

“Unemployment as a Social Norm: The role of employment status and perception of labor market risk”

Andrew Clark, Paris School of Economics and IZA

Andreas Knabe, Otto-von-Guericke-University Magdeburg

Steffen Rätzel, Otto-von-Guericke-University Magdeburg

The literature on unemployment and happiness has shown that unemployment does not only affect well-being of the unemployed individual himself, but also influences the well-being of the unemployed's partner, household members, and his community (Clark 2003, Shields and Wheatley Price 2005, Shields et al. 2005, Powdthavee 2007). The literature on these external effects of unemployment typically shows that the regional unemployment rate affects the well-being of the remaining employed negatively. The unemployed, on the other hand, are significantly less negatively affected by the unemployment surrounding them, or even feel better if the general unemployment rate is higher. This is the so-called “social norm effect”.

We propose an alternative interpretation of the social norm effect. Our hypothesis is that the dividing line between those for whom the surrounding unemployment has negative effects and those for whom the social norm effect weakens the negative impact of external unemployment does not run between the employed and the unemployed *per se*, but instead distinguishes those with low labor market risk and those with high labor market risk.

We test this hypothesis using the SOEP, waves 1984-2006. We explain life satisfaction by the standard measures of employment status, family status, income, age, education, and the regional unemployment rate. We extend earlier studies by including a person's expectations about his own future labor market prospects.

The data support our alternative interpretation. We find that an employed person suffers from surrounding unemployment, but that this negative effect weakens if he feels that his job is less secure (because if he becomes unemployed, he conforms more to the norm). Likewise, the unemployed suffer from surrounding unemployment, but this negative effect weakens the less likely it is that a person will return to regular employment (because, again, permanent unemployment becomes more “normal”). Hence, it is not a person's *current* labor market status as such that matters for the existence of a social norm effect, but how likely a person's thinks it is that he will end up being employed or unemployed *in the future*.

Corresponding author:

Andreas Knabe

Otto-von-Guericke-University Magdeburg, FWW/Chair of Public Economics

P.O. Box 4120, 39016 Magdeburg, Germany

email: Andreas.Knabe@ovgu.de