Economics Bulletin

Volume 30, Issue 3

# Better an insecure job than no job at all? Unemployment, job insecurity and subjective wellbeing

Andreas Knabe
*Freie Universität Berlin*

Steffen Rätzel
*Otto-von-Guericke-University Magdeburg*

## Abstract

We analyze the impact of a person's current employment status and expectations about his or her future labor market status on life satisfaction, using long -run panel data for Germany. Our findings suggest that future expectations (measured by perceived job security for the employed and chances to find a new job for the unemployed) are at least as important for a person 's subjective well-being as his or her current employment status. This implies that an unemployed person who thinks it will be easy to find a new job might be happier than if he had an insecure job. There might be circum¬stances under which having no job is less harmful for subjective well-being than being employed in an insecure one.

paper for possible publication
**Citation:** Andreas Knabe and Steffen Rätzel, (2010) "Better an insecure job than no job at all? Unemployment, job insecurity and subjective wellbeing", *Economics Bulletin*, Vol. 30 no.3 pp. 2486-2494.
**Submitted:** Aug 31 2010. **Published:** September 23, 2010.

## 1. Introduction

The effect of job insecurity on subjective well-being has been the subject of extensive psychological research (see the survey of De Witte (1999)). The "economics of happiness", however, has mainly focused on the negative effect of unemployment on subjective well-being, providing overwhelming evidence that becoming unemployed reduces individual life satisfaction by much more than what can be explained by the associated income loss (Frey 2008). In this literature, job insecurity has been treated mainly as a moderator of other effects. For example, Knabe and Rätzel (2008) show that past unemployment reduces subjective well-being even after reemployment (the "scarring effect", cf. Clark et al. (2001)) because people who have experienced more unemployment in the past are also more afraid to lose their job again in the future. Clark et al. (2010) show that higher regional unemployment alleviates the well-being loss from unemployment (the "social norm effect", cf. Clark (2003)), but that this effect is smaller for unemployed persons with good reemployment chances and employed persons with insecure jobs.

In this paper, we focus on the direct effect of future uncertainty on happiness. Using long-run panel data from the German Socio-Economic Panel (SOEP), we estimate how job insecurity among the employed and perceived reemployment chances among the unemployed affect subjective well-being. Our results show that one does not necessarily have to become unemployed to suffer from unemployment. Those who have a job, but are worried about the risk to become unemployed in the future, also exhibit lower subjective well-being than people with secure jobs. We also show that, among the unemployed, those persons who are least confident that they will find a new job in the future suffer most. This suggests that expectations about future prospects on the labor market are at least as important for subjective well-being as one's current employment status.

Our analysis rests on the assumption that individuals are able to form meaningful expectations about their future job prospects. Recent studies have provided evidence that subjective expectations contain valuable information about future events (Manski 2004). With respect to job insecurity, Stephens (2004) uses panel data from the US to show that expectations about the probability of a job loss have predictive power for future job displacement at some point while the person is still observed in the panel. Campbell et al. (2007), using British panel data, and Dickerson and Green (2009), with panel data for Germany and Australia, show that expectations of job loss and job finding chances predict actual labor market outcomes in the following year. Extending the analyses of these studies, we exploit the monthly employment information contained in the SOEP to estimate a parametric survival-time model. We find supportive evidence for the abovementioned studies. Those employed who consider their jobs to be rather insecure are

in fact getting hit by unemployment significantly earlier than people who think that their job is secure. Likewise, those unemployed who evaluate their reemployment chances as worse need significantly longer to leave unemployment. These results confirm that individuals are indeed able to predict their job market chances and verify the relevance of subjective perceptions.

We will proceed as follows. In the next section, we describe our empirical strategy and data. The empirical results are presented in Sections 3 and 4. Section 5 provides a summary and concludes.

## 2. Empirical strategy and data

We estimate an extended life satisfaction equation, in which we interact a person's current employment status with his expectation about future employment prospects:

$$\begin{aligned} LS_{it} = {} & \beta_1 \left( E_{it} * High\_Security_{it} \right) + \beta_2 \left( E_{it} * Low\_Security_{it} \right) \\ & + \beta_3 \left( UE_{it} * High\_Chance_{it} \right) + \beta_4 (UE_{it} * Med\_Chance_{it}) + \beta_5 (UE_{it} * Low\_Chance_{it}) \\ & + \gamma' X_{it} + \alpha_i + \mu_t + \varepsilon_{it} \end{aligned} \qquad (1)$$

$LS_{it}$ denotes the life satisfaction reported by individual $i$ at time $t$. $E_{it}$ and $UE_{it}$ are dummy variables indicating that a person is employed or unemployed, respectively. We interact these dummies with measures for job security (high and low security) for the employed and chances to find a new job (high, medium, or low chance) for the unemployed. Employed individuals with medium job security serve as the reference group. The vector $X_{it}$ is a set of control variables, $\alpha_i$ is an individual fixed effect, $\mu_t$ is a time-variant effect, and $\varepsilon_{it}$ is a random error term.

Our empirical analysis is based on the German Socio-Economic Panel (SOEP).[1] We use 20 waves for the period from 1987 to 2006, which yields an unbalanced panel with more than 100,000 person-year observations.[2] We consider individuals that are either in dependent employment (fulltime or parttime) or registered as unemployed. We restrict our sample to working-age persons between 25 and 55 years of age. Life satisfaction is obtained by asking people: "How satisfied are you with your life, all things considered?" Answers are given on an ordinal scale from 0 (completely dissatisfied) to 10 (completely satisfied).

[1] The data used in this publication were made available by the German Socio-Economic Panel Study (SOEP) at the German Institute for Economic Research (DIW), Berlin, and were extracted using the Add-On-package PanelWhiz for Stata (Haisken-DeNew and Hahn 2006).

[2] Since 1987 is the first year in which information on perceived future job prospects is available, we cannot use earlier waves of the SOEP.

The SOEP allows us to separate persons within each employment group according to their future job chances for the unemployed and their job security for the employed. Employed respondents' perceived labor market prospects are measured by asking them about the probability they assign to losing their job. The exact question in the SOEP questionnaire is: "*How concerned are you about your job security?*" Answer options are "*not concerned at all"* (in which case we set the dummy variable *High_Security* equal to one), *"somewhat concerned"* (used as the reference category), and *"very concerned"* (*Low_Security*=1). The unemployed are asked about their perceived chances of finding a new job: "*If you were currently looking for a new job: Is it or would it be easy, difficult, or almost impossible to find an appropriate position?*" Respondents can answer that it is "*easy*" (*High_Chance*=1), "*difficult*" (*Med_Chance*=1), or "*almost impossible*" (*Low_Chance*=1).

## 3. Regression results

We conduct a conditional logit estimation with individual fixed effects (Ferrer-i-Carbonell and Frijters 2004). The fixed effects capture the influence of time-invariant personal predispositions in life satisfaction, i.e. the model effectively uses only information about variations in the life circumstances of the same individual instead of comparing satisfaction level across individuals. Columns 1 and 2 of Table I contain the estimates of a basic regression without job insecurity. The effects of unemployment (negative) and income (positive) are in line with the literature. The impact of unemployment is substantial in size and statistically highly significant for men and women.

In columns 3 and 4 of Table I, we extend the estimations by including individual expectations about future employment prospects. The, perhaps surprising, finding is that unemployment itself does not cause lower well-being. Compared to the reference group of employed with medium job security, unemployed men and women with good reemployment chances do not at all report lower life satisfaction scores. The corresponding coefficients are not statistically different from zero and their sign is even positive. This suggests that those unemployed who think that it will be easy to find a new job are as happy as comparable employed individuals with medium job security. Moreover, they feel even better than the employed in a job with low job security.

Our results suggest that a person's perceptions about his future labor market prospects are a major determinant of individual well-being.[3] The impact of job security and subjective percep-

[3] As robustness checks, we also ran an ordered probit regression without fixed effects and OLS and probit-adjusted OLS regressions (Van Praag and Ferrer-I-Carbonell 2004) with fixed effects. None of these alternative models affected the results qualitatively.

tions of one's reemployment chances is sufficiently strong to qualify one of the standard results of the happiness literature: It is not unemployment per se that is responsible for the negative well-being effect associated with becoming unemployed. Rather, it is the rise in insecurity about one's future chances on the labor market that depresses people's happiness.

*Table I: Regression results*

| | excluding future insecurity | | including future insecurity | |
|---|---|---|---|---|
| | Men | Women | Men | Women |
| | (1) | (2) | (3) | (4) |
| Employed | Reference | Reference | | |
| x Medium job security | | | Reference | Reference |
| x High job security | | | 0.400*** | 0.337*** |
| | | | (0.029) | (0.031) |
| x Low job security | | | -0.486*** | -0.309*** |
| | | | (0.036) | (0.041) |
| Unemployed | -1.010*** | -0.799*** | | |
| | (0.054) | (0.053) | | |
| x High job chances | | | 0.050 | 0.072 |
| | | | (0.150) | (0.209) |
| x Medium job chances | | | -1.103*** | -0.766*** |
| | | | (0.060) | (0.060) |
| x Low job chances | | | -1.470*** | -0.994*** |
| | | | (0.102) | (0.085) |
| ln household income p.c. | 0.562*** | 0.678*** | 0.509*** | 0.655*** |
| | (0.048) | (0.051) | (0.048) | (0.051) |
| Personal controls | yes | yes | yes | yes |
| Individual fixed effects | yes | yes | yes | yes |
| Time fixed effects (annual) | yes | yes | yes | yes |
| Observations | 49,581 | 41,859 | 49,581 | 41,859 |
| Log likelihood | -24,788 | -20,137 | -24,510 | -20,013 |

*Note: Conditional logit estimations with individual and time fixed effects. Personal controls include parttime work, marital status, number of children, years of education, age dummies (5-year age brackets), and household member in need of care. Standard errors in parentheses. * denotes significance at the 10-percent-level, ** at the 5-percent-level, *** at the 1-percent-level.*

## 4. Are people's employment expectations meaningful?

An important question is whether individuals are really able to form meaningful expectations about their future employment prospects, or whether their expectations are rather coincidental. Since we are working with panel data, we can examine how a person's perception of his future labor market chances correlates with the employment outcome that actually occurs in the future

by using a parametric survival-time regression model. Hence, we estimate to what extent an employed person's subjective assessment of his job security can be used as a predictor of the duration with which he will remain in a given job before an involuntary separation occurs. Analogously, we use an unemployed person's perceptions about the ease with which he could find a job as a predictor for the length of time it actually takes him to find a new job. The SOEP contains monthly data on entries in, and exits from, (un)employment. The panel data contain multiple observations per individual spell as well as multiple spells per person while in the panel. We use a robust variance estimator with clustering on the individual level to account for multiple observations for a single individual in the risk pool.

Table II presents the estimation results of the parametric survival-time regression using a Weibull distribution.[4] For the employed, we model involuntary separations as the failure event. This gives 50,698 observations from 16,460 spells. For the unemployed, the "failure event" in the regression is finding a new job. We obtain 9,550 observations from 6,229 spells. The regression results confirm our prior expectations for the employed as well as for the unemployed. The more secure the employed rate their current job the lower is the probability that they will actually be laid off in the future. The lower the jobless assess their future reemployment chances the lower is the actual probability to find a new position in the future.

To illustrate the results, Figure 1 shows the predicted survival function for the employed and the unemployed. There appears to be a clear relationship between the job security and the probability of future job loss for the employed. Individuals who are very concerned lose their current job with a probability of over 50 percent in the next 10 years. In contrast, people who do not worry about their job security experience a job loss only with a probability of about 20 percent in the next 10 years.

We find a similar pattern for the unemployed. More than 90 percent of all unemployed persons who think that it is easy to find a new job actually return to employment within the next five years. This group's mean time spent in unemployment is a little more than one year. The probability to find a new job is somewhat smaller for those unemployed who rate their chances as difficult. Mean unemployment duration is 1.8 years. The worst probability to return to the labor market is found for the unemployed who think that it is almost impossible to find a new job. Mean unemployment duration is 6.8 years; almost 40 percent are still unemployed after even after 10 years in unemployment.

The findings from the survival-time analysis indicate that individuals are indeed able to make meaningful prediction of their future labor market prospects. The employed as well as the unemployed appear to have a good feeling about what their actual future job prospects are. It thus

[4] We additionally estimated a semi-parametric Cox duration model, which gave qualitatively identical results.

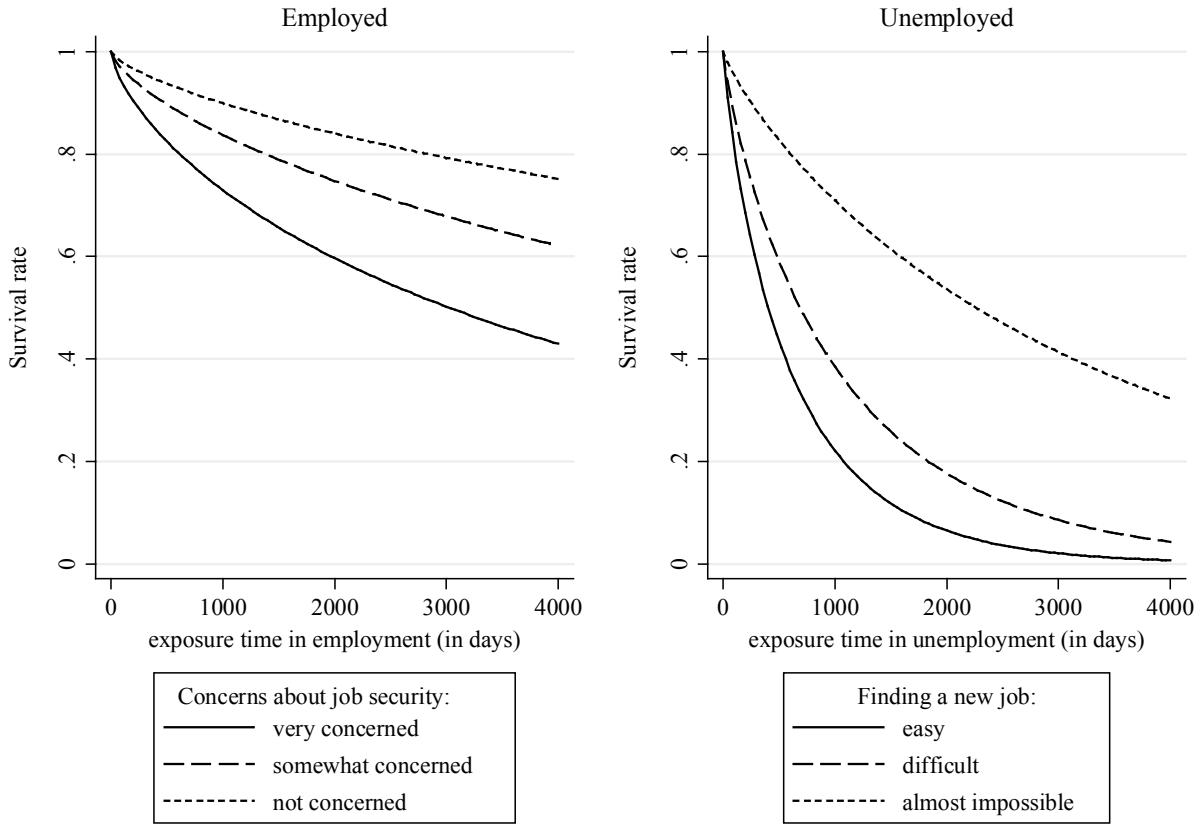
seems justified to use subjective perceptions about the future as indicators of a person's actual labor market insecurity to explain the determinants of subjective well-being.

*Table II: Estimation results of the parametric survival-time regression*

| | Employed | Unemployed |
|---|---|---|
| Failure event | Involuntary separation from a job | Finding a new job |
| Employed | | |
| x Low job security | Reference | |
| x Medium job security | -0.573*** (0.040) | |
| x High job security | -1.087*** (0.044) | |
| Unemployed | | |
| x High job chances | | Reference |
| x Medium job chances | | -0.457*** (0.076) |
| x Low job chances | | -1.480*** (0.092) |
| Monthly household income/1000 | | 0.093 (0.052) |
| Monthly net wage/1000 | 0.000 (0.000) | |
| Parttime | 0.163*** (0.047) | |
| Education | 0.025*** (0.007) | 0.044*** (0.010) |
| Married | -0.580*** (0.037) | -0.030 (0.046) |
| Children | 0.126*** (0.020) | 0.091*** (0.025) |
| Women | -0.069* (0.038) | -0.230*** (0.045) |
| Observations | 50,698 | 9,550 |
| Log likelihood | -13,201 | -5,766 |

*Note: Estimations with a robust variance estimator, individual level clustering, and a Weibull survival distribution. We report coefficients, not hazard rates.* * *denotes significance at the 10-percent-level,* ** *at the 5-percent-level,* *** *at the 1-percent-level.*

*Figure 1: Survival rates depending on perceived job security and reemployment chances*




## 5. Conclusion

This paper analyses the importance of labor market insecurity on individual well-being for the unemployed and the employed using long-run panel data for Germany. While numerous studies have shown unanimously that unemployment is detrimental to a person's subjective well-being, our findings suggest that this result has to be qualified. At least as important as a person's current employment status is what this person expects for the future. Current unemployment does not seem to be as harmful if a person expects to be able to return to the labor market rather quickly. In fact, an unemployed person who thinks it will be easy to find a new job is not less happy than if he were employed in a job offering only an intermediate degree of job security, and is even happier than if he had an insecure job. It is only if this person thinks that finding a new job will be hard or almost impossible that unemployment really harms his subjective well-being. Hence, there might be circumstances under which having no job is better than having an insecure one.

## References


Campbell, David, Allen Carruth, Andrew Dickerson, and Francis Green (2007) "Job insecurity and wages" *Economic Journal* **117**, 544-566.

Clark, Andrew, Andreas Knabe, and Steffen Rätzel (2010) "Boon or bane? Others' unemployment, well-being and job insecurity" *Labour Economics* **17**, 52-61.

Clark, Andrew E. (2003) "Unemployment as a Social Norm: Psychological Evidence from Panel Data" *Journal of Labor Economics* **21**, 323-351.

Clark, Andrew E., Yannis Georgellis, and Peter Sanfey (2001) "Scarring: The Psychological Impact of Past Unemployment" *Economica* **68**, 221-241.

De Witte, Hans (1999) "Job Insecurity and Psychological Well-being: Review of the Literature and Explorations of Some Unresolved Issues" *European Journal of Work and Organizational Psychology* **8**, 155-177.

Dickerson, Andrew P., and Francis Green (2009) *Fears and realisations of employment insecurity*, Sheffield Economic Research Paper Series No. 2009016, University of Sheffield, Sheffield.

Ferrer-i-Carbonell, Ada, and Paul Frijters (2004) "How Important Is Methodology for the Estimates of the Determinants of Happiness?" *Economic Journal* **114**, 641-659.

Frey, Bruno S. (2008) *Happiness: A Revolution in Economics*, Munich Lectures in Economics, Cambridge and London: MIT Press.

Haisken-DeNew, John, and Markus Hahn (2006) *PanelWhiz: A Flexible Modularized Stata Interface for Accessing Large Scale Panel Data Sets*, http://www.panelwhiz.eu.

Knabe, Andreas, and Steffen Rätzel (2008) *Scarring or Scaring? The Psychological Impact of Past Unemployment and Future Unemployment Risk*, CESifo Working Paper Series No. 2457, CESifo, Munich, forthcoming in *Economica*.

Manski, Charles F. (2004) "Measuring Expectations" *Econometrica* **72**, 1329-1376.

Stephens, Melvin (2004) "Job Loss Expectations, Realizations, and Household Consumption Behavior" *Review of Economics and Statistics* **86**, 253-269.

Van Praag, Bernard, and Ada Ferrer-I-Carbonell (2004) *Happiness quantified: A satisfaction calculus approach*, Oxford and New York: Oxford University Press.