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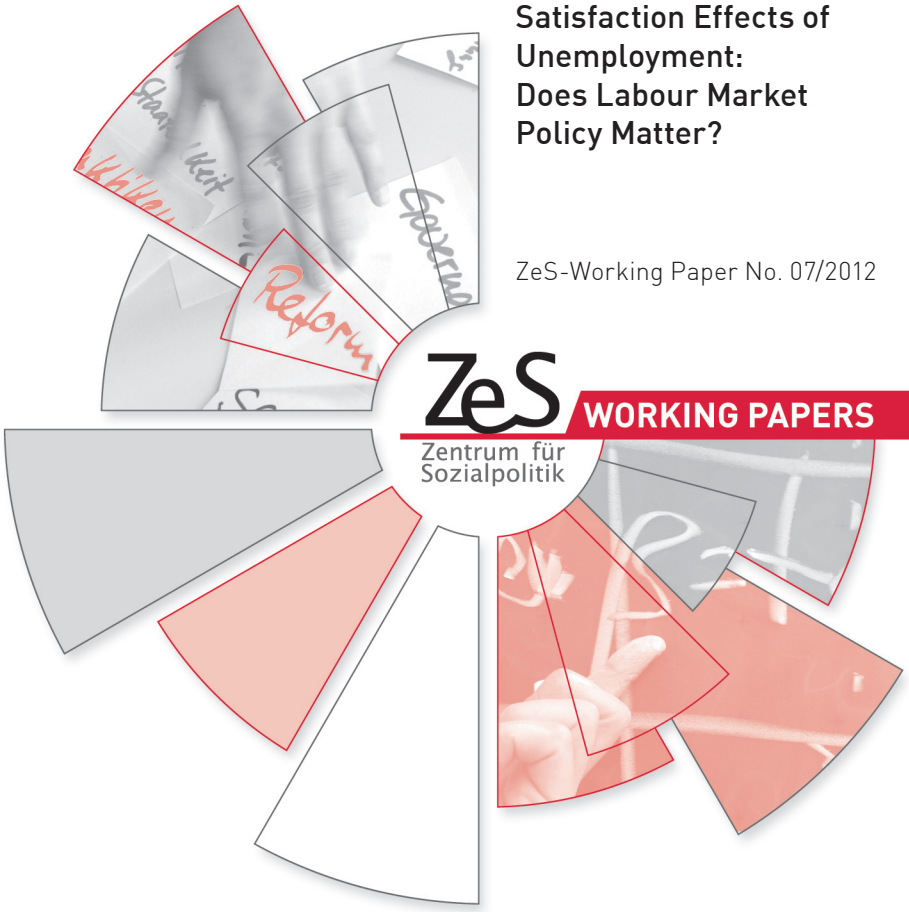

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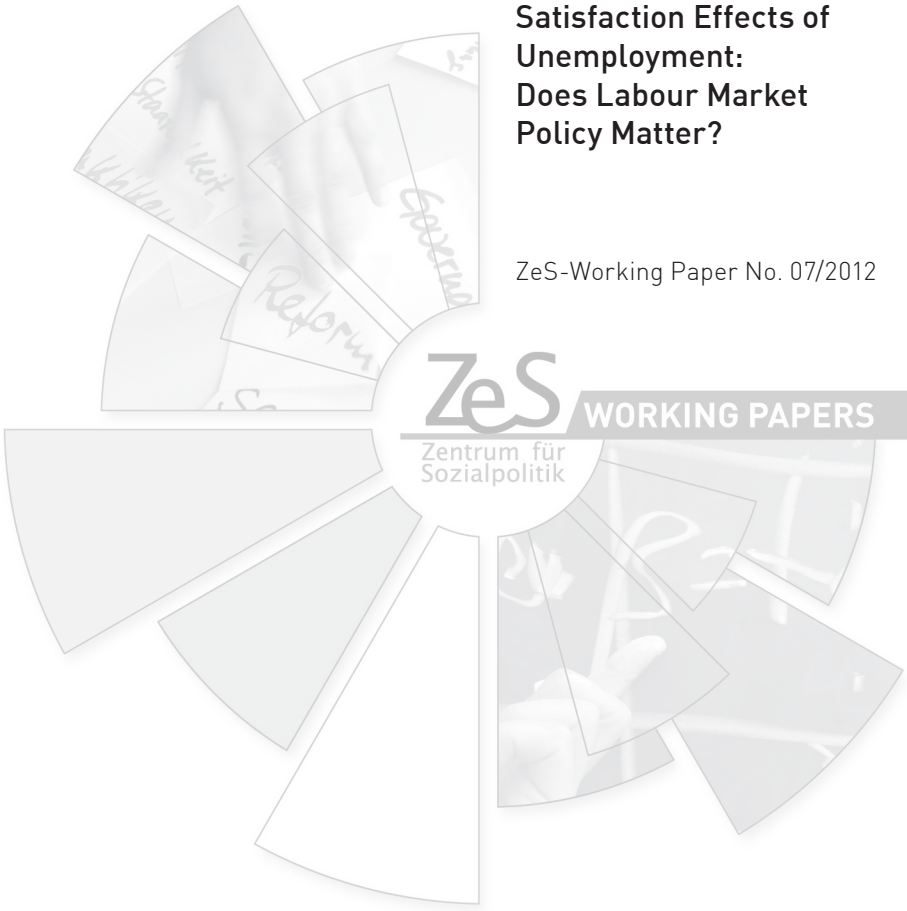

ZeS Zentrum für Sozialpolitik
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SUMMARY

Public policy shapes the lives of individuals, and even more so if they depend on state support. But to what extent can well-being differences between individuals living in different European states be traced back to the specific national public policy designs? This paper tests the intervening effects of the design and generosity of labour market policy on the life satisfaction of the unemployed. To estimate cross-level interaction effects in random intercept models, macro-indicators on active labour market policy spending and unemployment benefit generosity of 21 European countries are merged with survey data from the European Social Survey (ESS). While unemployment has strong negative life satisfaction effects all over Europe, the generosity of passive labour market policy moderates this effect to a surprisingly large extent: The adverse effect of unemployment is almost doubled in a country with meagre unemployment benefits. This moderating effect can be explained both by a resource as well as a non-pecuniary mechanism. In contrast, the moderating effect of active labour market policy is less robust across model specifications.

keywords:

Labor market policy, welfare state, unemployment, life satisfaction, subjective well-being, unemployment benefits

ZUSAMMENFASSUNG

Das Leben aller Bürger wird durch die Ausgestaltung des Wohlfahrtsstaats gerahmt und dies gilt in besonderem Maße für diejenigen, die auf Unterstützung durch den Sozialstaat angewiesen sind. Doch inwiefern lassen sich die Unterschiede im subjektiven Wohlbefinden von europäischen Arbeitslosen durch die nationale Ausgestaltung der Arbeitsmarktpolitik erklären? Dieses Paper untersucht den moderierenden Einfluss der Generosität und des Designs aktiver und passiver Arbeitsmarktpolitik auf die Lebenszufriedenheit der betroffenen Arbeitslosen. Hierzu werden die Umfragedaten von 4 Wellen des European Social Surveys gemeinsam mit arbeitsmarkpolitischen Makrodaten in einer Mehrebenenanalyse untersucht. Während sich der negative Lebenszufriedenheitseffekt von Arbeitslosigkeit in allen Ländern bestätigt, zeigt sich ein überraschend starker moderierender Effekt der Generosität der Arbeitslosenunterstützung: Der nachteilige Effekt von Arbeitslosigkeit verdoppelt sich in Ländern mit eingeschränkten Leistungen im Vergleich zu großzügigeren Ländern beinahe. Hierbei finden sich Hinweise auf nichtpekuniäre sowie Ressourcenmechanismen. Der positive moderierende Effekt der aktiven Arbeitsmarktpolitik stellt sich hingegen als deutlich weniger robust dar.

CONTENT

1. Introduction

Public policy shapes the lives of inhabitants of a country in intended and unintended ways, and this statement holds even more for groups whose everyday life depends heavily on state support. Indisputably, the life of the unemployed is affected more by welfare state design than the life of average employees, with labour market policy having the largest impact. The level of unemployment benefits largely determines the financial situation of the unemployed. Furthermore, strict eligibility rules and short benefit durations may translate into dependence on means-tested social assistance benefits or family transfers and an increased risk of unemployment to be stigmatic. In addition to these monetary transfers that affect the unemployed, active labour market policy (ALPM) plays an increasingly important role in most European countries. Various measures of ALMP such as job search assistance, training programmes, employment subsidies and work creation schemes shape the lives of the unemployed. But how does labour market policy affect the subjective well-being of the unemployed?

Policy evaluations have analysed the effects of both active and passive labour intensely, but this research is narrowly focussed on objective outcomes such as employment, unemployment and wages. The effect of labour market policy on subjective well-being has only recently gained attention (Helliwell & Huang 2011; Ochsen & Welsch 2012; Di Tella et al. 2003), despite the vast literature proofing the harmful life satisfaction effects of unemployment. Given that many economists demand subjective well-being to substitute or complement pecuniary indicators in the measurement of social welfare (e.g. Layard 2011; Easterlin 1974; Ng 1997; Oswald 1997), this lack of policy evaluation comes as a surprise. For policymakers, the well-being of the unemployed matters for two distinct reasons: Firstly, low levels of subjective well-being among the unemployed are likely to affect job search behaviour, although the sign of the effect is unclear. Whereas Mavridis (2010; see also Clark 2003) finds individuals that suffer from larger drops in life satisfaction after job loss to have shorter unemployment durations, Anderson (2009: 348; see also Waters & Moore 2002; Korpi 1997) argues that low life satisfaction may translate into "discouragement, lower levels of skill acquisition, inferior performance in job interviews, and eventually a lower probability of job offers and successful job searches". Secondly, improving the well-being of the socially disadvantaged in society is a core task of the welfare state. Accordingly, the EU has stressed the importance of social cohesion and inclusion in their growth strategy for the coming decade, *Europe 2020*[1].

While a general 'activation turn' towards lower unemployment benefit levels and a stronger focus on ALMP has taken place in many modern welfare states, Eu-

[1] See http://ec.europa.eu/social/main.jsp?catId=751&langId=en

ropean countries differ considerably in their labour market policy design. But do these national differences in labour market policy trajectories influence life satisfaction of the jobless?

To evaluate the social welfare implications of labour market policy, this paper applies a multilevel research design. Data on labour market policy provision at the country level is merged with internationally comparable micro-level data. Survey data from four waves of the European Social Survey (ESS) is assembled for 21 European countries to be able to analyse and control for individual characteristics of respondents. This micro data is merged with macro-level data concerning labour market policy indicators and other control variables such as the unemployment rate. It is tested whether the design and generosity of the welfare state interacts with the effect of unemployment on life satisfaction. Specifically, the paper focuses on the question whether unemployment benefit generosity and a country's commitment to ALMP mitigate the life satisfaction effect of unemployment. The empirical analysis shows that generous passive labour market policy moderates the negative life satisfaction effect of unemployment to an impressive extent, while the effects of ALMP turn out to be far less robust. I argue that the generosity of unemployment benefits affects life satisfaction of the unemployed through two mechanisms: In addition to an obvious resource mechanism, labour market policy also affects life satisfaction through a non-pecuniary mechanism that is linked to stigmatization and the position of the unemployed in society.

The paper is structured as follows: First the developments of European labour market policy covering benefit generosity and the emergence of active and activating labour market policy within the last decades are portrayed. The following section provides an overview over the effect of unemployment on well-being, with a special focus on the intervening effect of the welfare state in general, and labour market policy in particular. After the description of methodology and data with the depiction of descriptive statistics, the results of the multi-level analyses are presented and discussed. Finally, the conclusion completes the paper.

2. Labour Market Policy, Unemployment and Life Satisfaction

THE 'ACTIVATION TURN' IN EUROPEAN LABOUR MARKET POLICY

After a short interlude of nearly full employment in the post-World War II period, unemployment has evolved to be one of the most pressing social, economic and political problems of modern market economies, constituting "a profoundly distressing experience that produces considerable individual costs and important political consequences" (Anderson 2009: 343). As a reaction to recurrent waves of mass unemployment in general, and the disturbing expansion of long-term unemployment in specific, criticism concerning inflexible labour markets and discouraging welfare state design has risen in the 1990s. Generous unemployment insurance schemes have been accused of raising the reservation wage of the unemployed and thus disincentivising job search and employment. Even though crossnational comparisons analysing the connection between unemployment benefits and national unemployment rates are rather contradictory in their findings (cf. Sjöberg et al. 2010: 429-430), labour market policy has been subject to paradigmatic changes.

European policy makers have reformed their labour market policy design heavily over the past decades, with activation becoming a central component of modern welfare states. Broadly speaking, this 'activation turn' is composed of at least two components: Firstly, active labour market policy has gained in importance, with many countries expanding on training measures, job search assistance and employment subsidies. Secondly, reforms have tended to be restrictive concerning passive labour market policy: "Eligibility criteria have been tightened, benefit levels have been reduced, benefits have been made conditional on employment, and the duration of receipt has been shortened" (Kenworthy 2010: 438). The core idea of the activation paradigm is the explicit linkage of welfare benefits to behavioural expectations towards benefit recipients, increasing the pressure on the unemployed to search for jobs through conditionality and less generous unemployment benefits (Fromm & Sproß 2008: 10). While the specific pattern of policy change differs quite considerably between European welfare states, it is fair to speak of a general shift from passive towards active (and activating) labour market policy.

The effects of this policy shift have been analysed with respect to outcomes such as employment, unemployment and income, with micro-level studies being somewhat more optimistic than macro-level evaluations (Bonoli 2010: 450). This discrepancy between micro-level and macro-level analyses might well be due to substitution effects between participants and non-participants of e.g. train-

ing schemes, yet proofing these effects is methodologically more than challenging.

WELL-BEING EFFECTS OF UNEMPLOYMENT AND THE INTERVENING EFFECT OF LABOUR MARKET POLICY

Evaluations of labour market policies generally ignore the fact that unemployment is connected to more than just strictly financial consequences. Amartya Sen (1997: 160) argues that these "negative effects are cumulative, and they act individually and jointly to undermine and subvert personal and social life. The need to distinguish between the different ways in which joblessness causes problems is important not only for a better understanding of the nature and effects of unemployment, but also for devising an appropriate policy response".

These psychosocial effects of unemployment have first been described by Jahoda et al. (1933) and indeed received a high level of attention in the happiness and well-being literature of the past two decades. In her theory, Jahoda (1982: 59) argues that the unemployed are deprived of five essential experience categories of work: (1) imposition of a time structure, (2) social contacts, (3) participation in a collective purpose, (4) status and identity and (5) required regular activity. Furthermore, Fryer (1986) stresses the importance of agency and control in the connection between unemployment and well-being. Unemployment prevents the individual from being economically self-sufficient and restricts the control over the own life course.

Due to these psychosocial factors, a detrimental life satisfaction effect of unemployment has consistently been found across countries, time and research designs. Even after controlling for income, time-consistent personality traits and other socio-economic preconditions, the lack of paid employment causes a considerable drop in the well-being of affected individuals. This connection between unemployment and life satisfaction is firmly established in the theoretical and empirical literature (e.g. Winkelmann & Winkelmann 1998; Clark & Oswald 1994; Gerlach & Stephan 1996; Khattab & Fenton 2009; Van Praag & Ferreri-Carbonell 2002; Carroll 2007). Next to these non-pecuniary effects, unemployment is also connected to a drop in income. According to the Easterlin paradox, happiness within countries depends strongly on an individual's income and wealth, whereas there is no such positive correlation to be found if average well-being and economic growth are analysed at the macro-level (Easterlin 1974; see also Oswald 1997). As individual unemployment is strongly correlated to a lower relative income in comparison to the national average, financial hardship amongst the unemployed is connected to high psychological distress (Gallie & Russell 1998: 269), so that both non-pecuniary and pecuniary factors cause the life satisfaction to fall.

Several scholars have called for governments to take well-being effects into account in their policy design (e.g. Layard 2011; Carroll 2007; Clark & Oswald 1994; Sen 1997). To do so, the intervening effect of policies needs to be understood

first. Yet the extensive literature on well-being effects of unemployment on the one hand and labour market policy evaluation on the other hand has largely ignored the call to connect both research areas, and prematurely so. The few studies that analyse the intervening effect of labour market policy reach contradictory conclusions. Di Tella et al. (2003) find a positive effect of unemployment benefit replacement rates on average life satisfaction in twelve European nations between 1975 and 1992, while they do not find evidence for an interaction effect between benefit generosity and individual unemployment. These results are in line with the findings of Gallie and Russell (1998) for eleven European countries. Helliwell and Huang (2011) even show a slightly negative interaction effect of unemployment benefit replacement rates and unemployment in US states. They explain this counterintuitive result with potential endogeneity in policy making: States in which unemployment is perceived to be especially harsh may be more generous in their benefits. In contrast to these results, Ochsen and Welsch (2012) find quite pronounced effects of labour market institutions on the life satisfaction of average citizens and an even higher effect of benefit levels on the unemployed in ten European countries between 1975 and 2002. Ochsen and Welsch distinguish between short-term and long-term replacement rates to account for levels as well as duration of unemployment benefits. In their results, short-term benefits affect the well-being of unemployed more than long-term benefits. In general, the effect of unemployment benefit generosity on subjective well-being seems to be larger in studies that analyse European data rather than US data and use a more comprehensive measure of generosity than merely average replacement rates, covering additional features such as the duration of benefit entitlement.

Despite these mixed results in the existing literature, the hypotheses in this paper expect the welfare state in general and labour market policy in specific to have a considerable impact on the well-being of the unemployed, as their living standards are highly dependent on state support. I argue that generosity of passive labour market policy may affect the unemployed through two mechanisms. The first mechanism is strictly tied to the resource dimension of financial hardship, that is, generous unemployment benefits enable the unemployed to consume goods that yield utility. The second factor is closely connected to the statement that policymakers implicitly or explicitly make about the status and identity of the unemployed in society by implementing a certain labour market policy. For instance, low generosity of insurance based unemployment benefits and a higher reliance on means-tested social assistance benefits increase the risk that unemployment will be stigmatic (Gallie & Paugam 2000: 4). Also, short durations and higher conditionality of benefits can be expected to be connected to high levels of psychological stress that go beyond the lack of financial resources that it might imply.

I expect both the pecuniary and the non-pecuniary aspects of passive labour market policy to lead to a moderating effect of unemployment benefit generosity on the life satisfaction of the unemployed.

Hypothesis 1 thus expects unemployed in a country with generous passive labour market policy to experience a smaller drop in well-being than unemployed in countries with meagre benefits and short benefit duration.

The influence of labour market policy on the lives of the unemployed is not limited to monetary transfers, though. As described above, activation consists of a combination of both passive and active labour market policies. Hence, the everyday lives of the unemployed are shaped by job search assistance, training measures, work creation schemes and other ALMP measures that are likely to have an impact on well-being. Micro-level studies in Sweden, Germany and the UK have indeed pointed towards an increase in the well-being of the unemployed that are currently participating in certain active labour market schemes (Wulfgramm 2011; Andersen 2008; Strandh 2001). Moreover, Anderson (2009) conducted a multi-level analysis on the impact of ALMP on social ties in Europe and shows that labour market outsiders in countries with higher spending on ALMP tend to have a higher sense of social inclusion and report more frequent social interaction.

Applying Jahodas deprivation theory to the participation in ALMP measures I argue that government training and occupational schemes can fulfil certain psychosocial functions of work and should thus have a positive effect on the life satisfaction of the unemployed. ALMP schemes offer opportunities for social contacts, are subject to a clear time structure and may even convey the feeling of participating in a useful collective purpose. Moreover, skill acquisition should enhance the feeling of control over one's life. It should be kept in mind that not all ALMP spending is alike in its design and intentions, though. For instance, work creation schemes can have a strong enforcing character (Dingeldey 2007) and participation may not be voluntary.

Hypothesis 2 expects ALMP to have a positive moderating effect on the life satisfaction of unemployment. However, the expected effect of ALMP is far more ambiguous than the expected effect of benefits and the effect of European ALMP spending thus needs to be tested empirically. The two core hypotheses of this paper will be tested by applying a multi-level design to survey data as well as macro-level data, as described in the following sections.

3. Methodology and Model Specification

As data is sampled from both the micro- and the macro-level, the regression analysis needs to account for the specificity of such a clustered design. In a nested data structure, that is, individual survey responses are nested within countries, the influence of the contextual variables would be greatly biased towards high significance levels if the analysis treats all lower-level observations as independent (cf. Hox 2010: 3). To avoid spuriously significant results, the biased error terms need to be adjusted for the dependence of lower-level observations within clusters. The largely biased standard errors are adjusted introducing random intercepts into the empirical analysis. This controls for the high intra-cluster correlation (ICC=0.13 in the null-model) between observations measured on respondents from the same country. Therefore, the models tested in this paper have the following general design:

$$LS_{ij} = ß_{00} + ß_{p0}X_{pij} + ß_{0q}Z_{qj} + \mu_{0j} + \varepsilon_{ij}.$$

The endogenous variable life satisfaction LS of individual i in country j is a function of the vector of p level 1 explanatory variables X_{pij} as well as q level 2 explanatory variables Z_{qj}. In contrast to regular regression models with independent observations, the error term is split into two error components: μ_{0j} picks up the level 2 error term and is thus depicting error patterns at the country level, while ε_{ij} is the level 1 error term that applies to each respondent individually.

The main level 1 variable of interest is current unemployment of the respondent, as compared to employment, retirement, military or civil service, housework, being permanently sick or disabled and being a student as the main activity during the last 7 days. In addition, vector X consists of control variables at the individual level. These include gender, living with a partner, subjective health, age, age squared, years of formal education, household income and a dummy variable for living in a household with unemployment benefits as the major source of income. Vector Z contains macro variables concerning social and labour market policy. As the main exogenous variables, unemployment benefit generosity (see operationalisation in the data section) and expenditure on active labour market policy per unemployed as a percentage of gdp per capita are analysed. In addition, control variables on the country level are included in the models. These level 2 control variables are the natural logarithm of gdp per capita, public social expenditure as a percentage of gdp as well as the unemployment rate.

The key research question in this paper does not cover the distinctive effects of micro-level and macro-level exogenous variables on life satisfaction, though. The main focus lies on testing the moderating effect of macro-level variables on the effect of an individual's unemployment on life satisfaction. Therefore, cross-level interaction effects of specific policy indicators with individual unemployment $ß_{pq}Z_{qj}X_{pij}$ are inserted into the model specifications:

$$LS_{ij} = ß_{00} + ß_{p0}X_{pij} + ß_{0q}Z_{qj} + ß_{pq}Z_{qj}X_{pij} + \mu_{0j} + \varepsilon_{ij}.$$

As the research question and core hypotheses suggest, two interaction effects are of special interest for this paper. Firstly, the moderating influence of passive labour market policy on the life satisfaction effect of unemployment is tested with the interaction term unemployment*unemployment benefit generosity. The second moderating influence of interest is the interaction term unemployment*ALMP expenditure per unemployed as a percentage of gdp. Furthermore, an interaction term unemployment*unemployment rate is included to control for a potential social norm effect of high unemployment (Clark 2003).

As this paper relies on comparisons in life satisfaction responses across countries, criticism may arise concerning cultural or linguistic biases in the answering of well-being surveys. Despite studies that have shown these general concerns to be exaggerated (Bolle & Kemp 2009), it might still be argued that the effect of unemployment in a country is mainly driven by country-specific constant characteristics, such as work ethics and that these characteristics are correlated to policy differences between countries. This might lead to endogeneity problems. Therefore, a model that includes country-fixed effects is calculated, with clustered standard errors at the country level. It should be noted that most of the variance occurs between countries rather than within countries, though, so that the major focus should remain on the random intercept model. This becomes especially obvious in the benefit generosity indicator, with an average within-country standard deviation of 2 as compared to an overall standard deviation of 19.1 (see table 2). However, a model with country fixed effects may serve as a robustness test. One further concern might be the argument that the life satisfaction scale from 0-10 is merely an ordinal representation of an underlying latent variable, implying an ordered logistic or probit estimation. However, in happiness economics, this concern has been proven to be mainly of theoretical nature with little empirical implications, while it inhibits the interpretation of coefficients. In line with the findings of Ferreri-Carbonell and Frijters (2004), I refrain from treating the dependent variable as being merely ordinal.

4. Data: Merging Macro-Data with the European Social Survey

To test the hypotheses in the multi-level framework of this paper, two different kinds of data are assembled. To differentiate between the effects of aggregated national economic conditions as well as policies on the one hand and the effects of individual socioeconomic characteristics on the other hand, both micro-level and macro-level data are merged. Table 1 (p. 17) summarizes the main features of the micro-level dataset as well as macro-level control variables, while table 2 shows descriptive statistics of the explanatory macro-level variables by country.

On the micro-level, survey data from the European Social Survey (ESS) covers the dependent variable Life Satisfaction as well as exogenous variables that provide information about individual characteristics of respondents.

The data for this study is compiled of the first four waves of the survey for a total of 21 countries, with 16 to 20 countries that are included in the integrated dataset per wave: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland and UK. The interview periods of wave 1-4 are 2002/2003, 2004/2005, 2006/2007 and 2008/2009.

As the research questions aim at analysing the effect of unemployment and labour market policy on the unemployed, the focus is limited to respondents at working age. Therefore, only respondents at the age of 15 to 64 remain in the dataset. Given this selection of cases, between 863 and 2309 respondents per country and wave are included, yielding a total of 107,983 level 1 observations.

To measure the dependent variable in this paper, i.e. life satisfaction, the following question was asked in the respective local language:

"All things considered, how satisfied are you with your life as a whole nowadays? Please answer using this card, where 0 means extremely dissatisfied and 10 means extremely satisfied."

Merging data from different waves of the ESS poses problems concerning the availability of micro-level variables. While most questions of interest have been asked identically in all waves of the ESS, some variables have been changed or excluded in certain waves. The most striking deviation applies to the measurement of the household income of respondents. In wave 1-3, the income variable codes all countries according to the same 12 income categories. In contrast, the income variable in wave 4 is based on showcards depicting the country-specific income deciles. Therefore the categories differ widely between countries. Thus, while wave 1-3 give information about the absolute income, wave 4 gives information on the relative income compared to the level within a country. An integration of both income measures would be highly

Table 1: Descriptive Statistics

Variable	N	Mean	Standard Deviation
Level 1 Variables:			
Life Satisfaction	107,983	7.07	2.17
Main activity, last 7 days:			
Paid work	67,381	0.67	
Unemployed	6,358	0.06	
Retired	7,708	0.07	
Housework, child rearing	10,544	0.10	
Education	11,533	10.68	
Community or military service	159	0.00	
Permanently sick or disabled	2,869	0.03	
Age	107,983	40.50	13.71
Age squared	107,983	1828.57	1110.32
Living with spouse/partner	66,966	0.62	
Subjective health (1-5)	107,983	3.93	0.85
Years of full-time education	107,983	12.71	3.77
Male	51,750	0.48	
Unemployment benefits main source of household income	2,830	0.03	
Household income (1-12)	60,794	6.42	2.50
Level 2 variables:			
Unemployment benefit generosity score	72	27.82	19.05
ALMP expenditure per unemployed, % of gdp per capita	72	26.93	20.70
PLMP expenditure per unemployed, % of gdp per capita	72	37.5	26.3
Average net replacement rate	72	67.8	9.4
Gdp per capita, constant prices in US $ (2000), ppp	72	26598.29	8779.04
Social Expenditure as % of gdp	72	24.86	4.80
Unemployment rate	72	7.08	3.52

Notes: N refers to the number of nonmissising cases on the respective level, with the exception of dummy variables, where N refers to the cases in which X=1. For dummy variables, the mean shows the proportion of observations in which X=1.

misleading, so that no income variable can be inserted into models that use the full data sample.

On the macro-level, aggregated country data covering the economic conditions and welfare state as well as labour market policy indicators are assembled. To measure the intensity of active labour market policy that the unemployed encounter, expenditure on ALMP per unemployed expressed as a percentage of the gdp per capita is calculated from OECD-data. It needs to be kept in mind that not all activation effort applies to the unemployed, as certain services such as job counselling may be available to the employed or students as well. Despite this limitation, this measure should give an adequate approximation of the ALMP efforts per unemployed.

The operationalisation of the generosity of unemployment benefit systems is more ambiguous. Most studies simply use the average net replacement rate of short-term unemployment benefits. However, these replacement rates by the OECD (e.g. 2007) do not account for other relevant aspects, that is, how long these benefits are paid and under what conditions. In fact, countries differ even more in the duration of unemployment benefits than in their level. Therefore, Hasselpflug (2005) and Allard (2005) argue that indicators for the duration and the conditionality of unemployment benefits should be added. Hasselpflug (2005) provides data on the conditionality and duration of benefits and Allard (2005) combines OECD replacement rates with these indicators by Hasselpflug and the Ministry of Finance (1998) in Denmark to construct a so-called 'net reservation wage'. It combines the generosity in terms of replacement rates and duration with the behavioural requirements that recipients have to fulfil. Yet, this indicator covers only the years up until 2003 and a limited country sample and even after extrapolation and updating, the number of observations remains limited. As the inclusion of conditionality hardly changes the generosity indicator as specified below (correlation coefficient of 0.97), models are estimated without the inclusion of a conditionality adjustment[2].

Net replacement rates for unemployed persons (up to one year of unemployment) are taken from the OECD (2010). The replacement rates were averaged over the three family types and three income levels provided. To account for the duration of the unemployment benefit, an indicator that ranges between 0 (no benefit) and 100 (unlimited duration or duration longer than 48 months) is inserted into the equation. Information was taken from the OECD 'Benefits and Wages' country specific files[3]. Replacement rates and duration are available for a rather large country sample and thus the main variable to measure benefit generosity is

[2] Models including Allards so-called `net reservation wage´ are available from the author.

[3] Available online: http://www.oecd.org/document/29/0,3746,en_2649_34637_39618653_1_1_1_1,00.html; last access June 7, 2012. Since the duration of benefits can and does vary with the age and employment record of the recipient, the recipient was assumed to be a 40 year old worker with an uninterrupted employment record. This is based on the practice by the OECD (e.g. 2007: 17-22).

Unemployment benefit generosity score = net replacement Rate duration.*

The indicator theoretically ranges between 0 (no benefits) and 100 (full income replacement for at least 48 months).

As a further operationalisation of unemployment benefit generosity, expenditure data on unemployment benefits per unemployed by the OECD, as a percentage of gdp per capita is used. From simple correlations with this passive labour market policy (PLMP) expenditure indicator, it becomes obvious that replacement levels miss important aspects of the generosity of unemployment benefit systems: Average net replacement rates only show a correlation coefficient of 0.28, while the unemployment benefit generosity that accounts for the duration of benefits correlates with the PLMP expenditure data by 0.68. Table 2 (p. 20) shows descriptive statistics for all labour market policy variables by country.

The bivariate relationship between the mean life satisfaction difference of employed and unemployed in a country and the respective unemployment generosity score is depicted in graph 1 (p. 20). In order to allow readability of country labels, graph 1b is a replication of graph 1a which is limited to observations from ESS round 1. The scatter plots show a negative correlation between life satisfaction and benefit generosity, suggesting that countries with generous unemployment benefits tend to have lower life satisfaction differences between the employed and the unemployed. However, standard errors appear to be rather large, suggesting that there are other important explanatory variables. As the bivariate plot takes neither socio-economic characteristics of the unemployed nor macro-indicators at the country-level into account, their inclusion may enhance the model fit substantially.

In addition to the labour market policy indicators, total social expenditure as a percentage of gdp as well as the unemployment rate (ILO) and gdp per capita (in US $, constant prices adjusted for purchasing power parity, OECD) were added as control variables on the macro level.

Graph 1: Mean life satisfaction differences (employed – unemployed) and benefit generosity by country

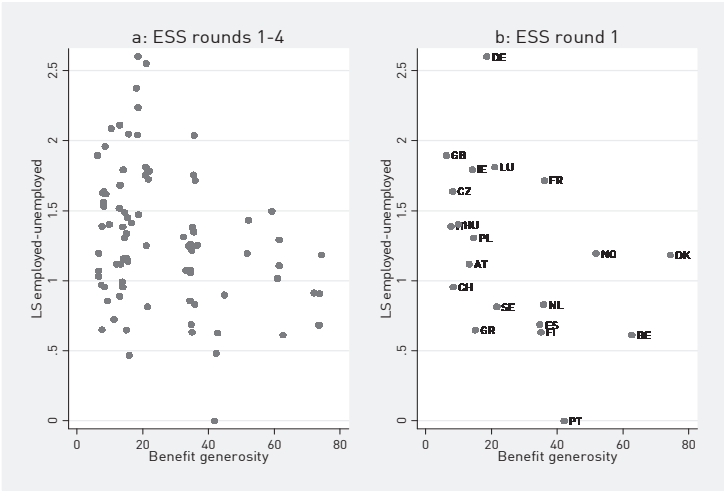

Table 2: Labour market policy by country

Country	Level 1	Level 2	Average Net Replacement Rate	Benefit Duration*	Benefit Generosity		ALMP expenditure		PLMP expenditure	
	N	N	Mean	Mean	Mean	SD	Mean	SD	Mean	SD
AT	5671	3	64.6	20	13.1	0.1	28.2	2.3	61.2	2.7
BE	5698	4	61.7	100	61.7	0.7	32.9	5.7	65.8	5.1
CH	4669	3	80.0	22	17.2	7.7	32.2	3.5	41.1	7.0
CZ	4648	3	65.1	13	8.1	0.1	7.1	2.8	7.6	1.4
DE	8842	4	73.6	25	18.4	0.3	22.4	5.7	40.0	10.9
DK	4830	4	73.4	100	73.4	1.0	70.1	8.8	85.6	11.9
EE	2390	2	62.6	25	15.7	0.1	2.4	0.02	4.9	4.9
ES	5811	4	69.1	50	34.5	0.1	15.5	2.4	31.3	2.8
FI	6428	4	70.2	48	33.7	1.1	22.2	3.1	44.2	1.9
FR	5720	4	74.6	48	35.7	0.2	26.0	2.8	39.5	4.0
GB	6533	4	52.2	13	6.5	0.2	13.3	4.5	8.5	1.3
HU	4787	4	61.5	19	11.5	1.6	12.7	6.0	13.3	2.1
IE	5986	4	48.8	31	15.2	1.2	31.0	7.2	41.5	2.3
IT	1174	1	61.3	13	7.7	.	19.0	.	21.4	.
LU	2461	2	84.2	25	21.0	0.1	22.5	3.0	36.5	10.6
NL	6197	4	72.5	48	41.7	11.7	75.9	28.4	97.0	22.7
NO	4671	3	69.2	67	46.2	10.1	33.5	1.0	32.3	4.5
PL	5979	4	58.9	25	14.7	0.6	7.9	6.7	11.9	0.9
PT	5603	4	84.3	51	43.0	1.3	17.8	4.6	31.0	4.8
SE	6156	4	70.3	29	20.5	1.3	40.4	12.4	29.0	11.5
SK	3719	3	67.7	13	8.5	0.5	4.3	1.5	6.0	5.6
Total	107973	72	67.8	40	27.8	19.1	26.9	20.7	37.5	26.3

*In per cent of 48 months; for durations>48 months, the indicator is set equal to 100.

5. Regression Results & Interpretation

Table 3 and table 4 (p. 22, 23) report the regression results for the determinants of life satisfaction with the focus on labour market policy effects. Models (2) to (4) in table 3 show the interaction effects of unemployment with almp expenditure and unemployment benefit generosity for the full data sample using random intercept models (MLM), while table 4 shows alternative model specifications as robustness tests.

The inclusion of all four waves yields a fair amount of level 2 information, i.e. the macro-level number of observations is 72. However, using survey data from ESS round 4 inhibits the insertion of an income variable, as the survey question on household income deviates too drastically from former waves. As income has been shown to have a considerable influence on life satisfaction, results in table 3 might be accused of suffering from a serious omitted variable bias. Therefore, model (5) shows the results of virtually the same model specification as model (4), but includes the household income measured in 12 income categories. As a result of dropping data from ESS round 4, the number of level 2 observations shrinks to 51. Next to pragmatic considerations of sample size and the prevention of an omitted variable bias, the comparison between models with and without household income variable may also offer additional information regarding the content of a moderating effect of passive labour market policy.

Furthermore, model (6) inserts country fixed effects with clustered standard errors at the country level to check whether changes in policies over time within countries have similar effects as cross-country differences in policy designs. Finally, model (7) controls for a social norm effect (see Clark 2003) that might show in an interaction effect between unemployment and the unemployment rate and models (8) and (9) show different operationalisations of unemployment benefit generosity.

MODERATING EFFECTS OF LABOUR MARKET POLICY ON THE LIFE SATISFACTION EFFECT OF UNEMPLOYMENT

The empirical analysis shows that national labour market policy has a major moderating influence on the effect between unemployment and life satisfaction, with benefit generosity showing a more robust influence than the intensity of active labour market policy. In line with all previous literature, unemployment has a negative effect on life satisfaction in all countries in the sample. On average, unemployment decreases life satisfaction by a full point on the 0-10 scale even after controlling for other personal characteristics (model 1).

Table 3: Labour market policy and life satisfaction

Dependent variable: Life satisfaction (1-10)	(1)		(2)		(3)		(4)	
Level 1 Variables:								
Main activity (ref.: paid work)								
Unemployed	-1.0***	(36.4)	-1.4***	(29.8)	-1.2***	(27.1)	-1.4***	(28.1)
Retired	-0.04	(1.6)	-0.04	(1.4)	-0.04	(1.5)	-0.04	(1.4)
Housework, child rearing	-0.04	(1.9)	-0.04	(1.9)	-0.04	(1.9)	-0.04	(1.9)
Education	0.2***	(6.6)	0.18***	(6.9)	0.2***	(6.9)	0.2***	(6.9)
Community or military service	-0.06	(0.4)	-0.04	(0.3)	-0.04	(0.3)	-0.04	(0.3)
Permanently sick or disabled	-0.5***	(12.1)	-0.5***	(12.0)	-0.5***	(12.0)	-0.5***	(12.1)
Age	-0.1***	(29.3)	-0.1***	(29.1)	-0.1***	(29.2)	-0.1***	(29.1)
Age squared	0.001***	(28.9)	0.001***	(28.6)	0.001***	(28.6)	0.001***	(28.6)
Living with spouse/partner	0.6***	(45.7)	0.6***	(45.7)	0.6***	(46.0)	0.6***	(46.0)
Subjective health (1-5)	0.7***	(86.9)	0.7***	(87.0)	0.7***	(87.0)	0.7***	(87.0)
Years of full-time education	0.03***	(15.9)	0.03***	(15.3)	0.03***	(15.3)	0.03***	(15.3)
Male	-0.1***	(8.8)	-0.1***	(8.6)	-0.1***	(8.8)	-0.1***	(8.6)
UE benefits main hh income	-0.5***	(13.6)	-0.6***	(13.8)	-0.6***	(13.8)	-0.6***	(13.7)
Level 2 Variables:								
ALMP expenditure			-0.001	(1.4)	-0.001	(1.6)	-0.001	(1.4)
Unemployment benefit generosity			0.004*	(2.3)	0.005*	(2.5)	0.004*	(2.3)
Ln gdp per capita			-0.02	(0.1)	-0.009	(0.1)	-0.02	(0.1)
Social Expenditure			-0.02**	(2.7)	-0.02**	(2.8)	-0.02**	(2.7)
Unemployment rate			-0.07***	(11.4)	-0.06***	(11.3)	-0.07***	(11.4)
Interaction Effects (Level 1*Level 2)								
Unemployment* Unemployment benefit generosity			0.014***	(10.2)			0.014***	(8.5)
Unemployment* ALMP expenditure					0.008***	(5.6)	-0.0001	(0.1)
Constant	5.8***	(36.3)	6.8***	(4.7)	6.7***	(4.6)	6.8***	(4.7)
Method	MLM		MLM		MLM		MLM	
Level 2 variance	0.41		0.35		0.35		0.35	
Level 1 variance	3.56		3.55		3.55		3.55	
ICC	0.10		0.09		0.09		0.09	
N micro	107973		107973		107973		107973	
N macro	72		72		72		72	

*Notes: Absolute z-values in parentheses; * p < 0.05, ** p < 0.01, *** p < 0.001; MLM: Multilevel Model; Random intercept specification; observations clustered at the country level; maximum likelihood estimation.*

Table 4: Labour market policy and life satisfaction, robustness checks

Dependent variable: Life satisfaction (1-10)	(5)		(6)		(7)		(8)		(9)	
Level 1 Variables:										
Main activity (ref.: paid work)										
Unemployed	-1.3***	(19.7)	-1.4***	(10.7)	-0.95***	(4.5)	-1.18***	(6.4)	-1.2***	(26.2)
Household Income (1-12)	0.1***	(25.3)								
Level 2 Labour Market Policy Variables:										
ALMP expenditure	-0.002*	(2.2)	-0.002	(2.0)	-0.002	(1.9)	-0.001	(1.4)	-0.004**	(3.2)
PLMP expenditure									0.004**	(3.1)
Unemployment benefit generosity	0.008**	(2.8)	0.004	(1.7)	0.004	(1.8)				
Average net replacement rate							-0.005	(1.8)		
Unemployment rate	-0.09***	(9.0)	-0.07***	(7.4)	-0.07***	(6.9)	-0.07***	(11.2)	-0.6***	(11.2)
Interaction Effects (L1*L2): Unemployment*										
Unemployment benefit generosity	0.015***	(6.9)	0.014*	(2.6)	0.016**	(3.0)				
ALMP expenditure	0.002	(0.7)	-0.0002	(0.1)	-0.006	(1.0)				
Average net replacement rate							0.003	(1.0)		
PLMP expenditure									0.006***	(5.7)
Unemployment rate					-0.04	(2.0)				
Constant	2.5	(1.2)	8.9*	(2.4)	9.0*	(2.5)	6.0***	(4.1)	5.3***	(3.6)
Method	MLM		Country FE +clustered SE		Country FE +clustered SE		MLM		MLM	
N micro	60794		107973		107973		107973		107973	
N macro	51		72		72		72		72	

*Notes: Absolute t/z-values in parentheses; * p < 0.05, ** p < 0.01, *** p < 0.001; Control variables as in model 2; MLM specification as in table*

Yet the severity of the life satisfaction effect of unemployment depends greatly on the generosity of the unemployment benefit system in a country. Hypothesis 1 that predicts a positive moderating influence of unemployment benefit generosity on the effect of unemployment on life satisfaction is strongly supported. The coefficient for benefit generosity ranges between 0.014 and 0.016 in all model specifications. This effect is significant at the 0.1 % level in all random intercept specifications and proofs to be robust in the longitudinal fixed effects specifications at the 5 % or even 1 % significance level (model 6 and 7). As a further robustness test, the same models have been estimated for each wave of the European Social Survey separately[4]. The results prove to be robust across individual waves: In a specification corresponding to model (2), the interaction effect between unemployment and benefit generosity was positive and significant at least at the 5 % level in each ESS round.

To be clear: Respondents living in a country with high replacement rates and long benefit receipt are still experiencing a remarkable drop in their subjective well-being in case of job loss. However, the loss of life satisfaction is not nearly as dramatic as it is for an unemployed living in a country with low unemployment benefit generosity.

For instance, a person becoming unemployed in a country with a benefit generosity score of one standard deviation above the mean experiences a drop in life satisfaction of -0.74 points on the 1-10 scale. Given the same personal characteristics, a respective respondent in a rather ungenerous country in terms of unemployment benefits (unemployment benefit generosity score of 1 standard deviation below the mean) faces a considerably larger drop in life satisfaction of -1.28[5].

Model (8) and (9) test different operationalisations for unemployment benefit generosity. While model (8) replaces the benefit generosity indicator by the average net replacement rate, model (9) uses expenditure data on passive labour market policy. Both alternative operationalisations show similarly positive moderating effects on the life satisfaction of the unemployed. However, the average replacement rate appears to be less statistically significant than the two more encompassing measures of benefit generosity, while the expenditure indicator shows strong positive moderating effects.

As mentioned above, the comparison between models that control for household income and models that lack an income variable can be a first step in understanding the mechanisms of a moderating effect of labour market policy. If labour market policy lost its influence once income was controlled for, the moderating effect of benefit generosity would have to be interpreted in a strict resource framework. An interaction effect that is unaffected by the inclusion of the income variable, however, suggests that passive labour market policy may affect the life satisfaction of the unemployed through

[4] Available upon request from the author.

[5] Calculations based on the estimators in model (4), e.g. life satisfaction effect of unemployment in a rather generous country: -1.4+0.014*(27.82+19.05)=-0.74

mechanisms that are not strictly pecuniary. Without knowing the exact composition of the moderating effect, the estimation results in model (5) suggest that, next to the resource dimension, labour market policy affects the unemployed in a non-pecuniary way. Unemployed in a country with rather encompassing unemployment benefits may suffer from a less severe stigmatisation and thus loss of self-confidence and life satisfaction than unemployed in a country with extremely low generosity scores. This argument is in line with previous research that hints towards negative psychosocial effects of means-tested social assistance benefit receipt (Wulfgramm 2011: 495) in case of expired unemployment benefit entitlements.

The moderating effect of active labour market policy with respect to unemployment and life satisfaction is far less straightforward and robust than the effect of passive labour market policy. If an interaction effect of unemployment*active labour market expenditure per unemployed is added to the model specification, a moderating effect of active labour market policy shows (model 3). This would suggest that the life satisfaction effect of unemployment in a country with low activation effort (one standard deviation below the mean) is -1.15, while it is only -0.81 in a more generous country. However, the addition of the interaction effect of unemployment*benefit generosity offsets this positive interaction effect completely. If passive labour market policy is controlled for, active labour market policy does not appear to matter in the determination of life satisfaction of the unemployed. Hence, Hypothesis 2 cannot be confirmed robustly. This result comes as surprise given the positive treatment effects of certain active labour market policy measures in countries such as Germany, Sweden or the United Kingdom (Wulfgramm 2011; Strandh 2001; Andersen 2008) and the positive effect of ALMP expenditure on social ties of labour market outsiders (Anderson 2009)[6].

The control variables on the micro-level behave in a rather predictable fashion and are in line with most happiness literature. Among the main occupations, being a student sticks out as having a more positive effect than working, while being permanently sick or disabled is associated with a significantly lower level of life satisfaction. For age, the well-known u-curve emerges, with the lowest level of life satisfaction at an average age of 42 years. Moreover, being educated and healthy increases life satisfaction, while being male and depending on unemployment benefits as the main source of household income affects well-being negatively.

The comparison of the impact of the income variable on the micro-level with the non-existent influence of national wealth of a country complies surprisingly well with the Easterlin paradox (cf. Easterlin 2001): While earning and owning more than others satisfies individuals, economic development does not alter the average life satisfaction within a country once a certain threshold is reached. As all countries in the sample have a gdp per

[6] It should be noted that Anderson did not control for passive labour market policy, though, so that his positive effects may suffer from omitted variable bias.

capita of more than 10,000 US $ per year, differences in average life satisfaction between countries cannot be attributed to the level of economic development. Moreover, it has been tested whether life satisfaction varies with time, especially as the last wave of the ESS has been conducted during the crisis years 2008/2009. Indeed, life satisfaction is smaller by 0.18 points in the ess-round 4 compared to essround 1 even after controlling for socioeconomic conditions (results not shown). Other coefficients are virtually unaffected by the inclusion of wave-dummies, though.

The macro-level control variables offer somewhat more puzzling coefficients. While the large negative impact of the unemployment rate complies with general expectations and previous research on contextual effects of unemployment (e.g. Faas 2010), the effects of the three welfare state variables are less intuitive. Both coefficients of ALMP expenditure as well as social expenditure show slightly negative tendencies, while unemployment benefit generosity has a somewhat positive effect on life satisfaction. Significance levels remain rather modest and tend to be highly sensitive to the model specification, though.

6. Conclusion

European welfare states differ widely in their approaches to alleviate the situation of the unemployed, yet the general trend of the past two decades has shown an 'activation turn' in European labour market policy. This paradigm shift has led to an increasingly high commitment towards active labour market policy, while unemployment benefits tend to have developed in a rather restrictive fashion with respect to their level, duration and conditionality. Both these enabling and enforcing elements of labour market activation are supposed to increase the reemployment of the unemployed. Yet such changes in public policies generally entail more than just the intended effects. I argue that the lives of individuals that are highly dependent on welfare state support are affected by public policies in ways that go beyond the economic effects that are generally studied in policy analyses. When it comes to life satisfaction effects, little is known about the interaction between adverse life events such as unemployment and the welfare state pillars that are supposed to cover these risks.

As the life of the unemployed is largely framed by national design and generosity of unemployment benefits as well as active labour market policy, the core hypotheses in this paper predicted positive moderating effects of generous labour market policies on life satisfaction of the unemployed. Indeed, this paper has shown that the well-being of the unemployed is to a surprisingly large extent determined by labour market policy. The effect of unemployment on life satisfaction differs considerably between European countries and depends strongly on the generosity of unemployment benefits. Restrictive benefit systems with short benefit durations and low benefit levels increase the psychosocial burden of unemployment for the respondents and are thus connected to a far larger drop in life satisfaction than the respective negative effect of unemployment in countries with rather generous passive labour market policy. It is shown that this effect remains strong even after the individual income of respondents is controlled for. Therefore I argue that this moderating effect of unemployment benefit generosity acts through both a resource and a non-pecuniary mechanism, where the latter is due to the fact that labour market policy may contribute to the stigmatization of unemployment.

However, not all results are in line with expectations. The prediction that spending on active labour market policy will have a moderating effect on the life satisfaction effect of unemployment could not be confirmed robustly. While a moderating effect appears in the analysis of a limited model specification, this connection disappears once unemployment benefit generosity is controlled for. A possible cause for the missing connection may be the simplified assumption that ALMP always has an enabling character, while different types of active measures may actually have very different well-being implications. The aggregation of ALMP

spending may thus blur the effect of specific policies. Future research should therefore investigate whether the type of ALMP efforts affects the well-being of the unemployed. Furthermore, more light should be shed on the interplay between active and passive labour market policy in the determination of the life satisfaction effect of unemployment.

A final word needs to be said about the importance of incorporating well-being effects into the evaluation of labour market policy. It might be argued that a focus on the effect of labour market policy on reemployment already covers well-being aspects, as reemployment has been shown to be connected to a sharp rise in life satisfaction. While the reintegration into paid employment is most certainly the major aim of activation, this kind of argumentation ignores the reality of European labour markets with unemployment rates of up to 20 per cent. As long as activation fails to combat unemployment successfully, a concern for the quality of life of the unemployed touches upon the core function of the welfare state, i.e. inclusion and support of the worst-off.

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NEW RELEASES

Winfried Schmähl

Finanzmarktkrise, Europa und die deutsche Alterssicherung

Einige Anmerkungen zu bisherigen Erfahrungen und künftigen Entwicklungen

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Seit einigen Jahren steht „die Krise" (der Finanzmärkte, des Euro, der Staatsschulden) im Zentrum der öffentlichen Diskussion. Waren die zunächst eingetretenen (kurzfristigen) Effekte für die deutsche Wirtschaft und die Alterssicherungssysteme – insbesondere im Vergleich zu vielen anderen Ländern – moderat, so ist in mittel- und längerfristiger Perspektive mit beträchtlichen Auswirkungen zu rechnen. Diese werden nicht nur von ökonomischen Entwicklungen sowie von Entscheidungen auf nationaler Ebene bestimmt, sondern zunehmend auch von Entwicklungen auf der europäischen Ebene. Erkennbar ist u.a., dass nach dem gezielten Unterminieren des Vertrauens in umlagefinanzierte Alterssicherung, ein Vertrauensschwund auch für kapitalmarktabhängige Alterssicherung eingetreten ist. Besondere Probleme für die Alterssicherung werfen ein niedriges Zinsniveau und Inflationsrisiken auf. Angesichts der sprunghaft gestiegenen Staatsschulden ist mit steigendem Druck auf öffentliche Alterssicherung zu rechnen, auch durch europäische Institutionen. Dort stehen fiskalische Nachhaltigkeit und Armutsvermeidung im Zentrum. Insgesamt liegt der Schluß nahe, dass die Finanzmarktkrise die Entwicklung, die in der deutschen Alterssicherungspolitik seit einigen Jahren beschritten wird, noch beschleunigen dürfte. Die damit verbundenen problematischen sozial- und verteilungspolitischen Wirkungen gehen zudem einher mit zunehmender Verunsicherung der Bevölkerung.

Forthcoming:

Matthias Greiff, Fabian Paetzel:
Reaching for the Stars: An Experimental Study of the Consumption Value of Social Approval.

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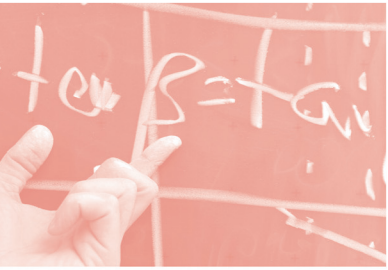

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