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UNEMPLOYMENT
AND
SUBJECTIVE
WELL-BEING:
DOES MONEY
MAKE A
DIFFERENCE?

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Abstract: In this paper we focus on the level of subjective well-being and its determinants among the unemployed as compared with those currently in paid labour. In theoretical terms, strongly contradictory views prevail on the effects of unemployment on subjective well-being. Whereas the traditional deprivation theory maintains that unemployment is a major psychological stressor, the incentive theory suggests that the level of well-being among the unemployed is far too high for them to actively and effectively search for a new job and to re-enter the labour market. Using the European Social Survey (ESS) data our empirical analysis suggests that perhaps, neither of these theories are entirely correct. The deprivation theory points to the right direction by stressing the psychological factors associated with unemployment but makes a notable mistake by disregarding the economic factors which prove to be not most crucial factor for the well-being of the unemployed. The incentive theory gets no support at all in our empirical analysis.

Key words: Unemployment, subjective well-being, deprivation theory, incentive theory

Tiivistelmä: Tutkimuksessa verrataan subjektiivisen hyvinvoinnin määräytymistä työttömien ja työllisten henkilöiden keskuudessa. Teoreettisesti työttömyyden ja hyvinvoinnin välisestä yhteydestä esiintyy kaksi vastakkaista tulkintaa. Perinteisen deprivatioteorian mukaan työttömyys aiheuttaa voimakasta psyykkistä kuormitusta. Sen sijaan uudemman insentiiviteorian mukaan työttömien hyvinvointi on liiankin korkealla tasolla, jolloin työttömät eivät aktiivisesti ja tehokkaasti hakeudu takaisin palkkatyöhön. Empiirisenä aineistona tutkimuksessa käytetään European Social Survey (ESS) -aineistoa. Kumpikaan aikaisemmista tulkinnoista ei saa täyttä tukea empiirisistä havainnoista. Deprivatioteoria on oikeansuuntainen sikäli, että työttömyys aiheuttaa selvää hyvinvoinnin alentumista. Tulokset osoittavat, että tärkein syy hyvinvoinnin alentumiseen on taloudellisen tilanteen heikkeneminen työttömyyden yhteydessä. Deprivatioteorian korostamalla psykologisilla tekijöillä on selvästi vähemmän merkitystä. Insentiiviteoria puolestaan ei saa lainkaan tukea tuloksistamme.

Asiasanat: Työttömyys, subjektiivinen hyvinvointi, deprivatioteoria, insentiiviteoria

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1. Introduction

In this paper, we analyse the potential effects of unemployment on subjective well-being. We detect determinants of subjective well-being during unemployment with a special attention on the association between personal financial situation and quantitative measurements of well-being.

During the last three decades, the debate about the life situation and well-being of the unemployed has basically oscillated between two extremes. On the one hand it has been argued that unemployment is a major psychological stressor, monetary distress being only of secondary importance. This approach is often labelled as the *deprivation theory*. Another line of reasoning, the so-called *incentive theory*, maintains that unemployment does not cause serious damages to individual well-being. Indeed, the proponents of the incentive theory have suggested that the level of well-being among the unemployed is too high for them to actively and effectively seek work. According to this view, a notable part of unemployment is more or less voluntary. But the debate is far from over. Recently, several researchers have maintained that *financial strain* is the most important determinant of the declining subjective well-being among the unemployed.

We also argue that neither the psychologically oriented deprivation theory nor the economically oriented incentive theory is entirely correct. We show that the incentive theory is simply against most of empirical evidence. It does not capture the essential elements of the life situation and behaviour of the unemployed. But also the deprivation theory fails to do so, to a certain extent. Most importantly, as the theory stresses the psychological effects of unemployment, it underestimates the strong economic consequences generated by unemployment. We suggest instead that unemployment severely damages subjective well-being mainly due to the developed financial constraints. We use the European Social Survey (ESS) data from 22 countries (Jowell et al., 2003) to sustain our argument.

The structure of the paper is the following. First we take a closer look on previous research on the association between unemployment and subjective well-being. These studies have shown clear patterns in the ways that different background variables moderate the affect of unemployment on well-being. In section three and based on these earlier results we summarise our main hypotheses and formulate our empirical analysis in more detail. There, we also describe the empirical data in terms of variables used. In section four we present the results generated with our descriptive and multivariate regression methods. Finally, we conclude with a more general discussion of the theoretical implications of our results.

2. Brief literature review

The main argument of the deprivation theory is based on the early social-psychological studies on unemployment (Jahoda, 1982). The theory strongly emphasises the importance of work and especially the multi-dimensional latent functions of work in people's lives. According to Jahoda's classical interpretation, unemployment damages mental well-being because it deprives people of the latent functions that employment provides. These functions are time structure, purposefulness, participation, contacts and regular shared experiences outside the family, information about personal identity, a link with collective purpose and enforced activity. Already in the original version of the deprivation theory, the latent functions of work were not the sole determinants of individual well-being. There was a manifest function, salary from the work, included as well. However, the fact that the latent functions were given an overwhelmingly central importance in the model has, among other things, raised criticism.

For example, in the famous "Vitamin" model of well-being during unemployment (Warr, 1987), monetary resources are presented as one of the factors, which, analogously to the way that vitamins affect physical health, have a crucial impact on mental health. Another source of criticism for the deprivation theory is the so-called "Agency Restriction" model (Fryer, 1986, 1995). This model presents the unemployed as being proactive rather than reactive or a passive victim of the unfortunate circumstances. The person is an active agent who aims at organizing and structuring information, making decisions and planning the future, thus searching for meaning for life events. Moreover, Fryer states that the social institution of paid employment is not the only source providing the latent functions, but instead, with certain recourses, the latent functions may be fulfilled in other spheres of life as well. For our purpose, it is interesting that Fryer (1995, p. 270) finds an important connection between economic strain and well-being: "...unemployment generally results in psychologically corrosive...poverty". Similarly, Halvorsen (1999) argues that the unemployed try to find various ways to cope with the transition from employment to unemployment. The extent that the unemployed succeed in coping with unemployment depends on an array of personal, social and economic resources, of which, in the light of recent evidence (Halvorsen, 1999; Goul Andersen, 2002), economic recourses are the most crucial.

Lack of monetary recourses restricts coping ability, personal agency and consequently deteriorates a person's well-being. In other words, money is an important prerequisite of coping. Also, financial resources improve access to other important resources, such as social and leisure activities, food, housing, and general physical security (Hobfoll et al., 1996; Ullah, 1990). Indeed, Jones (1991–1992, p. 50) suggests that "availability of income may be the most

important determinant of the expression of psychological and health symptoms related to unemployment...”.

Furthermore, a large body of research has shown that economic stress is associated with mental problems (e.g., Creed & Macintyre, 2001; Feather, 1989; Vinokur & Schul, 2002). Especially, the economic-shame model introduced by Starrin and his colleagues (Brenner & Starrin 1988; Starrin et al. 1996; Rantakeisu et al. 1997) emphasises the importance of financial hardship. The model suggests that lack of money stimulates feelings of shame and degradation in the eyes of others and even stigmatisation which in turn lead to declining well-being.

From a more sociological perspective, it is surprising how often in social research the restrictions imposed by economic deprivation on people's life are disregarded. It is quite evident that lack of money reduces not only individual autonomy but also the ability to maintain an established lifestyle. A failure in some previous research has been the inability to distinguish between the psychological effects of unemployment and those of poverty usually accompanying it.

Nevertheless, the incentive theory supports a more rival interpretation of the association between unemployment and well-being, based on the theories of structural unemployment and the related theory of job-search. According to those, the unemployed person is seen in an entire different light. The theory of structural unemployment views unemployment as a problem of the supply-side of the labour market. Thus, the job-search behaviour of the unemployed plays a dominant role in the determination of the overall unemployment in a given country. An important reason for the recent high unemployment rates is the widely spread unwillingness to work which in turn shows as a low level of job-search among the unemployed (see Räsänen, 2002 for an overview).

In other words, the high levels of unemployment are a product of inflexible labour markets and welfare states. Even high economic growth will only reduce unemployment down to the threshold of structural unemployment. Without major structural changes in the regulation of the labour market and the welfare state, a lower level of unemployment is not possible to reach with stable prices (see Goul Andersen & Halvorsen, 2002).

According to the theory of structural unemployment, the most efficient way to improve unemployment records is to create more economic incentives for job-search. Passive labour market policies, most notably the current unemployment benefit systems, are incapable of this. Instead, the too generous levels of unemployment benefits encourage people to laziness, and to not actively seeking work. An often-heard claim among the incentive theorists is that the levels of unemployment benefits and other social security benefits are too high and thus

create economic disincentives (Räsänen, 2002). This applies to most European countries but especially to the Nordic welfare states with their outstanding coverage and comparatively high levels of unemployment benefits.

All in all, compared to the deprivation theory approach, the incentive paradigm offers an entirely contrasting view of unemployment and the life situation of the unemployed. Unemployment is largely a deliberate choice of the unemployed. Many are unemployed voluntarily because they are completely satisfied with their situation and thus have a weak motivation to search for a job and re-enter the labour market. In broad terms the incentive approach emphasises that an individual's ability to get a job is to a large extent determined by his/her job seeking behaviour. Accordingly, the behaviour of the unemployed can and should be manoeuvred with economic and non-economic incentives. For the incentive theorist the problem is the too high, not too low, levels of well-being and financial resources among the unemployed.

3. Research design

The literature review presented above leads us to formulate our research questions more precisely. First, we ask whether there is a difference in well-being between the unemployed and those currently employed. Two hypothetical answers can be given. According to the long line of empirically well-grounded psychological and sociological research, there is a clear difference between the two groups and undoubtedly unemployment decreases well-being. On the other hand, according to the incentive theory, there is no notable difference. By contrast, the levels of well-being are far too high for the unemployed to effectively seek work, especially in countries where the unemployment benefits are highly developed. We test these assumptions first with descriptive evidence and then with multivariate methods controlling for other factors possibly affecting the well-being of both unemployed and employed individuals.

Our second question concerns the determinants of the possible decline of well-being among the unemployed. As explained above, the crucial issue is whether the well-being of the unemployed is determined by psychological factors or economic strain. Unfortunately, we have no psychological variables in our data. Nevertheless, we can capture the variation supposedly caused by psychological factors indirectly with other proxy variables. The psychological differences suggested by the deprivation theory should be reflected in variation according to certain personal characteristics like gender, family structure, age, stratification hierarchies and physical health. We discuss in more detail each characteristic in the following section.

Data

In this analysis we use the European Social Survey (ESS) data (Jowell et al., 2003). The ESS is an academically-driven social survey designed to chart and explain the interaction between Europe's changing institutions and the attitudes, beliefs and behaviour patterns of its diverse populations. The survey employs the most rigorous methodologies. Optimal comparability is the target issue in sampling, fieldwork procedures and translation, as well as in data preparation. Random probability samples representing eligible residential populations aged 15 or more were drawn from each of 22 countries in Europe. Specially trained interviewers conducted the personal interviews. In round one of the ESS, with the exception of a few countries, the response rates were higher than 65 per cent.

The variables utilised from the ESS were aggregated and manipulated to a certain extent before analysed descriptively and utilised in multivariate models. The original and final format of the variables utilised as shown in Table 2 later in the text. Below we describe in detail these variables and the reasoning behind these changes.

Dependent variable

Subjective well-being. The concept of subjective well-being is not unambiguously defined in earlier research. In this paper we follow Goul Andersen's (2002) notion of subjective well-being as a multidimensional concept. We perceive it for example as a broader concept than psychological distress or mental health which both are important components of well-being. Thus, the indicators measuring well-being in this study operate at the most general level; they are built from the average quantitative measurements of subjective perceptions of life satisfaction and happiness.

Independent variables

Employment status. This is our main independent variable of interest. We regress the happiness and satisfaction level of respondents against their employment situation controlling for different factors. Which factors – if any – we include in our models depend on the subjective well-being theories mentioned at the beginning of the paper. We compare whether this happiness and satisfaction level of the respondents differs significantly between the two groups. The construction of the employment binary variable was made as follows:

- For the unemployed it includes only those that declare they are unemployed and have or have not actively been searching for a job the last seven days
- For the employed it includes only those that are employed and have had a paid job the last seven days.

Financial Resources. Financial resources refer to the extent to which an individual has access to adequate household income of all sorts. In the ESS this is measured by directly asking the respondents about their monthly income. A construct related to financial resources, but yet distinguishable, is perceived financial strain. Perceived financial strain, sometimes labelled perceived financial hardship, was examined in the ESS by asking respondents to indicate how difficult it is for them to meet their every-day expenses. We utilise both variables when we test our main hypothesis, that financial constraints are a major factor explaining the differences in subjective life satisfaction between the employed and the unemployed. Because of the similarity of the two variables we run correlation tests; in no instances did the correlation coefficient exceed $\text{abs}(0.56)$, below the $\text{abs}(0.80)$ level considered threat to multicollinearity.

Gender and family background. One of the main implications of the deprivation theory concerns the possibility of substitution of the psychological loss related to unemployment within the sphere of family. This is especially important for women. As unemployment means the loss of time structure, purposefulness of life, social status and information about personal identity, unemployed persons

may acquire substitution for these losses within their families. Especially for women, the withdrawal to the family sphere may sound a natural choice. Thus, the traditional assumption is that women are less affected by unemployment than men are. This assumption is based on the gender variation in work commitment (e.g. Hakim 1991). Work plays a more important role for men's lives. As a contrast, the domestic role is more important to women. Thus, in line with the deprivation theory it can be argued that the domestic role of women may compensate for some of the latent negative effects of unemployment. According to Jahoda (1982, p. 53) the traditional role of housewife provides some time structure, some sense of purpose, status and activity even though it offers little scope for wider social experiences. Also in a more general sense, family background can be hypothesised to have both negative and positive effects on psychological well-being, too. Being *married* and having *children* at home may lead to responsibilities and commitments that could reduce personal control and hence the opportunity to engage in activities that contribute to psychological well-being. On the other hand, a supportive spouse can help an individual maintain or even increase feelings of happiness and well-being (see Goldsmith et al., 1997).

Moreover, it may be argued that women's unemployment is not so dramatic in financial terms, either. Women are frequently the second earners in the household in many countries. However, empirical research does not give consistent support for the argument of gender differences. There is evidence both supporting the argument (e.g. Gallie & Russell, 1998) and against it (e.g. Waters & Moore, 2001; Ensminger & Celentano, 1990). Some might argue that variation of levels of subjective well-being in gender is a consequence of traditional gender roles. In this case, it might be reasonable to expect that the variation becomes less important if and when new gender role-thinking is adopted. At the same time variables measuring family and marital status should become more important predictors of mental well-being among both the male and female unemployed.

Age. The deprivation theory also suggests that the psychological losses associated with unemployment depend on age of the unemployed person. According to this reasoning, unemployment is likely to exert relatively less psychological damage on younger age groups than upon older persons. Like women, young individuals are simply better positioned to establish functional alternatives to work. Moreover, they place less value on social position than older persons (Warr, 1987). However, a contrasting argument could be based on a speculation about the growing sense of self-worth as people age and mature.

Like with gender, it must be noted that the effects of age may also be connected not only to psychological factors, but also to the financial situation. The higher level of economic strain among the younger age cohorts might imply that the older a person gets the better he or she fares even during unemployment. On the

other hand, there is evidence according to which younger people are more adaptive to economically strainful situations (Ervasti, 2004).

Stratification hierarchies. Earlier evidence suggests that psychological effects vary according to stratification hierarchies, such as *occupation, level of education* and *income*.¹ As Whelan (1994, p.49) puts it “one of the most consistently documented associations in psychiatric epidemiology is that between social class, socio-economic status and psychological distress.” Theoretical explanations for this are based either on the so-called social selection argument or the social causation perspective. The former argues that natural competitive conditions lead to the existing distribution of psychological distress across the class structure. In other words one’s mental state helps determine his/her social position. The social causation argument emphasises the life conditions to which lower class people are exposed. Put differently, one’s social position helps determine his or her mental state. (Whelan, 1994; Kessler & Cleary, 1980.)

Health. Physical health status is a factor that can be expected to be an especially important determinant of mental well-being. This has been empirically verified in several studies (e.g. Gerdtham & Johannesson 2001; Clark & Oswald, 1994). The lower level of physical health among the unemployed compared to the employed is well-reported (Béland et al. 2002; Dooley et al. 1996). The direction of the causal relation between health and unemployment is, however, unclear. It may well be that unemployment stimulates health problems. On the other hand it is possible that those with physical health problems are more likely to lose their jobs than healthy individuals.

Social networks. The social environment of the unemployed has been the topic of much discussion. Most of prior research on the social networks of the unemployed has concentrated on the question of formation of the underclass and the possible emergence of the dependency culture. In this paper, however, the possible consequences of social isolation on psychological well-being are more important. Especially the deprivation theorists have paid a lot attention to the social isolation or, at least, the declining social networks among the unemployed (Jahoda, 1982). A growing body of evidence (Bjarnason & Sigurdardottir, 2002; Kessler et al., 1988; Winefield et al., 1992; Waters & Moore, 2002) has stressed the importance of the surrounding community for the psychological well-being of the unemployed. At their best, close and intensive social networks can be very effective in reducing psychological distress among the unemployed (Viinamäki et al., 1993; Thoits, 1992).

Religiosity. Prior research shows contradictory evidence of the effects of religiosity on subjective well-being. Some studies show religion and mental health to be positively related, whereas others find no or even a negative

¹ For *income*, see variables in *financial resources* earlier.

correlation (Gartner et al., 1991; Larson et al., 1992). Nevertheless, there are several reasons to expect a positive correlation between religiosity and well-being (Frey & Stutzer, 2002, pp.59-60): First, religious involvement may serve as an important source of social support which has a positive, although not independent effect on one's well-being. Secondly, religious experiences offer many individuals a feeling of meaning and purpose for life. Especially belief in afterlife provides existential certainty, which serves as a source of well-being. Thirdly, religious persons may be happier than non-religious persons due to their healthier living habits. For our purposes, the most important effect of religiosity is, however, that it provides individuals with resources to cope with adverse situations, like unemployment. Religious persons may try to cope with unpleasant situations by explaining their present conditions as the will of God or, even more importantly, they may have the feeling of being taken care by God in all life situations, which may make them feel happier.

4. Results

Descriptive findings

The rationale behind the variables utilised in our analysis is described in the previous section. To briefly reiterate the dependent variable used was the average of the happiness and satisfaction indices. (**hapstf**=[happiness + satisfaction]/2)

Table 1. Happiness and satisfaction mean levels per country controlling for employment

country	obs unemployed	hapstf (0/10) for unem- ployed	hapstf (0/10) for employed	obs employed	hapstf (0/10)	obs total
AT	46	6,61	7,70	705	7,63	751
BE	90	7,20	7,74	594	7,67	684
CH	32	7,03	8,00	880	7,97	912
CZ	35	5,40	6,78	358	6,66	393
DE	205	5,00	7,24	1024	6,87	1229
DK	60	7,56	8,51	746	8,45	806
ES	76	6,56	7,30	369	7,18	445
FI	100	7,51	8,00	844	7,95	944
FR	85	5,84	6,99	551	6,84	636
GB	73	5,63	7,33	864	7,21	937
GR	72	5,63	6,45	457	6,34	529
HU	83	5,12	6,19	490	6,04	573
IE	84	6,43	7,78	720	7,65	804
IL	177	6,05	6,92	791	6,77	968
IT	62	5,59	6,93	223	6,65	285
LU	13	6,76	7,78	370	7,74	383
NL	44	7,05	7,79	1045	7,77	1089
NO	66	6,09	7,86	1159	7,82	1225
PL	238	5,46	6,21	581	6,00	819
PT	40	5,97	6,52	425	6,48	465
SE	69	7,13	7,87	1029	7,83	1098
SI	87	6,09	6,89	488	6,78	575

Table 1 gives the mean value for this variable per country both for the unemployed and the employed. For the unemployed it ranged between 5.00 and 7.56 and for the employed between 6.19 and 8.51. Denmark looks to have the most satisfied respondents (8.45) and Poland the least satisfied ones (6.00). On average, clearly in all countries surveyed, the employed respondents reported

higher happiness and life satisfaction levels compared to their unemployed compatriots.

Table 2. Variable aggregations

Variable	explanation	Type	Original scale	Utilised/ Aggregated scale
hapstf	(happiness+satisfaction)/2	categorical, ordinal	0..10	0..10
employed	employment situation	binary	0/1	0/1 (read earlier on the criteria used to classify the employed and the unemployed)
age	age	continuous	continuous	age
age2	age squared	continuous	age*age	age*age
gndr	gender	binary	0/1	0/1
health2	health	categorical, ordinal	1..5	1 (= 1, 2 good or very good) 2 (= 3 fair) 3 (= 4, 5 bad or very bad)
edulvl2	education	categorical, ordinal	0..6	1 (= 0, 1 up to primary); 2 (= 2, 3, 4 secondary) 3 (= 5, 6 tertiary)
sclmeet2	social	categorical, ordinal	1..7	1 (= 1, 2, 3 up to once a month) 2 (= 4, 5 up to once a week); 3 (= 6, 7 up to everyday)
rlgblg	religious activity	binary	0/1	0/1
occupation	occupation (7 strata)	categorical, nominal	as in ESS	as per Erikson and Goldthorpe (1992) 1 (= Services I, high skilled pros white collar) 2 (= Services II, high skilled pros white collar) 3 (= Routine non manual, skilled white collar) 4 (= Skilled manual, blue collar) 5 (= Unskilled manual, blue collar) 6 (= Self employed) 7 (= Other)
marital2	marital status	categorical, nominal	1..5	1 (= 1 married) 2 (= 2, 3, 4 separated., divorced, widowed) 3 (= 5 never married)
chldhm	children at home	binary	0/1	0/1
hinctnt2	total household income	categorical, ordinal	1..12	1 (= 1, 2, 3, 4 lower) 2 (= 5, 6, 7, 8 average) 3 (= 9, 10, 11, 12 higher)
hincfel2	feeling on household income	categorical, ordinal	1..4	1 (= 1 comfortable) 2 (= 2 cope) 3 (= 3, 4 difficulties)

Most of the independent variables were categorical with many sub strata. To increase the number of observations per strata -thus make our models more robust-, we aggregated them. In Table 2 we describe these aggregations.

Table 3. Mean values of independent variables per country

country	employed (0/1)	gndr (1/2)	rlgblg (1/2)	chldhm (1/2)	age (cont)	health2 (1/3)	eduiv2 (1/3)	scimeet2 (1/3)	hinctnt2 (1/3)	hincfel2 (1/3)	obs
AT	0,94	1,51	1,34	1,47	40,73	1,18	2,18	2,36	1,87	1,84	751
BE	0,87	1,41	1,57	1,50	38,57	1,16	2,08	2,37	2,02	1,66	684
CH	0,96	1,47	1,43	1,58	41,54	1,12	2,20	2,43	2,74	1,49	912
CZ	0,91	1,51	1,79	1,42	43,95	1,36	2,12	2,05	1,16	2,24	393
DE	0,83	1,48	1,51	1,53	42,05	1,39	2,23	2,22	2,01	1,91	1229
DK	0,93	1,48	1,45	1,51	41,52	1,18	2,22	2,48	2,52	1,37	806
ES	0,83	1,42	1,33	1,53	38,60	1,27	2,04	2,40	1,53	1,88	445
FI	0,89	1,50	1,27	1,54	41,04	1,23	2,30	2,31	2,08	1,92	944
FR	0,87	1,53	1,59	1,47	39,17	1,32	2,21	2,47	1,45	2,42	636
GB	0,92	1,51	1,55	1,60	40,25	1,20	2,31	2,28	2,27	1,72	937
GR	0,86	1,44	1,04	1,54	37,77	1,13	2,12	2,01	1,43	2,41	529
HU	0,86	1,48	1,44	1,37	40,00	1,51	1,98	1,71	1,12	2,38	573
IE	0,90	1,50	1,20	1,46	38,99	1,09	2,07	2,26	1,88	1,71	804
IL	0,82	1,54	1,29	1,42	38,57	1,24	2,34	2,36	1,61	2,29	968
IT	0,78	1,52	1,24	1,43	40,26	1,30	1,98	2,24	1,79	1,97	285
LU	0,97	1,40	1,30	1,43	38,35	1,32	2,02	2,27	2,46	1,60	383
NL	0,96	1,50	1,63	1,51	40,21	1,19	2,26	2,49	2,15	1,49	1089
NO	0,95	1,45	1,49	1,50	40,89	1,19	2,34	2,67	2,60	1,51	1225
PL	0,71	1,47	1,09	1,35	37,33	1,42	2,08	1,93	1,09	2,41	819
PT	0,91	1,58	1,20	1,44	39,94	1,44	1,62	2,51	1,40	2,23	465
SE	0,94	1,47	1,74	1,53	41,76	1,23	2,24	2,43	2,18	1,51	1098
SI	0,85	1,51	1,56	1,33	38,65	1,40	2,19	2,08	1,29	1,79	575

Table 3 lists the mean values of the binary and ordinal variables used in our models. Under each variable we have highlighted their minimum and maximum levels. The number of employed respondents was highest in Luxembourg and lowest in Poland. In terms of gender in Portugal we had the most female respondents and in Belgium the most male. Greeks reported to be the most active subgroup in terms of religion activities and the Czechs the least active ones. The most children still living at home were reported in Great Britain and the fewest in Slovakia. The youngest respondents were in Poland and the oldest in the Czech republic. The Irish considered them selves to be the most healthy and the Hungarians the least. In terms of educational background the most educated respondents were found in Israel and Norway where as the least educated in Portugal. Social activity reported to be the highest among the Portuguese and the lowest with the Hungarians. Not surprisingly the richest respondents were found in Switzerland and the poorest in Poland. Finally those that seemed to cope best

with financial pressures were the Danes and those that coped worse were the French.

Multivariate findings

Since the dependent variable was in ordinal form we utilised it as a continuous variable and run several survey adjusted² OLS estimations using the Huber/White/sandwich estimator correction for confidence intervals. As is always the case in such Likert scale responses, we assume that the measurement of preferences is equal between all cohorts (e.g. between 0 and 1, 1 and 2, ...9 and 10).

We run models separately for each participating country; we did not combine data from two or more countries. After discussing our research design with the ESS people, we used in our regressions as population weights the “design weight” variable provided directly by ESS.³

The modelling strategy was simple. Since we were interested in the effects of employment status on the overall happiness and satisfaction of the individual we conducted three types of regressions for each country of the sample using three different variable specifications. In the first specification (*countryinitial_NO* – incentive theory) we simply regressed the satisfaction and happiness variable (*hapstf*) against the employment status (*employed*). This specification tests the main assumption posed by the incentive theorists; the theory gains support in case that the level of well-being is not significantly weaker among the unemployed as compared to those are currently employed. In the second specification (*countryinitial_WOF* – deprivation theory) in the RHS of the models we added a set of standard control variables which were age, age*age, gender, health status, educational level, social activity, religious beliefs, type of occupation, marital status, and whether children are still at home. We believe that we can test the core assumptions of the deprivation theory with this specification; as the psychological differences should be captured with the controlling proxies, the deprivation theory gets support in case the controls eliminate the possible difference in well-being between unemployed and employed individuals. Finally in the third specification (*countryinitial_WIF* – financial strain theory) we further added two variables of financial nature; the total household income and how well one copes with his/her household income. This final specification allows us to test the effects of financial strain on well-being among the unemployed.

In order to compare the beta coefficients of employed across the different specifications within each country, we run all models with the restriction that all

² we run Stata’s `svyreg` command.

³ For more on the ESS population weights, visit <http://ess.nsd.uib.no/files/WeightingESS.pdf> (as at 14.03.2006).

the variables included in the third specification were not missing from any runs of previous models. For example, respondents that left empty their household income were not accounted in the models of specifications one and two although that variable was not in those models' RHS. One can easily check this, by looking at the observations per country per model; they are constant across each model specification (Long & Freese, 2006). Finally we also run misspecification tests on all multivariate models⁴.

Table 4 lists the results of our regressions, In the first specification (*countryinitial_NOC* – incentive theory) in almost all of the 22 countries surveys the beta coefficient comes out statistically significant with a positive sign. Because of the way we have coded the binary employed variable (0= unemployed, 1= employed) these results clearly indicate that there are differences between the two groups in terms of subjective well-being. The employed have on average a happiness – satisfaction level ranging from 0,49 units (Finland) to 2,20 units (Germany) bigger compared to the unemployed. In just two countries the coefficients come out statistically insignificant, but still with a positive sign (Luxembourg⁵ and Portugal).

For the second specification (*countryinitial_WOF* – deprivation theory) we report only the coefficients of the employed variable per country although in the models we include all the control variables mentioned in the previous section⁶. Again the empirical results seem to reject the deprivation theory in most cases. Now however all the coefficients have been reduced in magnitude and their significance level has been decreased. Note that in addition to Luxembourg and Portugal, now also Finland, Greece and Slovakia come out with insignificant beta coefficients.

In our third and final specification (*countryinitial_WIF* – financial strain theory) we add the two variables representing financial constraint to the rhs of the second specification. If the theory of financial strain were to be supported empirically we should see the beta coefficients turn statistically insignificant. We observe that this is indeed the case for seven countries examined, namely Belgium, Switzerland, Hungary, Italy, Netherlands, Norway and Sweden. In another ten countries (Austria, Czech republic, Germany, Denmark, Spain, Great Britain, Ireland, Israel, France and Poland) the coefficients remain statistically significant but are still reduced compared to the results with the second specification. Finally the countries left Luxembourg, Portugal, Finland, Greece and Slovakia come out with insignificant beta coefficients as in the previous specification.

⁴ Stata's `linktest`.

⁵ The results concerning Luxembourg should be interpreted with care because of the very low amount of unemployed observations utilised in our models (13 – see Table 1).

⁶ Printouts with the detailed outputs of all models are available upon request.

This last specification gives fairly strong evidence that, if we are able to control for variables representing financial strains, the levels of subjective well being among employed and unemployed individuals indeed converge significantly.

Table 4. *Beta coefficients of employed from three specifications per country*

Dependent variable: (happiness + satisfaction levels)/2

Country	beta	r2	obs	Country	beta	r2	obs
AT_NOC	1,073*	0,018	751	IL_NOC	0,956***	0,032	968
AT_WOF	0,989*	0,127	751	IL_WOF	0,714***	0,182	968
AT_WIF	0,714	0,167	751	IL_WIF	0,514*	0,218	968
BE_NOC	0,539**	0,016	684	LU_NOC	1,013	0,009	383
BE_WOF	0,400*	0,112	684	LU_WOF	0,025	0,189	383
BE_WIF	0,032	0,194	684	LU_WIF	-0,036	0,226	383
CH_NOC	1,028**	0,020	912	IT_NOC	1,246***	0,063	285
CH_WOF	0,866**	0,136	912	IT_WOF	0,821*	0,277	285
CH_WIF	0,586	0,180	912	IT_WIF	0,632	0,323	285
CZ_NOC	1,361**	0,040	393	NL_NOC	0,577**	0,008	1089
CZ_WOF	1,142**	0,196	393	NL_WOF	0,408*	0,146	1089
CZ_WIF	0,772*	0,243	393	NL_WIF	0,121	0,207	1089
DE_NOC	2,207***	0,164	1229	FR_NOC	1,136***	0,040	636
DE_WOF	1,821***	0,269	1229	FR_WOF	0,943***	0,231	636
DE_WIF	1,223***	0,329	1229	FR_WIF	0,804**	0,275	636
DK_NOC	0,951***	0,042	806	GR_NOC	0,870**	0,025	529
DK_WOF	0,781***	0,169	806	GR_WOF	0,618	0,203	529
DK_WIF	0,460*	0,218	806	GR_WIF	0,396	0,241	529
ES_NOC	0,545*	0,018	445	NO_NOC	1,265**	0,041	1225
ES_WOF	0,751**	0,139	445	NO_WOF	0,865**	0,159	1225
ES_WIF	0,552*	0,173	445	NO_WIF	0,493	0,198	1225
FI_NOC	0,497**	0,013	944	PL_NOC	0,727***	0,022	819
FI_WOF	0,196	0,149	944	PL_WOF	0,686***	0,190	819
FI_WIF	-0,127	0,207	944	PL_WIF	0,395*	0,239	819
GB_NOC	1,550***	0,052	937	PT_NOC	0,218	0,001	465
GB_WOF	1,457***	0,135	937	PT_WOF	-0,304	0,265	465
GB_WIF	0,975**	0,206	937	PT_WIF	-0,303	0,270	465
HU_NOC	1,071***	0,035	573	SE_NOC	0,746**	0,015	1098
HU_WOF	0,733**	0,233	573	SE_WOF	0,573*	0,194	1098
HU_WIF	0,374	0,274	573	SE_WIF	0,383	0,224	1098
IE_NOC	1,416***	0,071	804	SI_NOC	0,806**	0,023	575
IE_WOF	1,216***	0,188	804	SI_WOF	0,327	0,206	575
IE_WIF	0,773**	0,241	804	SI_WIF	0,172	0,281	575

*, **, *** = significant at the 10%, 5%, 1% level

5. Discussion

In this study we put two rival theories into an empirical test about the effects of unemployment on well-being. The deprivation theory stresses the psychological consequences of unemployment. According to the theory, work as such, is an important determinant of well-being. More specifically, the loss of the various latent functions of work is detrimental to a person's well-being. The more recent incentive theory paints exactly the opposite picture of the life situation of the unemployed. According to that theory, the well-being of the unemployed is too high, making them unwilling to re-enter the labour market. This idea is based on the assumption that an important proportion of unemployment is voluntary in nature.

Our main finding is that neither of these theories is entirely correct. Consistent with numerous earlier studies, our results show that when people become unemployed their level of well-being is likely to be damaged. This basic result partly supports the deprivation theory and, at the same time, strongly questions the incentive approach. If unemployment was largely voluntary or a deliberate choice, the unemployed should be as content with their lives as those who have jobs. Claims about false incentives as a cause of unemployment seem practically inappropriate in the light of our empirical analysis.

But our results do not give full support for the deprivation theory, either. Although for many decades researchers have shown evidence for the deprivation theory, our findings suggest that sometimes life is more simple; the most important determinant of well-being during unemployment is money. In several countries financial conditions of the respondent seem to be the most important determinant of well-being. Unlike what deprivation theory suggests, the decline of well-being among the unemployed is not always a consequence of lack of work per se. Rather, the financial strain associated with unemployment causes the decline of well-being. However, again we stress that our findings are not entirely contradictory with the deprivation theory. In many countries the proxies for the psychological factors do indeed affect the level of well-being. Although financial hardship is the most important predictor of poor mental well-being among the unemployed, it is not the only one. We can thus conclude that the decline of well-being among the unemployed is related first of all to the financial strain that most unemployed individuals experience, and secondly to the array of psychological implications of the loss of the latent functions of work.

Our analysis has clear policy implications. Recently unemployment policies in many countries have adopted the standpoints of the incentive theory and, to a lesser extent of the deprivation theory. In many European countries social protection and especially unemployment benefits have been cut in order to create more incentives for the unemployed to re-enter the labour market. The main

emphasis has been laid on labour market integration rather than on economic security, which is considered a passive form of unemployment policy. We do not argue against more active labour market policy measures, but in the light of our analysis it seems evident that the disincentives as measured by the well-being of the unemployed are not a real problem. Rather it is possible, that reducing financial and other benefits for the unemployed may finally be counterproductive. A decent standard of living during unemployment secures an individual from mental problems, protects from a decline of self-esteem, depression and psychological stress, and, finally, makes him/her a more appealing applicant in the job market.

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