Drawing on the Panel Study of Income Dynamics, I track the subjective well-being of individuals as they enter and exit unemployment. Job loss is a salient trigger event that sets off large changes in well-being. The factors expected to improve the lot of the unemployed have limited efficacy: (1) changes in family income are not significantly correlated with well-being; (2) unemployment insurance eligibility seems to partly mitigate the effect of job loss, but is a poor substitute for work; and (3) even reemployment recovers only about two thirds of the initial harm of job loss, indicating a potential long-term scar effect of unemployment. This highlights the deep and intractable hardship caused by unemployment in America.

For a long time, unemployment was off the radar screen of American policy makers. Though many Americans endured bouts of joblessness, unemployment rates were much lower than in most European countries. Indeed, there was much admiration for the “great American jobs machine,” and scholarly work focused on why there is so much inequality despite nearly full employment (Freeman 2007). Few people foresaw any great change. Indeed, in early 2008, President Bush’s Council of Economic Advisors (CEA) predicted 5 percent unemployment for many years to come (CEA, 2008). Instead, unemployment spiked above 10 percent as some 10 million people lost their jobs. Unemployment rates rose above those in the big four European countries for the first time since 1980. At the rates of job growth seen in the first year of the recovery, U.S. unemployment will not fall to prerecession levels until around 2016. Since recessions happen on average every 6 years in the United States, the country seems unlikely to fully recover before the next downturn.

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Portions of this paper were presented in seminars at Princeton, Yale, Duke and Stanford. The data and code for replicating this paper in STATA are available on my personal webpage.
This study explores the nonpecuniary cost of unemployment by tracking people who enter and exit unemployment using the Panel Study of Income Dynamics. The main result is very clear: unemployment is a trigger event that sets off a large shift in people’s subjective well-being, on an order of magnitude greater than the effect of changes in family structure, home ownership, or parental status. Loss of work seems particularly hard to take.

I also look at three factors expected to alleviate the distress of unemployment: income, unemployment insurance (UI) and reemployment. Strikingly, none of these factors make the unemployed whole again. Changes in income (across a broad set of specifications) are not correlated with subjective well-being. Unemployment with UI benefits seem only marginally better than unemployment without benefits, and both are highly distressing states. This defuses common criticisms of UI benefits, that they discourage people from looking for work (Feldstein and Altman 2007). At the same time, the program also does not do much to make people feel better about their circumstances. Finally, reemployment leads to a clear and strong improvement in well-being. However, the gain from finding a job is significantly smaller than the initial harm from losing a job. This suggests a scar effect of job loss that lingers over time, one that even reemployment does not fully correct.

Existing research shows that unemployment taints a person’s job application in a similar way as having a criminal record (Pager 2007) or as being a mother (Correll, Benard and Paik 2007): it creates skepticism among employers about the value of the job applicant and pushes applicants towards the bottom of the hiring queue (Blau and Robbins 1990; Eriksson and Lagerstrom 2006). As a result, job loss tends to carry long-term financial scars: the unemployed eventually find new jobs, but at substantially lower pay (Gangl 2006; Fuller 2008). This study provides partial evidence of additional, nonpecuniary, scar effects of job loss. This may reflect a heightened sense of insecurity that persists long after reemployment (Knabe and Ratzel 2011). It may also reflect a drop in job quality, and thus job satisfaction, after a spell of unemployment (Brand 2006). Future research will need to examine the persistence of this effect to tell whether it is a temporary “blemish” or a permanent scar (Ruhm 1991:319).

The layout of the article is as follows. First, I discuss theoretical issues and themes. Next, I review the existing literature and then consider the data and methods, followed by a discussion of the results. Finally, I present conclusions.

**Losing a Job**

Labor market analysts typically focus attention on the financial implications of job loss. Yet separation from the world of work has broader implications than income loss. The nonpecuniary cost of unemployment can be devastating: the unemployed are stripped of their economic identity, left with a searching sense of failure and filled with doubts about their future place in the world (Jahoda 1982; Newman 1999).

Job loss carries unique hardships in part because employment status is used as a signal of social quality. People take pride in, and are accorded respect for,
having a job. Employment status is used to make broad inferences about an individual’s “social quality and moral character” (Goffman 1961:111). The unemployed are often seen as suffering the consequence of their own personal shortcomings: a questionable work ethic, shortage of talent, disagreeableness, and a generic failure to be an employable person. Public opinion surveys find that the unemployed are often criticized as “lazy, undisciplined, and lacking motivation” (Gendall 1994:7), and respondents often say that “most unemployed people could find a job if they really wanted one” (Hills 2002; Eardley and Matheson 1999). In short, when an individual loses their job, it raises questions about the nature of their character. The jobless themselves often internalize the process, accept the negative judgments, and come to feel “unworthy, incomplete, and inferior” (Goffman 1963:128; Newman 1999; Jahoda, Lazarsfeld and Zeisel 2002). In her study of unemployed Manhattan professionals, Newman (1999:64) vividly captures the turmoil:

In the many hours they spend alone with their thoughts, displaced managers seek explanations for their job loss... Simultaneously inquisitor and accused, they peel away the layers of their own personalities, delving deeper and deeper for the character defects or other failings that led to their demise.

This brooding introspection is not a result of reduced income per se, but rather due to the status of being unemployed, that is, being separated from one’s identity as a productive person.

There is an important distinction between job loss and income loss. Large numbers of households experience annual changes in their incomes, and many face lower incomes compared with previous years. Indeed, as McManus and DiPrete (2000) observe, “individuals experience surprisingly wide swings in their short-term, ‘transitory’ income” (p. 406), in the order of 20 percent to 25 percent a year. However, income dynamics alone may not be the sort of “trigger event” that sets off a substantial reevaluation of one’s social status, self-confidence or personal well-being (DiPrete and McManus 2000).

This study examines unemployment transitions after factoring out temporal changes in household income, net wealth position, consumption and food security. I focus on how joblessness affects people’s subjective well-being after controlling for financial status, in other words, the nonpecuniary effect of unemployment. Further, I extend this work in three key ways: analyze the specific pathways into and out of unemployment, test for evidence of long-term scars from job loss and examine the role that UI plays in mediating the pain of job loss. Together, these encompass three major factors often expected to moderate the distress of job loss: income, UI and reemployment.

**Pathways In and Out of Unemployment**

Unemployment transitions are more complicated than they appear on the surface (Atkinson and Micklewright 1991; Ilg 2005). People do not transition simply between unemployment and work. Unemployment is a subcategory of
“not working,” and people frequently switch into and out of the labor force altogether. While most of the unemployed have lost jobs, about 40 percent have just begun the search for work (Ilg 2005), entering the workforce either for the first time or after a career break. Switching from “out of the labor force” (OLF) into unemployment is highest after recessions, as the economy is recovering. For some, becoming unemployed is a sign of new optimism: they begin searching because they see “help wanted” signs and begin to think the labor market has a place for them. Of course, starting a new job search could also reflect a negative financial shock that requires additional family members to work. Either way, it is important to distinguish between unemployment as new search and unemployment as job loss.

Likewise, exiting unemployment by quitting work search is a common transition. In an average month, nearly 25 percent of the unemployed end their spell, not by finding work, but by quitting work search and becoming classified as OLF.2 They may have returned to school, focused on household production and child rearing or simply become discouraged and are waiting for a more hopeful job market. Some of these exits from unemployment into OLF confer “job-like social status,” particularly school attendance and child rearing, which provide demanding and rewarding social identities (but not income). These exit routes out of unemployment, nonetheless, should also not be confused with actually finding a job.

This study estimates both the focal transitions between work and unemployment, as well as the control transitions that involve entering or exiting the labor force (OLF) from either unemployment or work. Expectations for the focal transitions are as follows:

H1: job loss into unemployment reduces well-being (E → U, negative effect)
H2: finding a job out of unemployment increases well-being (U → E, positive effect)

It is worth emphasizing that the control transitions need to be estimated – or at least factored out – to correctly identify H1 and H2. Indeed, most longitudinal studies treat unemployment as a binary status, ignoring the pathways by which people enter or exit that status (an exception is Strandh 2000). The control transitions are, nonetheless, interesting in their own right, particularly two:

C1: Out of labor force to unemployment (OLF → U, ambiguous effect)
C2: Unemployment to out of labor force (U → OLF, ambiguous effect)

The effects of these transitions are ambiguous a priori because of the heterogeneous nature of the OLF category. Employment and unemployment are clearly defined statuses (either working or actively looking for work), but OLF reflects a variety of states (attending school, raising children or homemaking, retired or simply discouraged and not searching). But it is likely that C1 and C2 have effects that are closer to zero than H1 and H2, because it is likely worse to enter unemployment by losing a job (H1) than by starting a new search (C1), and, likewise, it is better to exit unemployment by finding a job (H2) than by...
quitting search (C2). C1, starting a new work search, is plausibly positive in that it reflects new optimism, but it may also be because of new financial pressures and constraints that push people into the labor force. C2, quitting work search, is plausibly negative in that it reflects discouragement, but it may also offer job-like social status in schooling and family responsibilities.

Detailed analysis of these control transitions is beyond the scope of this study and calls for a substantially larger data set to explore the various pathways and motivations in movements into and out of OLF. This study, however, provides some basic estimates, giving an initial look into how people experience these transitions and suggestive insight into the push-pull factors that draw people into and out of the labor force.

**Unemployment Insurance**

How does the UI program affect the well-being of people who lose their job? The goal of the program is to ease the pain of job loss, but not to ease that pain so much that people prefer unemployment to work (Feldstein and Altman 2007; DiPrete and McManus 2000). It is a careful balance between income support and incentives to work. The tipping point in this balance is largely determined by the nonpecuniary cost of job loss – the felt norms and expectations surrounding work and unemployment. UI establishes temporary financial disincentives to find new work. However, there are also nonpecuniary, social-psychological incentives that push in the opposite direction and discourage abuses of the UI program. In general, the stronger the social norms surrounding work and unemployment, the more generous the UI system can afford to be (Lindbeck, Nyberg and Weibull 1999; Algan and Cahuc 2009). If the distressing part of unemployment is income loss, then UI benefits will sharply skew work incentives. But if the most distressing part of unemployment is separation from work identity and status as a productive member of society, then UI benefits will have little effect on work incentives and well-being during unemployment.

Because of the limited number of respondents in the data set that are eligible for UI, I pool the transitions in and out of insured unemployment. This gives a joint hypothesis that (1) job loss into insured unemployment is better than job loss into noninsured unemployment (UI reduces the harm of job loss), and (2) job finding out of noninsured unemployment is better than job finding out of insured unemployment (UI reduces the benefit of job finding). More formally, the hypothesis is as follows:

\[ H3: E \rightarrow U | UI = 1 > E \rightarrow U | UI = 0 \]

and

\[ U \rightarrow E | UI = 0 > U \rightarrow E | UI = 1 \]

In essence, this tests the extent to which UI mediates the response to unemployment. This is important because it takes the next step from looking at social processes to looking at policy impacts. How does policy intervene in the social process of job loss? Existing evidence is mixed. Sjoberg (2010) and Nordenmark, Strandh and Layte (2006) found that in Europe, unemployed workers have higher
well-being in countries that have more generous UI benefits. Korpi (1997), using Scandinavian data, found limited effects of UI policy on well-being.

**Unemployment Scars**

Unemployment may be harmful not only because it temporarily deprives people of work, but also because it disrupts career paths, marks workers as nonuseful for employers and shakes people’s confidence in a lasting way (Knabe and Ratzel 2011; Gangl 2006; Brand 2006; Lucas et al. 2004). It is not just that people are out of work, but that the jobless may experience a long-term drop in well-being, which persists even after they find new jobs.

A simple model of scar effects is based on labor market queuing for good jobs. People start out in bad jobs, but may be promoted into a good job after proving their merit, acquiring contacts and gaining skills and experience. Alternatively, workers may switch employers through on-the-job search and transfer into a good job. But when unemployment occurs, workers are sent back to the beginning of the queue. Unemployment taints their record, creating skepticism about their merit. Thus, they restart the process as an applicant of doubtful quality that can only be matched with a bad job.

Evidence shows that unemployment makes people less employable – subject to a similar kind of negative screening as applicants who are mothers (Correll, Benard and Paik 2007) or who have a criminal record (Pager 2007; Pager, Western and Bonikowski 2009). In rounds of hiring, companies have a strong preference to poach workers from other employers, rather than hire the unemployed (Blau and Robbins 1990; Eriksson and Lagerstrom 2006). When working people apply for new jobs, potential employers welcome their applications. But jobless applicants (even those with otherwise equivalent resumes) are regarded with skepticism and rarely receive callbacks from employers (Eriksson and Lagerstrom 2006). Employers may wonder, “This person seems intelligent and experienced, but is he an alcoholic, does he have an impossible personality, does he refuse to take direction from others?” (Newman 1999:57). Evidence of people being scarred by unemployment has been documented using wage data. For example, people who change jobs (without a spell of unemployment) usually see an increase in income (Fuller 2008). People who become unemployed, in contrast, typically end up in new jobs that pay significantly lower wages (Fuller 2008; Gangl 2006; Arulampalam 2001) and have poorer working conditions (Brand 2006). Indeed, some studies have found that wage scars persist even after 12 years or more (Eliason and Storrie 2006; Gregg and Tominey 2005).

These studies highlight the **financial** scars of unemployment. **Nonpecuniary** scars are due to the drop in the social status, job satisfaction and self-confidence that job loss may invoke. A spell of unemployment may leave reemployed workers with a lingering sense of insecurity; people need time to rebuild confidence about their place in the economic world, to rebuild job security and to find a satisfying and rewarding niche in their company.

A partial test for scar effects is whether finding a job compensates for the initial harm of losing a job. If the loss of well-being during unemployment is not
recovered with the return to work, this indicates at least a difficult transition period after reemployment, and establishes the potential for longer lasting scar effects. Empirically, in a two-wave panel, this is a test of asymmetry in reactions to job loss and job finding. Does reemployment offer a full recovery from job loss?

**H4:** |E → U| > |U → E| (The absolute magnitude effect of job loss is greater than the absolute magnitude effect of job finding)

This test does not shed light on the specific mechanism by which unemployment produces subjective scarring, nor does it show how long a scar might persist (Lucas et al. 2004). Additional waves of data would be required to estimate the duration of the scar. Nonetheless, this compliments previous work on financial scars by testing whether job loss has effects on well-being that extend beyond the spell of unemployment, independently of wage losses.

**Literature Review**

Cross-sectional evidence on the well-being of the unemployed consistently finds that the unemployed are “worse off” in terms of subjective well-being compared with people with jobs (Warr, Jackson and Banks 1988; Whelan 1992; Clark and Oswald 2002). Nevertheless, working people may not be a good control group for the unemployed. For example, Caspi, Wright, Moffitt and Silva (1998) showed that negative experiences in early childhood are linked to higher unemployment risk as an adult. Few data sets allow one to control for such background factors.3

Panel data offer much stronger causal inferences. Individual characteristics that are stable over the period of study are eliminated as a source of bias, including early life experiences, genetics, personal ambition, work ethic and the “soft skills” that employers value (Holtzer 1996:57-62).4 Directly observing changes within an individual mitigates to a substantial degree the problem of unobserved heterogeneity. We still must control for time-varying covariates, such as changes in income or eligibility for UI. However, compared with cross-sectional data, the potential for omitted variable bias is greatly reduced.

Longitudinal research from Europe has reported (1) strong negative effects of unemployment on well-being and (2) that income loss explains only a small portion of unemployment-induced distress. Analysis of the German Socio-Economic Panel found that “income would need to be increased tremendously” to compensate for the nonpecuniary cost of unemployment (Winkelmann and Winkelmann 1998:12). This finding is replicated with the same data by Gerlach and Stephan (1996) and Lucas et al. (2004). Clark and Oswald (2002), Clark (2003) and Andersen (2009) arrived at a similar conclusion using the British Household Panel Survey, as did Korpi (1997), who used a panel of youth in Sweden. Although there are contrary findings (Bockerman and Ilmakunnas 2009; Graham and Fitzpatrick 2002), the weight of the European evidence shows that job loss generates significant distress above and beyond the loss of income.
Less panel data research has been conducted in the United States. This leaves significant questions for American scholars, owing to the different policy environment, cultural attitudes and labor market dynamics in America compared with Europe. Welfare state benefits are both more available and more generous in Europe, and unemployed Europeans do not risk losing their health insurance (Gruber and Madrian 1997). There is both more income inequality and more earnings volatility in the United States than Europe (Gangl 2005; McManus and DiPrete 2000). The U.S. labor market exhibits a great deal of “churning” compared with Europe: there is a high rate of both job destruction and job creation; even in normal times, many people lose their jobs, but there are many new openings and people are not usually unemployed for very long. Only one eighth of unemployed Americans are out of work for a year, compared with a full half of the unemployed in Germany or Italy. The multitude of socioeconomic differences indicates a clear need for research specifically focusing on the United States.

American studies have followed laid-off workers in Michigan, showing negative effects of job loss (Hamilton et al. 1993; Kessler, Turner and House 1988). Another used a national survey from 1979 to 1980 (Ross and Mirowsky 1995). These studies have limited data on income, leaving little ability to distinguish pecuniary and nonpecuniary effects of job loss. Dooley, Prause and Ham-Rowbottom (2000) draw on the National Longitudinal Study of Youth, providing a large data set and controls for family poverty and low-wage employment. The findings are interesting: unemployment, after controlling for poverty status, is negative and significant. However, low-wage employment is also negative and significant, and has the same effect size as unemployment. Conditional on income, these individuals may be indifferent between “bad jobs” and unemployment. Recent work by Burgard, Brand and House (2005) and Strully (2009) show that declines in health and well-being may result in job loss – which highlights the importance of causality. But both studies also show that even among people who lose their jobs for health reasons, there is a further decline in well-being.

Data and Methods

This study draws on two waves of the Panel Study of Income Dynamics (PSID). The PSID offers a large representative national survey of U.S. households, which included items on subjective well-being in the 2001 and 2003 waves. Some 8,462 households completed at least one interview, and 7,887 households (93%) completed both waves. Of these, 6,310 respondents are fully trackable across both waves, on all variables (74% of the initial sample).

Attrition in the PSID has been extensively examined using the first 21 waves of data (Brown, Duncan and Stafford 1996; Lillard and Panis 1998; Zabel 1998). There is evidence that attrition is not random. People with less income, less education, those who are unmarried and who rent rather than own their homes are more likely to drop out of the study. However, the conclusions of these studies have been that “accounting for attrition bias has little impact on the parameter estimates” (Zabel 1998:502; Lillard and Panis 1998).
The outcome variable of interest in this study is subjective well-being. There are two main orientations towards the measurement of subjective or psychological states. One view, represented by Daniel Kahneman, Edward Diener and others, uses psychometric measurements to approximate subjective well-being (something like “utility” in economics). The more traditional “mental health” approach treats psychometric measurement as a way to estimate clinical psychiatric problems. The two schools generally use different (but correlated) measurement instruments.

The subjective well-being school has generally used “life satisfaction” data (Kahneman et al. 2004; Diener 2000; Winkelmann and Winkelmann 1998). Typically, respondents are asked a simple one-item question: “How satisfied are you with your life right now?” The mental health school has developed more detailed measurement instruments for large-scale surveys. The measurement used in the PSID is the Center for Epidemiological Studies Depression scale (CES-D). It developed as a measure of depressive symptoms, “with emphasis on the affective component, depressed mood” (Radloff 1977:385). The questions largely probe the extent to which the respondent is “feeling bad”:

In the past 30 days, about how often did you feel…

a. so sad nothing could cheer you up?

b. nervous?
c. restless or fidgety?
d. hopeless?
e. that everything was an effort?
f. worthless?

This study uses the average of the six questions as the dependent variable. The measures are reverse coded, so that larger numbers represent greater well-being.

Though the CES-D items are commonly used in the mental health literature, I treat this as a general measure of subjective well-being. First, the conceptual link between CES-D and clinical depression is vague. Few people with high depression scores actually experience clinical depression (Coyne 1994; Santor and Coyne 1997). Indeed, Santor and Coyne (1997:242) note that “the relation between [CES-D measured] distress and independently diagnosed cases of depression is not well understood.” The simplest interpretation is to see the CES-D as indicating generic degrees of distress or unhappiness, without suggesting any clinical diagnosis.

Second, the CES-D questions are to some degree empirically exchangeable with “life satisfaction” questions. The PSID does not include questions about life satisfaction, so to test the empirical similarity, I turned to the National Survey of Families and Households (NSFH), a large-scale American data set that includes both the CES-D items and a life satisfaction question. In the NSFH data, the life satisfaction item has a consistent, moderate correlation with every one of the 12 CES-D items (correlations ranging from .22 to .42). In other words, life satisfaction could be incorporated into the battery of CES-D questions. On this basis, I treat the CES-D scale as providing a generic measure of subjective well-being, and a measure that is richer and more detailed that the simple life satisfaction question.
Empirical measurement of UI also poses some difficulties. Most surveys, including the PSID, do not ask if a respondent is currently receiving UI benefits. A large portion of the unemployed (50%-60%) are not, in fact, eligible for benefits. Moreover, many people eligible for UI do not take up their benefits. Blank and Card (1991), for example, find that take-up of benefits is less than 70 percent. Many people in need choose not to receive the benefits to which they are entitled. The low take-up rate, in itself, indicates that “the unemployed have a less voracious appetite for benefits than is commonly supposed” (Storer and van Audenrode 1995:823). Non-take-up is part of the true effect of the program (which is an offer of benefits), and should not be ignored by focusing on recipiency. For these reasons, economists usually estimate individual UI eligibility by modeling state UI benefit rules (Blank and Card 1991; Gruber 1997, 2001). Using eligibility gives an average treatment effect that pools the effect of “treatment on treated” (those who take up benefits) and the effect of “treatment on nontreated” (those who do not take up benefits). This gives the effect of the program: the offering of benefits to eligible people.

Table 1: Sample Means and First Differences

<table>
<thead>
<tr>
<th>Variable</th>
<th>Notes</th>
<th>Mean</th>
<th>First Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subjective well-being</td>
<td>Center for Epidemiological Studies Depression scale</td>
<td>4.44</td>
<td>.02</td>
</tr>
<tr>
<td>Employment Status</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working</td>
<td>.60</td>
<td>-.01</td>
<td></td>
</tr>
<tr>
<td>Part-time</td>
<td>20 hours or less</td>
<td>.05</td>
<td>.02</td>
</tr>
<tr>
<td>Unemployed</td>
<td>Not working; active job search</td>
<td>.04</td>
<td>.00</td>
</tr>
<tr>
<td>Out of labor force (OLF)</td>
<td>Neither working nor searching</td>
<td>.27</td>
<td>.01</td>
</tr>
<tr>
<td>Work disability</td>
<td>OLF due to disability</td>
<td>.03</td>
<td>.01</td>
</tr>
<tr>
<td>Financial Status</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per person annual family income</td>
<td>Constant $2003</td>
<td>$25,295</td>
<td>$504</td>
</tr>
<tr>
<td>Per person weekly food consumption</td>
<td>Constant $2003 expenditures on food and restaurant meals</td>
<td>$58.0</td>
<td>-$6.6</td>
</tr>
<tr>
<td>Zero or negative wealth</td>
<td></td>
<td>.21</td>
<td>.00</td>
</tr>
<tr>
<td>Food problems - mild</td>
<td>Not the kind of food wanted</td>
<td>.16</td>
<td>.01</td>
</tr>
<tr>
<td>Food problems - severe</td>
<td>Not enough food to eat</td>
<td>.02</td>
<td>.00</td>
</tr>
<tr>
<td>UI eligible</td>
<td>Estimated as eligible for UI</td>
<td>.02</td>
<td>.00</td>
</tr>
<tr>
<td>Demographic Controls</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married or cohabitating</td>
<td></td>
<td>.58</td>
<td>.01</td>
</tr>
<tr>
<td>One child or more</td>
<td></td>
<td>.46</td>
<td>-.01</td>
</tr>
<tr>
<td>Homeowner</td>
<td></td>
<td>.64</td>
<td>.03</td>
</tr>
</tbody>
</table>

Note: Data taken from PSID, 2001 and 2003 waves.
This article uses the benefit estimation program originally developed by Gruber (1997), which I have updated for use with more recent years of data. The program considers each unemployed individual's work and earnings history in relation to their state UI eligibility rules in force at each wave. The resulting UI variable is constructed to equal one if a person is currently eligible for benefits (in each wave), given that they are unemployed. Working persons are coded as ineligible (they must first lose their jobs for eligibility). A lingering concern is that people eligible for benefits may differ from the noneligible in unobservable ways. Those eligible for UI benefits may have a stronger labor force attachment that makes the experience of job loss more distressing. Hence, findings here should be tempered by the risk of upward bias (finding “too large” an effect of UI). Despite shortcomings, estimating the effect of the program is an important step forward, as many of the policy debates around unemployment focus on UI (e.g., Feldstein and Altman 2007; Krueger and Meyer 2002). Table 1 shows descriptive statistics for the variables used in this study.

**Regression Model**

I use a fixed effects model to factor out common individualistic explanations of unemployment, such as poor social skills, behavioral problems and troubled personal histories. These are reasons why some people are unemployed, and also reasons why some people are unhappy. But these characteristics are not reasons why the transition into unemployment would generate unhappiness, nor why the transition out of unemployment would increase well-being.

The model is constructed by first specifying an equation for each individual for each year of observation. In a two-wave panel, we have two equations for each individual:

\[ SWB_{0i} = \alpha_{0i} + \beta_1 \text{unemp}_{0i} + \beta_2 \log(\text{income}_{0i}) + Z_{0i} B'_k + \text{FE}_i + e_{0i} \]  
(1)

and

\[ SWB_{03i} = \alpha_{03i} + \beta_1 \text{unemp}_{03i} + \beta_2 \log(\text{income}_{03i}) + Z_{03i} B'_k + \text{FE}_i + e_{03i} \]  
(2)

where \( Z \) is a kx1 vector of control variables, and \( B'_k \) is a 1xk vector of coefficients, the subscripts \([01, 03]\) identify the year of observation, and the subscript \( i \) refers to a given individual. \( \text{FE}_i \) captures all the individual attributes (observed or unobserved) that do not change over the observation period.

Subtracting equation 1 from equation 2 gives the first difference,

\[ \Delta SWB_i = \Delta \alpha + \beta_1 \Delta \text{unemp}_i + \beta_2 \Delta \log(\text{income}_i) + \Delta Z_k B'_k + \Delta e_i, \]  
(3)

in which all variables (observed or unobserved) that are fixed over the period of observation (\( \text{FE}_i \)) drop out of the equation. An equivalent procedure (in a two-wave panel) is to take the first difference of the data, and then apply OLS.
This approach, however, ignores the specific pathways into and out of unemployment. In this basic FE specification, $\Delta \text{unemp}$ takes the value +1 when an individual enters unemployment, -1 when exiting unemployment, and zero otherwise. To specifically model the full set of possible employment transitions, $\Delta \text{unemp}$ is replaced with a vector of eight transition dummies: work$_{01}$-to-unemp$_{03}$, work$_{01}$-to-OLF$_{03}$, OLF$_{01}$-to-work$_{03}$, OLF$_{01}$-to-OLF$_{03}$, OLF$_{01}$-to-unemp$_{03}$, unemp$_{01}$-to-work$_{03}$, unemp$_{01}$-to-OLF$_{03}$ and unemp$_{01}$-to-unemp$_{03}$. (The omitted transition is work$_{01}$-to-work$_{03}$.) Substituting this vector for $\Delta \text{unemp}$ in equation 3 (and substituting a vector of coefficients for $\beta_1$) gives fixed-effects estimates for each employment transition (focal transitions H1 and H2, and control transitions C1 and C2). This, in turn, allows for difference-in-difference comparisons across the transitions (testing the scarring hypothesis, H4, and the UI hypothesis, H3).

**Empirical Results**

Table 2 shows transitions between the three main labor market states: working, unemployed and out of the labor force (neither working nor looking for work). Each cell shows the number of respondents making each transition and raw estimates of the change in subjective well-being. These are fixed effect estimates without control variables (with tests of 5% significance). The focal transitions between work and unemployment are highlighted in white in the table, while the control transitions are shaded. One benefit of this table, beyond laying out the full set of possible employment status transitions, is that it shows how much information is available for computing each estimate. A usual regression table reports the overall sample size, but not the number of respondents experiencing meaningful changes for each variable.8

### Table 2: Changes in Well-being for Nine Employment Transitions

<table>
<thead>
<tr>
<th>Time 1</th>
<th>Time 2 –&gt;</th>
<th>Working (t2)</th>
<th>Unemployed (t2)</th>
<th>Out of Labor Force (t2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>change in wellbeing</td>
<td>+ 0.03* (n = 3,513)</td>
<td>- .24* (n = 162)</td>
<td>+ .02 (n = 497)</td>
<td></td>
</tr>
<tr>
<td>Unemployed (t1)</td>
<td>d. Find a job.</td>
<td>e. No change.</td>
<td>f. Quit job search.</td>
<td></td>
</tr>
<tr>
<td>change in wellbeing</td>
<td>+ .15* (n = 148)</td>
<td>- .04 (n = 54)</td>
<td>+ .10 (n = 71)</td>
<td></td>
</tr>
<tr>
<td>Out of Labor Force (t1)</td>
<td>g. Enter (return to) work.</td>
<td>h. Begin job search.</td>
<td>i. No change.</td>
<td></td>
</tr>
<tr>
<td>change in wellbeing</td>
<td>+ .06* (n = 447)</td>
<td>+ .05 (n = 70)</td>
<td>- .00 (n = 1,347)</td>
<td></td>
</tr>
</tbody>
</table>

Consider people working at time 1 (first row of Table 2). Most of these people are still working at time 2 (cell a), and experience a modest but significant increase in their well-being. This is perhaps because they accumulate seniority and confidence in their status in the workplace. Losing a job – exiting work into unemployment – leaves people substantially worse off (H1). Well-being drops by -0.24, and the effect is significant. This represents about 40 percent of a standard deviation in SWB – a fairly large effect size.

People who exit unemployment by finding a job (second row, cell d) see a strong rise in well-being (+.15) (H2). People unemployed in both waves (cell e) see a slight deterioration over time, but this is small and nonsignificant and has relatively few observations (n = 54) to support it.

Transitions between work and unemployment have the greatest effect on well-being. Transitions between unemployment and OLF – either starting a new search from outside the labor force (cell h, hypothesis C1) or quitting a spell of work search (cell f, hypothesis C2) – lead to no statistically significant changes in SWB. Note that these cell sizes are also relatively small (n ≈ 70). Transitions between work and OLF also do not show strong, clear-cut effects on well-being. Voluntary exits from work do not affect well-being. These nonsignificant findings likely reflect the diversity of experiences outside of the labor market. It is notable that cell sizes for transitions between work and OLF are actually quite large (n ≥ 450).

In Table 3, Model 1 provides fixed effect regression estimates of employment status without covariates. This replicates the estimates in Table 2, with one key difference. In the regression model, the reference point is the “work-work” transition rather than zero; all employment coefficients are expressed relative to this effect (given by the intercept as +.04).

Model 2 adds in a battery of economic and sociodemographic controls. Entering work disability (a subcategory of OLF) is strongly negative. Part-time work, however, leads to a modest and significant increase in subjective well-being. Those who switch from full-time to part-time work, on average, seem happy to do so. Having children at home increases well-being and the onset of an “empty nest” reduces well-being. Homeownership is a positive life event. Marital status is nonsignificant, perhaps because the benefits of a committed relationship are already established before marriage.

Changes in log per person family income are not significant, nor is the dummy variable for zero or negative wealth. Alternative functional forms – a linear specification and a set of dummies for income quintiles – perform no better. Nor does using total family income, rather than family income per person, change the results. As an additional test, I replaced the log of family income with expenditures on food consumption. As with income, changes in consumption are not related to subjective well-being (results not shown). The measures of food inadequacy, however, are strongly significant. Perhaps the most important point to note is that, collectively, none of these controls have a notable impact on the employment status estimates.

European panel data studies have also found that changes in income are weakly associated with well-being, prompting Kahneman and colleagues (2006) to argue that focusing on income is a “focusing illusion.” One initial motivation for this study was the expectation that income effects may be stronger in
the United States than in Europe due to higher inequality and a weaker social safety net. Nevertheless, the estimates reported here are smaller than estimates from the United Kingdom and Germany (Winkelmann and Winkelmann 1998; Clark and Oswald 2002). Other American panel data (Burgard et al. 2005) also yielded weak and often nonsignificant income effects that seem smaller in magnitude than the European findings.

Table 3. Fixed Effects Regression: Determinants of Subjective Well-Being

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focal Transitions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work to unemployment</td>
<td>-0.28*** (.05)</td>
<td>-0.26*** (.05)</td>
<td>-0.30*** (.06)</td>
</tr>
<tr>
<td>Unemployment to work</td>
<td>0.11* (.05)</td>
<td>0.11* (.05)</td>
<td>0.15* (.06)</td>
</tr>
<tr>
<td>Unemployment to unemployment</td>
<td>-0.07 (.08)</td>
<td>-0.05 (.08)</td>
<td>-0.05 (.08)</td>
</tr>
<tr>
<td>Work to work (ref. category)</td>
<td>- - -</td>
<td>- - -</td>
<td>- - -</td>
</tr>
<tr>
<td><strong>Control Transitions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment to out of labor force (OLF)</td>
<td>0.06 (.07)</td>
<td>0.08 (.07)</td>
<td>0.11 (.08)</td>
</tr>
<tr>
<td>OLF to unemployment</td>
<td>0.01 (.07)</td>
<td>-0.02 (.07)</td>
<td>-0.04 (.08)</td>
</tr>
<tr>
<td>Work to OLF</td>
<td>-0.01 (.03)</td>
<td>0.01 (.03)</td>
<td>0.01 (.03)</td>
</tr>
<tr>
<td>OLF to work</td>
<td>0.03 (.03)</td>
<td>0.03 (.03)</td>
<td>0.03 (.03)</td>
</tr>
<tr>
<td>OLF to OLF</td>
<td>-0.04 (.02)</td>
<td>-0.03 (.02)</td>
<td>-0.03 (.02)</td>
</tr>
<tr>
<td>Work disability</td>
<td>-0.19*** (.05)</td>
<td>-0.19*** (.05)</td>
<td></td>
</tr>
<tr>
<td>Part-time work</td>
<td>0.06* (.03)</td>
<td>0.06* (.03)</td>
<td></td>
</tr>
<tr>
<td><strong>Demographic Controls</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Children at home</td>
<td>0.06* (.03)</td>
<td>0.06* (.03)</td>
<td></td>
</tr>
<tr>
<td>Homeowner</td>
<td>0.05* (.02)</td>
<td>0.05* (.02)</td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>0.01 (.03)</td>
<td>0.01 (.03)</td>
<td></td>
</tr>
<tr>
<td><strong>Financial Status</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log of per person family income</td>
<td>0.01 (.01)</td>
<td>0.00 (.01)</td>
<td></td>
</tr>
<tr>
<td>Zero or negative wealth</td>
<td>-0.02 (.02)</td>
<td>-0.02 (.02)</td>
<td></td>
</tr>
<tr>
<td>Food problems - mild</td>
<td>-0.12*** (.02)</td>
<td>-0.19*** (.02)</td>
<td></td>
</tr>
<tr>
<td>Food problems - severe</td>
<td>-0.39*** (.04)</td>
<td>-0.39*** (.04)</td>
<td></td>
</tr>
<tr>
<td>Receiving foodstamps</td>
<td>0.01 (.03)</td>
<td>0.01 (.03)</td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance eligible</td>
<td></td>
<td>0.07 (.05)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0.04*** (.01)</td>
<td>0.03** (.01)</td>
<td>0.03** (.01)</td>
</tr>
<tr>
<td>N</td>
<td>6310</td>
<td>6310</td>
<td>6310</td>
</tr>
<tr>
<td>R squared</td>
<td>0.007</td>
<td>0.028</td>
<td>0.029</td>
</tr>
</tbody>
</table>

* p < .05  ** p < .01  *** p < .001.

Additional analyses (Appendix) explores interaction effects by running separate regression models across sociodemographic groups defined by age, gender, education, marital and parental status and income level. The results fail to reveal statistically significant differences, and they primarily show the robustness of the main results across many subsamples of the data and across many different groups.

Hypothesis H3 focuses on the mediating effect of the UI program. It is expected that UI eligibility moderates the swings in well-being between work and unemployment. To test this, Model 3 in Table 3 adds an interaction term for UI eligibility (among the unemployed). The positive coefficient for UI eligibility suggests that people who qualify for benefits experience unemployment as less distressing. The magnitude of the UI eligibility (+.069) is relatively large (similar to the effect of homeownership or parental status). Those who transition from work to non-eligible unemployment see a drop in well-being of roughly -.30. UI eligibility moderates the effect, bringing it down to -.23 (almost 25% smaller), as shown in Figure 1. This pattern is equivalently shown in the estimates of work-to-unemployment and unemployment-to-work, both of which are larger (in Model 3 compared with Model 2) and indicate that well-being is less stable in the absence of UI. However, with relatively few unemployed respondents eligible for benefits, the standard error of the effect is large and UI does not achieve statistical significance.

This is consistent with the view that the trauma of job loss is, for the most part, nonpecuniary in nature. Unemployment with UI is a lot like unemployment without UI. Larger sample sizes would give better precision and help clarify the magnitude of the UI policy effect. But it seems clear that benefits are a poor substitute for work. This is evidence that the (subjective) disincentives of UI are relatively small and that the distress of unemployment is not easily alleviated through income transfers.
Finally, scar effects occur when job loss leads to distress that lingers even after unemployment ends and people find new jobs (H4). The formal test is whether, in absolute magnitude, the effect of job loss is greater than the effect of job finding. To better visualize the estimated effects of job loss and recovery, Figure 2 graphs the effects of several employment status transitions. In a two-wave panel, it is not possible to follow the same individuals through the full experience of employment, job loss and then reemployment. However, one can link together the estimates to create synthetic transitions that follow the whole cycle of work-unemployment-work in a difference-in-difference (DiD) analysis. With more waves of data, it would be possible to compare these transitions within a given individual, giving a true fixed effect rather than DiD analysis. Nevertheless, Figure 2 offers a strong first analysis of the different transitions.

There are several vivid points. First, exiting work into unemployment produces a large drop in subjective well-being. This contrasts with the small positive effect of continued employment. Second, returning to work has a strong positive effect, but it does not produce a complete recovery from job loss. Indeed, losing a job has a much larger effect (in absolute magnitude) than finding a job, and the difference is significant at the 5 percent level. In short, there is a potential scar effect of unemployment, perhaps due to a lingering sense of labor market insecurity that takes time to dissipate. Scarring may also occur if the unemployed have to take lower ranking jobs than they previously held (Gangl 2006; Arulampalam 2001; Fuller 2008). For example, Brand (2006) finds that displaced workers experience long-term losses in job quality (lower benefits, less autonomy and lower occupational status). More research on downward mobility following job loss will help shed light into unemployment scarring.

**Figure 2. Estimated Effects of Labor Market Transitions**

![Graph showing estimated effects of labor market transitions]

**Note:** Fixed effects estimates from Table 3 (Model 2).
Conclusion

The Great Recession returned unemployment to the forefront of social problems and policy concerns. Until the meltdown of 2008, it seemed that the boom and bust cycle of the market economy had been tamed. The previous two decades were known among macroeconomists as the “Great Moderation,” where the rhythm of expansion, rupture, decline and recovery was giving way to a modern era of more continuous growth. Today, this is all seen as a part of a cycle of “greats”: “the Great Moderation, the Great Panic, and the Great Contraction” (Bean 2010:289). Left in the wake of all this greatness is a disturbing fact: by 2011, real gross domestic product (GDP) had fully recovered and even exceeded prerecession levels, but with an extra 9 million people unemployed.11

This study advances the sociological literature on unemployment by drawing on a major American data set, the PSID. After looking at the effect of entering and exiting unemployment, I extend the analysis in three key ways: looking at the specific pathways into and out of unemployment, examining the role that UI plays in mediating the pain of job loss and testing for long-term scars from job loss.

Not all employment transitions hurt, not even those that involve lower incomes. People who exit the labor force do not experience a decline in well-being, despite giving up their earnings. This makes it clear there is an important difference between being out of the labor force and being out of work. Labor force exits seem, for the most part, voluntary transitions that fit with people’s current life goals. People returning to school or raising a child do not have to answer the question “why can’t you find a job?” These identities provide job-like social status, respectable shelter from the norm of market employment, and give no indication of failure or shortcoming. People also cope surprisingly well with temporary shocks to their annual income and consumption levels.

Job loss into unemployment, however, is a different matter; this brings on deep distress that is greater in magnitude than the effect of changes in family structure, home-ownership or parental status. The distress of job loss is also hard to ameliorate: family income does not help, unemployment insurance appears to do little and even reemployment does not provide a full recovery.

As a macroeconomic stabilizer, UI appears highly effective, quickly transferring income to persons in need who will spend it (Chimerine, Black and Coffey, 1999; Zandi 2010). As a microsocial stabilizer, however, UI fails to strike at the heart of the problem that jobless individuals face. The added income is no doubt welcome, but it is not central to their sense of well-being. UI supports people’s spending and consumption, but it does little to support their identity, sense of purpose or self-regard.

UI aside, job loss has consequences that linger even after people return to work. Finding a job, on average, recovers only about two thirds of the initial harm of losing a job. It is not clear how long it takes for the nonpecuniary effect of unemployment to heal. Evidence from Germany finds subjective scarring of broadly similar magnitude that lasts for at least 3 to 5 years (Lucas et al. 2004; Clark et al. 2008). Given the tremendous rise of unemployment in the
United States and the historic rise of long-term joblessness, it is important to understand how joblessness can have negative effects on American workers that persist beyond the spell of unemployment. Are these long-lasting or even permanent scars? Or are they short-term “blemishes” that will quickly fade? More research on postunemployment experiences, including job quality (Brand 2006), job satisfaction and subjective insecurity, would be valuable.

Active labor market policies that make the unemployed more competitive and hirable may help place the jobless into positions closer in quality to their previous jobs. Even modest programs such as job search assistance, which largely helps the unemployed with their “presentation of self,” may improve outcomes (Meyer 1995; Thomsen 2009). Finding ways to return people to work with minimum downward mobility should be a high priority for public policy.

All of this emphasizes how recessions generate inequality in both income and well-being: people who lose their jobs bear a disproportionate burden of the recession. Imagine a recession in which there were not 10 million jobs lost, but instead all workers started taking Friday afternoons off or mass furloughs created 30 long weekends per year. This would mean a loss of income – comparable to the 4 percent drop in GDP seen over 2008-09 – but would be unlikely to generate deep or widespread distress. The concentration of hardship among the jobless and the more generalized fear of becoming jobless are central to understanding recessionary distress.

Notes
1. The “big four” are Germany, France, Italy and the United Kingdom. The United States had higher unemployment rates than all of these countries in 2009 and 2010, according to the U.S. Department of Labor. The “olive belt” countries of Europe (Greece, Portugal and Spain) continue to have much higher unemployment than the United States.
3. Most control variables that predict unemployment also directly predict low subjective well-being: think of (unobserved) factors such as poor initiative and ambition, confrontational attitudes or limited social skills. Personal deficits of this sort tend to leave people with few friends and few employers – creating both unhappiness and unemployment. The same personal failings that lead to loss of work likewise lead to loss of friends and close relationships.
4. Strictly, this only holds when using the fixed effect estimator (as in this study), or when the number of waves in the panel is large relative to the number of respondents (Halaby 2004). When the number of waves is large relative to the number of respondents, longitudinal variation dominates cross-sectional variation, so the random effects model essentially becomes the fixed effects model.
6. These are the only two waves that include questions about subjective well-being.
7. The inter-correlations between the CES-D items are higher, ranging from .40 to .74.
8. That information is contained in the standard errors, but blended in with other determinants of the errors such as the model fit and collinearity with other variables.

9. Likewise, for those exiting marriage, it seems likely that the distress of marital breakup occurs well before the divorce is finalized (Wheaton 1990). It is worth noting that this study does not have a measure of marital discord.

10. Specifically, this tests the equality of the coefficient on “work to unemployment” with the reverse-signed coefficient on “unemployment to work.” The difference (the scar effect) is significant at the 5 percent level in all three models.

11. GDP data from Department of Commerce, Bureau of Economic Analysis (http://www.bea.gov/iTable/index_nipa.cfm).

Appendix

**Heterogeneity in the Response to Unemployment**

This appendix examines how the effect of unemployment varies across sociodemographic groups. The approach is to separately estimate fixed effects models for different social groups, defined by (relatively) fixed social attributes: gender, age (date of birth), race, marital status, presence of children at home and education.

The process yields 14 tables of regression results, each with 21 control variables (as per Model 2 above), for a total 294 coefficients. This is far too unwieldy to present, let alone read, in raw form. I take several steps to focus on the results of interest.

First, I graph the regression coefficients, rather than present them in table format. Second, I only report the estimates of central interest (transitions between work and unemployment). Third, rather than separately analyzing these transitions, they are coded to merge the transitions. Specifically, I create one variable coded 1, 0, -1, which will capture the weighted average of the effect of work to unemployment (coded 1) and the reverse signed effect of unemployment to work (coded -1). (Nontransitions are coded zero.) In other words, this treats job finding as additional observations of job loss (with the sign reversed). Although it was shown above that these transitions are not symmetric on average, looking for variation is this asymmetry across social groups is asking too much from the data at hand. Hence, although this approach involves some loss of detail, it greatly simplifies the exposition and increases statistical power.

Figure 2 shows the coefficients on job loss and their 95 percent confidence intervals. The first thing to note is that all the estimates are negative and similar in magnitude to the main estimates. In other words, the baseline results are robust across many subsamples of the data, which increases confidence in the core results (Young 2009). At the same time, none of the split panel estimates are significantly different from one another – the confidence intervals all clearly overlap. This would suggest that the interaction models are uninformative. However, statistical significance is not the only criteria for an interesting result (McClosky and Ziliak 1996), and there are indeed some large differences in magnitude that seem to have sociological significance.

Figure A.1 begins with the weakest interaction effects and proceeds to the strongest. Differences by education level and parental status are negligible in magnitude. The four other interactions seem notable, if not statistically signifi-
cant: the effect of job loss is 42 percent larger for singles than for married people, 52 percent larger for Blacks than Whites, 54 percent larger for older people than for the young, and, most strikingly, 122 percent larger for women than men.

A weaker effect of unemployment for young people fits well with the idea that the young are sampling different career options and are expected to have occasional episodes of joblessness. Older workers, in contrast, are expected to have established a career, and for them unemployment is more clearly a mark of failure and a source of social discredit. The stronger effect for Blacks than Whites casts doubt on stereotypical views that Blacks have lower work ethic. For example, in the 1998 General Social Survey, 40 percent of respondents said they thought most Whites are “hard working,” compared with only 20 percent who said this of Blacks. Similarly, only 12 percent said most Whites are “lazy,” compared with 31 percent who said Blacks are lazy (Mitchell 2000:241-45). In some circles, the presumption of poor work ethic is a ready explanation for the very high unemployment rates of African Americans. The results here clearly fail to support such a conclusion. Indeed, the stereotype of poor work ethic itself may make unemployment worse for Blacks, who may garner less sympathy and less “presumption of innocence” from judgmental social observers.
By marital status, the finding that single individuals experience unemployment as more distressing than married people suggests that having strong supportive relationships may help to moderate the sense of injury to self. Finally, the largest difference is found between men and women, with women appearing notably more responsive to unemployment. This result will be explored in further detail below. For now, it is worth reiterating that the large standard errors prevent any conclusion of statistical significance. However, the large magnitudes suggest that some of these differences deserve attention, particularly in future research that enjoys larger samples or longer panels.

Analysis of Gender Effects

The stronger unemployment effects for women than men seem counterintuitive. However, it is important to understand the potentially different selection mechanisms that lead women to become unemployment (rather than OLF). Jahoda (1982) once remarked that “the psychological burden of unemployment is perhaps least among those women to whom the alternative of returning to the traditional role of housewife is open, but there are many to whom it is not and many others for whom it is very much a second best” (p 94). Women may more easily find rewarding identities outside the labor market, engaging in household production and/or family care work. Indeed, when a job ends, women are much more likely to exit the labor force than are men. Thus, there may be a selection process by which women who enter unemployment (rather than OLF) have particularly strong labor force attachments. In contrast, men have fewer socially acceptable options outside of work. When job loss occurs, there is less selection into OLF.

From this view, employment is more of a binary experience for men (working or unemployed), but a three-way dynamic for women (working, unemployed or OLF). Men who lose their jobs become unemployed. Women who lose their jobs split into two groups: unemployed and OLF. Women who are strongly attached to the labor force become unemployed; those with less attachment exit the labor force. Hence, unemployed women are a selective group with relatively strong work ambitions. Unemployed men are an undifferentiated pool of males who lost their jobs.

To test this, I look at people of preretirement age who experience a job separation, regardless of whether it ends in unemployment or OLF. This provides a way to control for the possibility that women have greater leeway to choose whether they become officially unemployed when their job ends. It ignores the distinction between unemployment and “out of labor force,” and focuses simply on transitions into and out of work. To exclude retirees, I limit the sample to those aged 55 years and younger. The regression models are otherwise unchanged.

The results (table A.1) support the self-selection hypothesis. Looking at preretirement job separations, men experience these events much more negatively than women (−.115 and −.013, respectively). The difference is statistically significant at the 10 percent level. And when these separations occur, women are much more likely to become OLF (78%) than are men (58%) – a difference of
20 percentage points. The reason why women find unemployment so distressing is because unemployed women compose a more self-selected pool, which represents women who are strongly connected to the world of work, for whom “homemaking” (with a working husband) is either unattractive or unavailable. Unemployed men represent a more diverse pool in terms of work attachment. With no clear identity outside of the labor market, men who lose their jobs are more constrained to keep looking for work (regardless of their degree of intrinsic work attachment).

In the case of people unemployed in both waves, men experience a seemingly large additional drop in well-being (-.204), while women do not (+.013). This suggests that women acquire better coping skills that eventually ease the distress of joblessness. Men on the other hand, seem to experience something of a downward spiral. Finally, it appears that women who take part-time jobs see an increase in well-being, while men experience little change. Again, however, neither of these two differences achieves statistical significance.

Table A.1. Split Panel Fixed Effects Regression: Determinants of Subjective Well-Being

<table>
<thead>
<tr>
<th></th>
<th>Males</th>
<th>Females</th>
<th>Difference</th>
<th>Wald Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job separation</td>
<td>-.112**</td>
<td>-.027</td>
<td>.085^</td>
<td>3.62</td>
</tr>
<tr>
<td>Unemployed both waves</td>
<td>-.204</td>
<td>.013</td>
<td>.217</td>
<td>1.12</td>
</tr>
<tr>
<td>Part-time work</td>
<td>.013</td>
<td>.079</td>
<td>.066</td>
<td>.59</td>
</tr>
<tr>
<td>N</td>
<td>1,786</td>
<td>2,898</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R squared</td>
<td>.040</td>
<td>.029</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p < 0.10 *p < 0.05 **p < 0.01 ***p < 0.001.

Notes: Standard errors in parentheses. Data are from the PSID, waves 2001 and 2003. Models use fixed effects estimation, and include controls for per person family income, food consumption, dummy variables for zero (or negative) wealth, homeownership, the presence of food problems (mild and severe), UI eligibility, marital status, parental status and alcohol consumption. See Model 2 in Table 3.

References


