

# Income or Leisure? On the Hidden Benefits of (Un-)Employment

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We study the usually assumed trade-off between income and leisure in labor supply decisions by comparing non-employed individuals with employed people regarding both income and time use. To analyze the roles of income and leisure in the trade-off between work and unemployment, we make use of rich longitudinal data from the German Socio-Economic Panel (SOEP) study. This household survey includes information on people's income levels and their daily time allocation and it asks individuals to subjectively assess how they perceive these factors in their current lives. This provides us with a very comprehensive picture of the consequences of unemployment following job terminations. Of special interest are exogenously triggered changes in people's working lives, for which we focus on plant closures. Following previous studies investigating plant closures, we make use of the rich survey data and apply matching tools as our main empirical method in order to establish causal evidence on the implications of individual unemployment. To tackle remaining unobserved differences in individual characteristics between treatment and control group, we exploit the panel structure of the data and consider fixed-individual effects in the analyses.

We find that the gain of non-working time translates into higher satisfaction with free time, while time spent on hobbies increases to a lesser extent than home production. Additionally, satisfaction with family life increases, which may be a hidden benefit of being unemployed. In contrast, satisfaction with income strongly declines when becoming jobless. Identity utility from earning a living may play the role of a hidden benefit of employment. Finally, we examine subjective assessments of income and leisure as potential predictors for job take-up. Non-employed people are particularly likely to take up a job soon when they are dissatisfied with their income.

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