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Labor market policies, unemployment, and identity

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I Z A
World of Labor
Evidence-based policy making

Labor market policies, unemployment, and identity

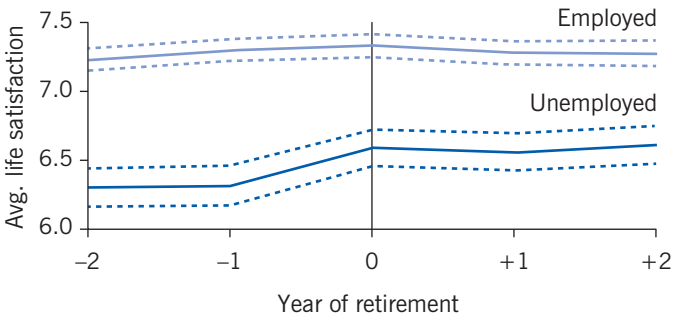
Policies to help the unemployed can affect feelings of identity and well-being, so measures need to be evaluated carefully

Keywords: unemployment, identity, well-being, wage subsidies, income support, workfare

ELEVATOR PITCH

Unemployment not only causes material hardship but can also affect an individual's sense of identity (i.e. their perception of belonging to a specific social group) and, consequently, feelings of personal happiness and subjective well-being. Labor market policies designed to help the unemployed may not overcome their misery: wage subsidies can be stigmatizing, measures that require some work or attendance for training from those receiving benefits (workfare) may not provide the intended incentives, and a combination of an unregulated labor market and policy measures that bring people who became unemployed quickly back to work (flexicurity) may increase uncertainty. Policies aimed at bringing people back to work should thus take the subjective well-being of the affected persons more into consideration.

Life satisfaction changes when unemployed people retire



Note: By moving from the social category "working age" to "retirement age," formerly unemployed people cease "violating" the social norm of the former category and experience an increase in their identity utility.

Source: [1].

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KEY FINDINGS

Pros

- Unemployment causes material hardship and threatens a person's sense of social identity and self-worth, but barely reduces emotional well-being derived from day-to-day experiences.
- Wage subsidies that bring people into work increase their well-being compared to unemployment, in particular if the long-term unemployed are targeted.
- Workfare initiatives can effectively separate the voluntarily from the involuntarily unemployed without harming those who take them up.
- A flexicurity system that helps unemployed people back to work significantly increases subjective well-being, as it allows people who re-enter the labor market to restore their identity.

Cons

- Active labor market policy instruments, such as wage subsidies, could diminish subjective well-being, for example, through the stigma associated with receiving welfare transfers.
- Workfare participants may consider workfare initiatives as less detrimental than being unemployed; workfare may thus not provide the intended incentives to look more intensively for a new job.
- Although flexicurity may improve subjective well-being, it comes at the cost of higher job insecurity, which is not completely offset by higher employability.

AUTHOR'S MAIN MESSAGE

Life satisfaction research in psychology and economics uses various measures of well-being to identify the channels through which unemployment and different types of labor market policies affect an individual's social identity and well-being. Bringing unemployed people back to work is much more beneficial than just compensating them for the income loss. A cost–benefit analysis that considers personal identity and subjective well-being provides the necessary base for designing more efficient and effective labor market policies that allow a better balance of active measures such as training schemes and other employment assistance programs for the unemployed that help people to work and passive measures such as unemployment insurance payments that only compensate the unemployed for their income loss.

MOTIVATION

People experience unhappiness and distress as a result of involuntary unemployment—but to what extent do unemployment policy measures actually alleviate the problems and personal anxieties associated with being unemployed? Economic theory would predict that the loss of income associated with the loss of a job constitutes the upper limit of the "utility" loss for the individual; and that although the loss in income reduces the opportunity to consume, it is partially compensated for by an increase in leisure time that becomes available as a result. In contrast, empirical research on human conditions such as "happiness," "well-being," and "life satisfaction" (which are expressions that are used interchangeably throughout this article), provides a different view [2]. When asked: "All things considered, how satisfied are you with your life as a whole these days?", unemployed people report a much lower life satisfaction than employed people, even after controlling for the loss of income [3]. Thus, when individual well-being is taken into consideration, the loss of income is (proportionally) less significant for overall utility.

Therefore, to answer the opening question, more needs to be known about both the financial and psychological costs of unemployment for the individual and about the effects of the different types of labor market policy measures on the individual's sense of well-being. Only then can an assessment be made about how much money the government should allocate to labor market programs and how a more efficient balance between active and passive labor market policies might be established.

Should more emphasis be placed on creating new jobs, for example, by subsidizing wages? Should workfare initiatives be introduced, that is, a welfare system that conditions unemployment benefit payments on participating in public employment schemes, which encourages the unemployed to look for a new job? Or should more reliance be placed on increasing income support for those who fail to find a job independently? [4].

DISCUSSION OF PROS AND CONS

Material hardship is not the only cause for unhappiness and distress for unemployed people. The misery of involuntary unemployment is a result of an individual being deprived of the more latent, non-monetary benefits of employment, such as the social interaction, daily routine, sense of self-respect, and social identity [4], [5]. The unemployed may have more leisure time at their disposal but they cannot enjoy this free time in the same way employed people do because of these deprivations [5]. This means that the way in which leisure is experienced is context-dependent and that, as a result, simply comparing leisure time between those who are employed versus those who are unemployed, even after controlling for the loss of income, does not allow an understanding of the differences in feelings of identity and well-being between those groups, even if more leisure time may be considered beneficial in both situations.

The unemployed lose self-respect and feel devalued [5]. The "absence" of work can also imply a loss of meaning, fulfillment, and identity in other social contexts, such as being a parent, spouse, breadwinner, or volunteer worker. Consequently, unemployment challenges the perceived extent to which someone is in control of their own life [4], [6].

Beside these psychological costs, there is another explanation for why life satisfaction is so low for the unemployed compared to the employed. The difference reflects the expectation of lower income in the future and the increased volatility of future income.

Indeed, people's previous experience of unemployment and the subjective interpretations of their employment history deteriorate their perceived future labor market prospects. This anticipated reduction in future income reduces current life satisfaction [4], [7].

In view of the fact that employment is so significant in terms of an individual's feelings of identity and well-being, it becomes clear that getting unemployed people back into work should be of the utmost priority. However, the extent to which current policy measures designed to help the unemployed actually help or hinder this process requires further analysis and understanding.

Social identity and social categorization

The social psychology theory of identity is helpful in distinguishing between different potential effects of unemployment on subjective well-being and feelings of identity. Social identity theory and self-categorization theory demonstrate that individuals develop a "sense of self" or a set of "self-images," and that identity depends crucially on the way an individual is embedded in social groups and on their awareness of this embeddedness [4]. Identity is therefore critical in understanding individual well-being. According to this concept, an individual's sense of self depends on their perception of "personal identity" and "social identity" as members of certain social groups. A shared social identity emerges on the basis of cognitive criteria, such as shared fate, situations, or attributes, which can be either positive or negative. Belonging to a group is important for the individual's sense of self, as the group's norms, values, beliefs, and ideologies create socially-shared regularities that affect a person's well-being [4].

Social self-categorization occurs when perceived differences between certain individuals are less than the perceived differences between them and other people in a particular context. But only when perceived differences in one categorization gain importance does self-categorization, as being a member of a particular social group, become salient. For example, people who have completed their education and are below retirement age consider themselves as being members of a social grouping of "working age people" and as a part of a particular sub-category—such as "being employed," "being unemployed," "being involved in domestic work," "being temporarily on leave," and so on. At a personal level, status within a firm, degree of responsibility or leadership, or income and fringe benefits, also play a role. While employed, people rarely perceive themselves as being part of the social category "working age," because they are working as opposed to not working. Their identity concerning their employment status is based more on the particular characteristics of the job and their achievements within the job. Becoming unemployed, however, emphasizes the values and goals of the more inclusive "working age" group. This causes the unemployed individual to feel that they have shifted from the social sub-category of "being employed" to "being unemployed," which is defined by a common fate, a shared experience of failure, redundancy, deprivation, anxiety, social exclusion, and general vulnerability. This perception causes the social identity to gain weight relative to that person's self-conceived personal identity [4].

Social identity can be considered as one part of an individual's overall utility. It includes identity-based "payoffs," such as employment status, social standing, and social respect, and complements the more traditional, individualistic part of utility that relates to personal choices and preferences for goods and services [8]. These two parts of a

person's "utility" (social identity and personal preferences) can be linked to two distinct components of subjective well-being. The individualistic or personal preferences and consumption part reflects the current emotional well-being of the individual, while the social identity part is based on an evaluation of someone's life circumstances.

The consequences of unemployment, as well as the effects of different policies designed to help the unemployed, may affect both types of well-being, but they can be analytically separated. Losing contact with former work colleagues, for instance, reduces opportunities to meet with people one likes and thus reduces emotional well-being during leisure time. Such feelings could also be attributed to a loss of respect from friends and a loss in social status, which in turn affects identity. The loss in social status by being unemployed, by contrast, may directly affect the social identity part of the individual's utility. As long as people are employed, they can derive some social identity and sense of well-being from belonging to the social (sub-)category of "being employed," and the fact that they conform to the expectations, customs, beliefs, and norms of the social category inherent in being of "working age." When people lose their job within the social category "working age," they change to the sub-group of "being unemployed," which indicates lower social status, as this sub-group deviates from the prescriptive norms of the social category of "working age" [4].

Unemployment and identity

The severity of a loss of social identity depends on many internal and external circumstances and on the possibilities and abilities of an individual to cope with the fate of unemployment. Stigmatization differs between geographic regions and over time. In the case of a factory closure, workers do not feel personally responsible for their fate and can attribute their condition to external circumstances over which they have no control [4]. The loss of identity may be lower in such a situation compared to when unemployment occurs as a result of job performance, or in periods of high unemployment, when the same fate is shared with many other similar people.

Regional differences also matter. For many countries, it has been shown that the difference in well-being between employed and unemployed people narrows when regional unemployment increases. The opposite may have been expected, as the higher unemployment rate due to a recession or during a particular regional crisis lowers the (unemployed) individual's prospects of finding a new job, and thereby expected future income. This result may be explained by the fact that the lower the regional unemployment, the larger the proportion of unemployed who feel miserable because of personal rather than group characteristics. More conceivable is that there is an "identity effect": if unemployment increases, unemployed people may feel less miserable because they need not attribute their unemployment to personal failure. An alternative explanation, however, cannot be eliminated right away. Higher regional unemployment may allow unemployed people to increase social contacts during workdays and thus allow them to spend their time in a more meaningful way, so that the lower loss in well-being may be the result of higher emotional well-being.

There is also evidence for the presence of an additional "identity effect," as apparently it is not unemployment per se that reduces the well-being gap between the employed and unemployed in regions with high unemployment rates, but the fact of becoming a welfare recipient [4]. This observation strengthens the importance of designing policies that can help address the negative impacts of unemployment.

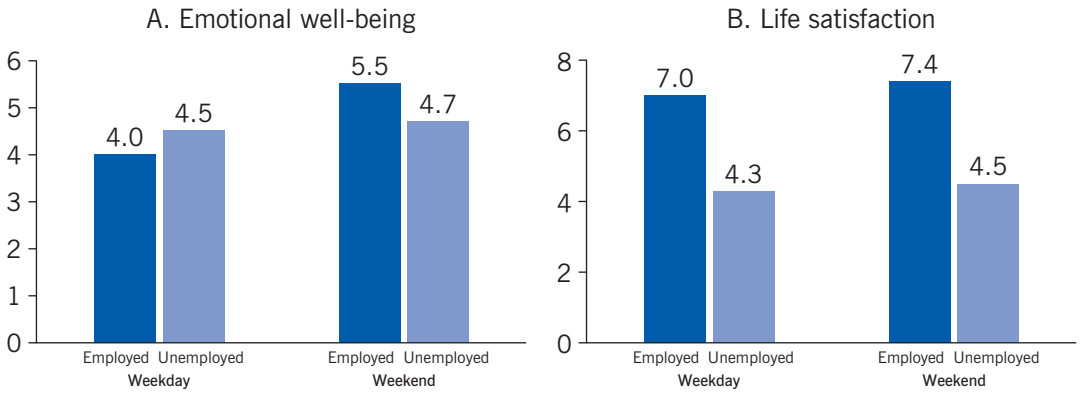
Distinct measures of subjective well-being

"Life satisfaction" is a compound measure reflecting both cognitive and emotional aspects of well-being [4]. One study uses the Day Reconstruction Method, where people keep a diary of the previous day and state their emotions during each activity. Emotional well-being is measured by the difference in reported positive affects (such as feeling "relaxed," "happy," "comfortable/at ease," and "enjoying myself") and negative effects (such as "lethargic/dull," "insecure/anxious," "stressed," and "frustrated/annoyed"). The study shows that while the difference in life satisfaction is very large between the employed and unemployed, no difference is found in the day-to-day emotional experiences. The study further shows that people can be dissatisfied with life but are still "having a good day" [3]. Unemployed people can feel sadder when doing the same sort of things as employed people (i.e. the "saddening effect"). On weekdays, however, they are able to substitute work and work-related activities for which the employed report very low affective well-being with some leisure activities that yield higher emotional well-being. Over the course of a weekday the unemployed end up reporting higher levels of emotional well-being. In Figure 1, panel A shows that there are no significant differences in emotional well-being between employed and unemployed people on weekdays. In contrast, on weekends, when the employed do not have to work, only the saddening effect is observed. As panel A in Figure 1 also shows, on the weekend, employed people report significantly higher emotional well-being.

As shown in panel B of Figure 1, self-reported life satisfaction is much lower for the unemployed than for the employed on both weekdays and weekends. As this cannot be explained by differences in emotional well-being, the misery of the unemployed is thus mainly cognitive. Unemployed people appear unable to adapt to the new situation because unemployment does not cause them to adjust their aspirations. The unemployed continue to consider "being in employment" as the norm of the social category "working age" that they should adhere to. So being unemployed decreases their life satisfaction due to the loss in social identity.

This observation may be attributed to the fact that the unemployed realize that their future income prospects are bleak. If they take into consideration what they will lose in terms of future income, in addition to the increased income risk they face at the moment, their judgment about their life circumstances may be more pessimistic. To indirectly

Figure 1. Emotional well-being vs life satisfaction



Source: Knabe, A., S. Rätzel, R. Schöb and J. Weimann. "Dissatisfied with life but having a good day: Time-use and well-being of the unemployed." *Economic Journal* 120:547 (2010): 867–889 [3].

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distinguish this from identity effects, it is possible to use the fact that people differ in their ability to adapt to their situation of being unemployed, but are less able to adapt to the prospect of reduced future income. So the potential for being able to adapt to unemployment may at least partially help restore someone's identity, but has little effect on how that person feels about future income prospects.

Putting more emphasis on alternative social roles, such as being a spouse or parent, can partially offset the detrimental effect of unemployment. Women, for example, may redefine unemployment as a retreat to the traditional role of a housewife who focuses on domestic work and motherhood [9]. In contrast, the loss of identity of unemployed men could be exacerbated when their partner is working, as the situation may threaten the man's perceived role as the "breadwinner" of the family [4].

A direct way to isolate identity effects from other channels by which unemployment affects subjective well-being is to consider the process of retirement of formerly unemployed people [1], [10]. Daily routines do not change, disposable income hardly changes, and most other life circumstances, including personality factors, are relatively the same during the short time interval immediately before and after retirement. The Illustration on p. 1 shows that while, on average, life satisfaction of the employed does not change, life satisfaction of the unemployed increases substantially in the year of retirement and remains at the higher level in the following years [1]. By changing from the social category of "working age" to the social category of "retirement age," the formerly unemployed people discontinue "violating" the social norm of the former category and thus experience an increase in their identity utility although they do not reach their pre-unemployment level of life satisfaction and do not catch up with formerly employed retirees.

The effect of labor market policies on identity

Research on the effects of labor market policies on identity support a call for a greater emphasis on "active" rather than "passive" labor market policies. Active policies are government interventions designed to help the unemployed find work, such as training schemes and other employment assistance programs. Passive labor market policies provide temporary income support through, for example, welfare benefits and unemployment insurance. Bringing unemployed people back to work is much more beneficial than simply compensating them for the income loss. However, in order for this to be a convincing argument, it must be ensured that the way in which the unemployed are brought back to work has no similarly detrimental effects.

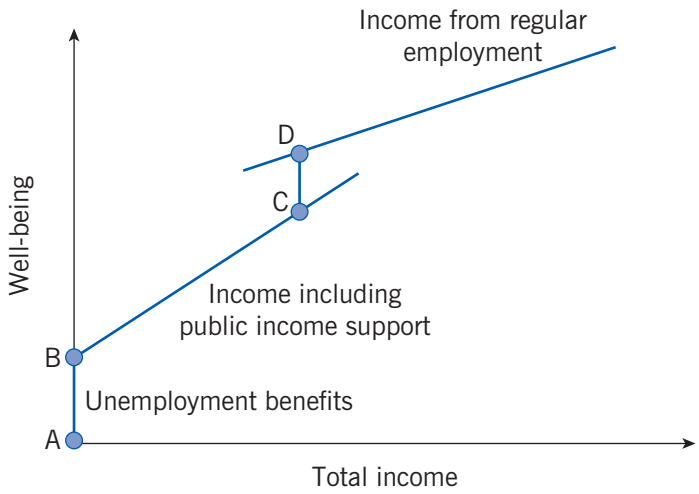
Wage subsidies

Some early (active) labor market measures for the unemployed included wage subsidies, such as the earned income tax credit in the US, *la prime pour l'emploi* in France, and the *Arbeitslosengeld II* system in Germany. These grant supplementary benefit payments to people whose labor income falls short of a socio-cultural subsistence level. However, these measures may be subject to a different type of welfare stigma. Being a transfer recipient means deviating from the social norm of earning your own living and being independent of others. This "non-dependency norm" implies that people might prefer a purely self-earned income to an income that partly consists of public income support.

The analysis of transitions of German workers between unemployment, regular employment, and employment accompanied by welfare receipt shows that working makes people generally better off than being unemployed but also that employed welfare recipients do not reach the life satisfaction level of regular employees. This implies that welfare receipt entails non-compliance with the non-dependency norm to make one's own living [11]. Indirect evidence of such a norm violation by subsidized employees can also be seen in the high number of people who, although eligible, do not apply for these subsidies. Targeted wage subsidy schemes for workers who have been long-term unemployed and exhibit further characteristics that limit their job prospects, such as health impairments, also seem to have a positive effect on life satisfaction, mental health, and the perceptions of belonging and social status [12].

Figure 2 illustrates two potential effects from not adhering to social norms: one resulting from violating the work norm, and the other resulting from violating the social norm of making your own living. When people are unemployed, they receive unemployment benefits. The vertical axis measures well-being, the horizontal axis measures total available income. Point *A* indicates the level of well-being when someone is unemployed and receiving unemployment benefit payments. Point *B* shows the well-being of someone who works, receiving a total income including public income support that does not exceed unemployment benefit payments. The distance between *A* and *B* thus indicates the welfare loss from not adhering to the work norm. When total income increases, people with a low income remain dependent on public income support. Subjective well-being rises in income up to point *C*, where labor income is high enough to completely offset public income support. The distance from *C* to *D* at this income level measures the gain in subjective well-being from not being dependent on income support, that is, it measures the benefit from adhering to the social norm of making your own living. The steeper slope of the curve *BC* indicates that the loss in well-being from not adhering to the non-dependency norm depends on the magnitude of the income support. The more someone's

Figure 2. Welfare stigma of public income support (wage subsidies)



Note: The distance AB indicates the loss of subjective well-being when unemployed. The distance CD indicates the loss of subjective well-being when income support is part of total income.

Source: Author's own illustration.

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own labor income replaces public transfers, the lower the perceived dependency. All these results point to a substantial stigma effect of labor market policy tools. However, the jury is still out, as some other studies do not find any significant differences in life satisfaction between subsidized and non-subsidized workers when analyzing other active labor market policies aimed at specific groups (e.g. young unemployed people).

Workfare

Workfare initiatives (those which require some work or attendance for training from those receiving benefits), by contrast, seem to benefit unemployed people with respect to well-being. Participants in public job-creation schemes report higher life satisfaction than unemployed persons, but their life satisfaction remains lower than that of regularly employed people [7], [13]. Studies show that workfare helps to partially restore the loss in identity associated with being unemployed. This is because it may be rewarding to work for your own living, to reciprocate society's support, or to fulfill some social work norm. However, the potential to improve future outcomes also matters, as workfare jobs are especially beneficial to life satisfaction when participants perceive them as opportunities to increase their chances of future employment. The effects are more negative if the jobs are seen as degrading or demeaning [13].

These findings challenge the standard view that workfare can succeed as an activating device in creating employment, as work requirements reduce the utility of the unemployed, that is, it can make employment less attractive than unemployment. Workfare measures could therefore be used both to separate the voluntarily unemployed from involuntarily unemployed people, and to exert a threat or a motivation effect. If workfare turns out to be beneficial for the workfare participants, however, it would fail to improve the natural functioning of the labor market and thus be an ineffective and perhaps even counterproductive policy instrument. This view is compatible with previous evaluations of the employment effects of workfare schemes, which find substantial "lock-in" effects (i.e. where participants do not move out of the welfare scheme into regular employment) and unfavorable employment outcomes for workfare participants.

However, if the results demonstrate only a "selection effect" (i.e. separating the voluntarily from the involuntarily unemployed), the opposite conclusion may be justified. Workfare might have the desired effect of separating the voluntarily unemployed, who dislike working, from the involuntarily unemployed, to whom workfare offers a helpful coping device. Workfare may also exert a threat to some unemployed people or people whose job is at risk, but on the other hand, may alleviate the burden of unemployment for those who eventually participate. Indeed, previous studies suggest that workfare programs can have substantial threat effects. For instance, in the 1990s, about a third of the long-term unemployed in the German municipality of Leipzig quit the social assistance system when forced into a longer-lasting comprehensive mandatory municipal workfare measure. Similar observations are reported for the US and Denmark.

Thus, for workfare too, the jury is still out. If the selection effect is small, workfare might fail to activate unemployed people, as it fails to make unemployment less enjoyable. If, by contrast, workfare imposes strong desired separation and threat effects, but at the same time incurs a much lower cost on those who finally end up in a workfare measure, it may turn out to be an even more promising instrument than standard theory suggests.

Flexicurity

Finally, introducing more elements of flexicurity may be a third candidate for a public policy that can be beneficial for the unemployed. Flexicurity combines a flexible labor market with active policy measures designed to raise aggregate employment. Higher aggregate employment is beneficial for the economy, and even more so when it is achieved without wage subsidies. But a more flexible labor market comes at a cost. People with temporary work contracts report lower job satisfaction than people with permanent contracts. This is not because the characteristics of the job are considered to be less valuable, or that they would affect social identity, but rather because temporary employment is associated with a lack of job security [14].

This can also be deduced from the fact that the differences in reported job satisfaction are lower in regions with low unemployment. Flexicurity measures that reduce aggregate unemployment would thus be beneficial for people working in temporary jobs. More flexibility for firms makes it more likely that a fixed-term contract is renewed, which would reduce job insecurity. Lower aggregate unemployment, in combination with training and re-education programs, raises employability. The latter effect reduces the cost of job insecurity in so far as it reduces the risk of remaining unemployed after the job terminates and raises expected wages in a new job [15].

LIMITATIONS AND GAPS

It is tempting to argue that public policy should engage in changing the way social embeddedness occurs and the way it is perceived, thus changing the magnitude by which unemployment can affect an individual's sense of social identity. But such conclusions are not yet justified, as current research results only tag the main determinants of the private cost of unemployment, and do not provide precise guidance for public policy.

As preliminary results concerning different labor market policy tools show, policy intervention can affect an unemployed individual's sense of identity. It is thus necessary to learn more about the precise effects of labor policy instruments on individual perceptions of identity. This could be achieved more successfully by applying well-being analysis to labor market policy tools that are under consideration.

What is clear, however, is that in consideration of the significant losses in an individual's sense of identity that can result from both involuntary unemployment and as an unintended consequence of some labor market policies, priority should be given to designing active labor market policy tools that have the least detrimental effects.

In order to design efficient policy instruments, it is important to analyze the effects of these instruments on an individual's sense of identity and, consequently, their well-being. Wage subsidies can be stigmatizing and workfare may not provide the incentives its proponents advocate. It is only flexicurity policy that does not affect an individual's sense of identity in a negative way—though this can be associated with increased personal uncertainty.

SUMMARY AND POLICY ADVICE

Although research on the effectiveness of labor market policies in addressing individual costs of unemployment is only preliminary and not conclusive, it is apparent that flexicurity

measures may have the highest impact on subjective well-being. This is because ultimately, as it is the market that creates jobs, flexicurity allows people who enter the labor market to strengthen their sense of identity and self-worth. Nevertheless, this comes at the cost of higher job insecurity, which is not completely offset (in terms of well-being) by higher employability.

Workfare measures are designed to exert a motivation or threat effect that stimulates the unemployed individual into finding a new job, through normal labor market channels. If workfare measures succeed in imposing a lower cost on those who do not find a job and end up actively participating in a workfare measure, through alleviating the sense of burden of unemployment and improving their sense of well-being, then workfare may turn out to be an even more promising instrument than standard theory suggests.

If active labor market policy relies on wage subsidies, which can lead to stigmatization with negative identity effects, active labor market policies may look less promising. While wage subsidies could exert a continuing motivation effect for those who are potentially able to make their way up, they may also impose a welfare cost on those people who will not be able to take up non-subsidized jobs and be able to live without income support. Therefore, it may crucially depend on the way wage subsidy schemes are designed that determines whether or not they benefit those who will find a subsidized job.

Life satisfaction research shows that unemployment does not only lead to material hardship but also to a loss in social identity. Bringing unemployed people back to work should therefore be of uppermost priority for labor market policy. Only a comprehensive cost–benefit analysis that takes identity and subjective well-being effects into account could provide the necessary scientific base for designing more efficient and effective labor market policies that would allow a better balance of active and passive measures for the unemployed.

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The author thanks an anonymous referee and the IZA World of Labor editors for many helpful suggestions on earlier drafts. Previous work of the author contains a larger number of background references for the material presented here and has been used intensively in all major parts of this article [4]. Version 2 of the article adds to the evidence on the well-being of the retired unemployed, adds to the discussion on targeted wage subsidy schemes for the long-term unemployed, and adds new "Key references" [10], [11], [12].

Competing interests

The IZA World of Labor project is committed to the IZA Code of Conduct. The author declares to have observed the principles outlined in the code.

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