being effects of workfare programs. Typically, workfare requires participating long-term unemployed people to work in public service jobs to receive their welfare benefits. Compared to unemployed persons who do not have to take part in such a program, their financial situation hardly improves, but they are deprived of their leisure time. Thus, workfare participation could be expected to reduce the unemployed's level of well-being further. Contrary to that expectation, the aforementioned studies find that workfare participants are more satisfied than other long-term unemployed workers. Again, complying with the norm to work and other benefits of employment may explain this finding. Nevertheless, these studies also find that workfare participants do not reach the level of satisfaction of the average regular worker, even if income differences are taken into account. This might point to the violation of the norm to be self-sufficient and a corresponding loss of identity utility, given that they enjoy other benefits of working, such as social contacts and a structure in daily life, as much as regular workers. Accordingly, their affective well-being, which should be unaffected by identity utility (see Subsection 4.1), is not lower than that of regular workers (Knabe et al. 2017). Surprisingly, workfare participants enjoy even greater affective well-being than regular employees. As they are often observed at the beginning of a short workfare job, Knabe et al. (2017) deem this as a 'holiday-from-unemployment' effect.

The finding that workfare participants do not report lower well-being than unemployed workers challenges the effectiveness of workfare programs. The standard argument in economics is that welfare recipients need to be incentivized to take up regular jobs. The threat of a requirement to work in exchange for continued income support increases the relative value regular jobs, as leisure time will reduce in either case (Besley and Coate 1992). But if workfare participation increases the well-being of welfare recipients, it will hardly be perceived as a threat.

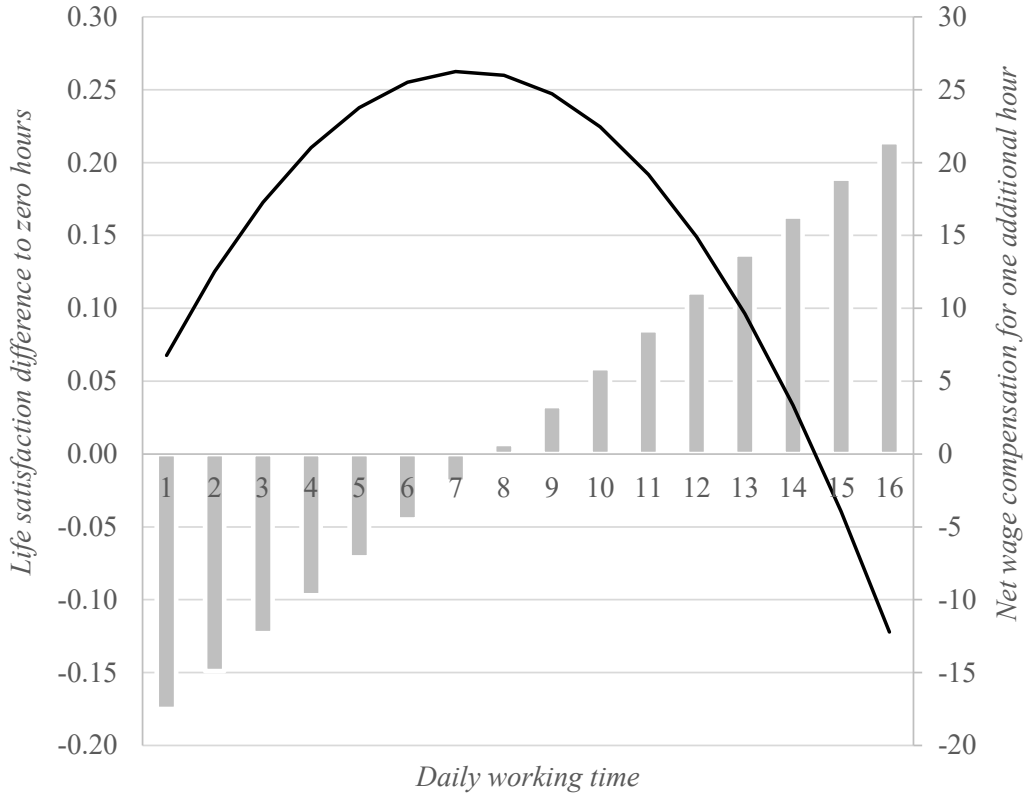
A caveat to this conclusion is that observational studies have a hard time dealing with selection into workfare jobs. First, people for whom workfare is a threat and who then take up a regular job will never be observed as workfare participants. Those who would potentially suffer the most from workfare do not end up in the sample. Second, people who participate in workfare programs are not necessarily obliged to do so. Often, they volunteer for a workfare job. In these cases of self-selection, it does not come as a surprise that the well-being effects of workfare appear rather favorable.

5 Working time and well-being

Policy measures such as job creation schemes and workfare programs may prevent people who become unemployed from suffering from a dramatic decline in life satisfaction. The success of such policy measures, however, also depends on the degree to which they not only focus on whether a person is working, but also how much they are working. In the process, policy measures should take into account the trade-off between consumption and leisure, as usually assumed by neoclassical economics (Rätzel 2012, Van der Meer and Wielers 2013, Chadi and Hetschko 2017, Bryson and MacKerron 2017). If working raises life satisfaction, shouldn't full-time employed people generally be happier than part-time employees, and shouldn't working more hours also lead to even higher well-being?

Rätzel (2012) examines the relationship between work hours and life satisfaction using German panel data. Controlling for income, life satisfaction has a non-monotonic relationship with life satisfaction. After increasing in the number of hours when working only part-time, life satisfaction eventually peaks and then drops when working longer (see Figure 5). The loss in leisure time does seem to cause a loss in life satisfaction, at least at the margin. Respondents might be willing to accept to work hours beyond the satisfaction peak, but only if they are compensated for it, for instance with more income. Hence, the neoclassical trade-off between consumption and leisure is visible in life satisfaction, too, but not across the whole range of hours.

Figure 5: The non-monetary life satisfaction effect of working hours



Source. Rätzel (2012, p. 1175-1177) based on the German Socio-economic Panel study (1984-2006).
Note. The line predicts how the number of working hours changes the life satisfaction of a permanently employed male worker as compared to a hypothetical working time of zero hours. Bars depict the change of income in euros that is required to hold his life satisfaction the same though working time increases by one additional hour, dependent on his current level of working time. Note that both income effects and hours effects on life satisfaction are predicted based on an OLS estimation that considers socio-demographic controls, time and individual fixed effects.

Rätzel (2012) computes the additional income that would compensate a worker for the change in life satisfaction caused by an additional hour spent working (see again Figure 5). This can be seen as the wage that has to be paid for an additional hour of work such that employees are willing to increase their working time by that hour. At low initial levels of working time, this hourly wage is negative. Working only few hours may not be sufficient to generate full identity utility because one still partially fails to meet the social norm to work. From this perspective, workers would have a higher identity utility from working more hours even if they did not earn more money. At the turning point of roughly seven daily hours, the required hourly wage becomes positive as the drawbacks of working longer outweigh the positive non-monetary effects. Interestingly, the time of day has an effect beyond the amount of hours. Bryson and MacKerron (2017) find that working on bank holidays, on the weekend, before six am and after six pm worsens workers' affective well-being even more than working at normal times.

Remarkably, Rätzel (2012) finds that the satisfaction-maximizing number of work hours differs between women and men. German women are most satisfied with a part-time job (four daily hours) and need to be compensated substantially to work beyond that. When adding housework, however, men and women work about the same amount of hours. Booth and van Ours (2008, 2009, 2013) analyze this issue for several countries and conclude that partnered women often prefer part-time jobs or housekeeping compared to a full-time contract, whereas men are most satisfied in full-time jobs. Gender-specific identities may be part of the explanation as they provide an explanation for the strong gender differences, in opposition to Gary Becker's (1973) model of a job-sharing family.

Well-being also suffers if people work less or more than their desired amount of hours and are not compensated for this mismatch. Such a situation, whether it is overemployment or underemployment, reduces workers' satisfaction substantially (Wooden et al. 2009, Wunder and Heineck 2013). An hour mismatch may result, for instance, from workers' varying family commitments, plants' varying volume of work as well as from working time regulations at the company, industry or national level, while switching to a different workplace in order to adjust working hours would be more costly than accepting the utility loss from the mismatch. Kugler et al. (2014) document that substantial shares of Australian and German workers state to be underemployed (12% of male workers in both countries) or overemployed (30% of Australian and 61% of German male workers). Australians' well-being suffers from overemployment and large amounts of underemployment. German workers in particular dislike spending less than the desired amount of hours at their respective wage. Companies requiring employees to work substantially more or less than the desired amount of hours for a long time span may therefore have to accept productivity losses.

These empirical findings on the role of working hours again reveal that people do not unambiguously benefit from working, but that they also value time that is available for other activities, for their family, friends and hobbies. This is in line with the neoclassical idea of a utility-maximizing individual when the utility function is augmented by an identity component. As argued above, having a job increases identity utility compared to being unemployed. Working only few hours, however, is not sufficient to establish full norm-conformity. Hence, increasing work hours leads to further increases in identity utility, but at a diminishing rate. Each hour worked, however, reduces the time available for more enjoyable activities, which reduces affective well-being and thus the standard part of the utility function. Hence, even though working is beneficial for identity, there is a well-being-maximizing amount of work hours.

6 Summary

In this chapter, it has been shown how the theoretical notion of identity utility fosters our understanding of the relationship between employment and happiness. In traditional market economies, social status and self-esteem seem to depend strongly on a successful work life, at least if one is of working age. This explains both the dramatic suffering of the unemployed as well as employees' fear of unemployment, which cannot be explained by the induced loss in income. It also points to well-being losses of people who would like to work longer or who are employed, but still unable to make a living without public assistance, for instance in the form of in-work benefits. Finally, the concept of identity utility might explain why unemployed workers feel socially excluded and have low self-confidence, why the self-employed and highly conscientious workers suffer the most from unemployment and why involuntary retirement reduces life satisfaction.

Having said this, many questions remain for future research. One open issue is to what extent the loss of identity utility is in fact separable from other suspected negative consequences of unemployment. For instance, people, who do not feel socially accepted anymore because they lost their jobs, might avoid social contacts, as meeting people renders their failure to comply with the norms of their own social category even more salient. In this case, the loss of social contacts and the loss of identity utility should not be viewed as separate consequences of unemployment anymore.

In addition, by taking identity utility into account, this chapter has been able to shed light on the likely effects of labor market policies designed to alleviate the misery of the unemployed. Passive labor market policies are limited in their effectiveness as they do not allow workers to meet the norms to work and be self-reliant. Job creation schemes and workfare help to fulfill the former norm, as well as provide other latent benefits of work, but do not restore compliance with the latter norm. As a result, they improve life satisfaction compared to the state of unemployment, but at the same time cannot offset the non-pecuniary cost of job loss entirely. It should be noted though that research on labor market policies and subjective well-being is still evolving in general. Extant studies are mostly observational and deal with single policy measures. In the future, field experiments may be conducted that allow comparing the impacts of different active labor market policies on indicators of worker well-being.

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