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Contents lists available at ScienceDirect

Journal of Economic Behavior & Organization

journal homepage: www.elsevier.com/locate/jeboBowling alone or bowling at all? The effect of unemployment on social participation[☆]

Lars Kunze, Nicolai Suppa*

TU Dortmund, Department of Economics, 44221 Dortmund, Germany

ARTICLE INFO

Article history:

Received 14 December 2015

Received in revised form 8 November 2016

Accepted 14 November 2016

Available online 21 November 2016

JEL classification:

J64

I31

Keywords:

Unemployment
Social participation
Plant closure
Fixed effects
Well-being

ABSTRACT

This article examines the impact of unemployment on social participation using German panel data. We find negative and lasting effects for public social activities but also a retreat of individuals into private life. Issues of selection and endogeneity are addressed by using plant closures as exogenous entries into unemployment. Social norms and labour market prospects are shown to be relevant for explaining these findings. Our results advance the understanding of the consequences of unemployment for human well-being, highlight a hitherto unexplored channel through which unemployment influences economic outcomes (via changes in social capital) and point to an alternative explanation of unemployment hysteresis based on access to information.

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1. Introduction

Experimental sociologists and psychologists have provided ample evidence that unemployment not only causes material hardship due to the associated loss in income, but also enforces the deprivation of social, psychological and non-pecuniary benefits provided by employment.¹ Jahoda (1981, 1982) for example suggests that unemployment implies a loss of five latent functions of employment: (i) time structure; (ii) social contacts; (iii) the experience of social purpose; (iv) status and identity; and (v) regular activities.

Subsequent empirical work has sought to determine the role of unemployment in determining health outcomes (e.g., Schmitz, 2011 and Marcus, 2013) or, more generally, individuals' subjective well-being (e.g., Winkelmann and Winkelmann, 1998 and Kassenböhmer and Haisken-DeNew, 2009).² While the relationship between unemployment and health remains inconclusive in general, there exists a well established negative impact of unemployment on individuals' life satisfaction

[☆] We are grateful to Sebastian Garmann, Gerhard Glomm, Carol Graham, Clemens Hetschko, Wolfgang Leininger, Ludger Linnemann, Wolfram F. Richter, Hendrik Schmitz, two anonymous referees, and to participants at seminars at the University of Dortmund, the XII. Quality of Life-conference (Berlin), and the 2015 Annual Conference of the Royal Economic Society (Manchester) for helpful comments and suggestions. Any remaining errors are ours.

* Corresponding author.

E-mail addresses: lars.kunze@tu-dortmund.de (L. Kunze), nicolai.suppa@tu-dortmund.de (N. Suppa).

¹ See, e.g., Warr (2007) for a recent survey of the psychological literature.

² See Frey and Stutzer (2012) for a recent survey.

even after controlling for a large number of other influences. Existing explanations for this negative impact focus on social norms (e.g., Clark, 2003) or on changes in individuals' time structure (e.g., Martella and Maass, 2000).

The impact of unemployment on social contacts and activities, however, has mostly been neglected in the economic literature so far. In fact, there is only some evidence from sociologists on how unemployment affects social interactions. In a classical study, for example, Jahoda et al. (1974) observed a weary community life resulting from a plant closure in Marienthal in the 1930s.³ Yet, analysing the determinants of social participation is important for several reasons. First, social participation is commonly viewed as one of the constitutive elements of human well-being (Sen, 1992, 2000).⁴ Recently, Stiglitz et al. (2010) have assigned a key role for human well-being to both social participation and (un-)employment. Hence, from this perspective, our analysis starts exploring the interrelations among two important domains of human well-being, similar to the analyses of health and education. Second, reduced social activity has been conjectured to be an important driver of the non-monetary costs documented by the life satisfaction literature (Winkelmann and Winkelmann, 1998). A natural precondition, however, is that unemployment indeed lowers social interactions and participation. Third, the importance of social interactions for economic outcomes has recently been emphasised in the literature on social capital, see, e.g., the seminal book, 'Bowling Alone', by Putnam (2000). In this literature, social capital is generally defined as a stock concept including, e.g., friendship or trust, whereas social interactions are part of the process which creates social capital (Glaeser et al., 2002). Furthermore, it is well documented that social contacts and networks play a decisive role in individuals' job search (Montgomery, 1991; Ioannides and Loury, 2004). Hence, analysing the determinants of social participation may help to improve our understanding of the phenomenon of unemployment hysteresis. Yet, a thorough and systematic empirical analysis on the effect of unemployment on social participation is missing so far. To close this gap in the literature is the aim of the present paper.

Using German panel data, we measure social participation by six distinct indicators which are grouped according to whether they are carried out in private or public. Specifically, we use the frequencies of attending cultural events; cinemas, pop concerts, discos and the like; performing volunteer work (all carried out in public); social gatherings; and helping out friends (both private) as well as participating actively in sports which could be either a private or public activity.⁵ As the effect of unemployment on these participation activities is ambiguous a priori, the aim of our analysis is to establish the empirical link and to probe consistency with economic theory and the principal relevance of some possible mechanisms.

In a first step, by relying on fixed-effects methods, we document a significant negative and lasting impact of unemployment on the attendance of cultural events and cinema, pop concerts and the like, a significant positive effect for socialising and helping friends and neighbours but no effects for actively participating in sports and voluntary work. In a second step, however, in order to explicitly address the issue of selection, we also focus on plant closures as arguably more exogenous reason for entry into unemployment. Similar strategies have been used to establish a causal effect of unemployment on subjective well-being (Kassenböhrer and Haisken-DeNew, 2009) and health (Schmitz, 2011).⁶ The qualitative results from the first step of our analysis also hold for the group of unemployed due to plant closure. Finally, we investigate whether the unemployed adjust their level of social participation over time. The importance of the length of an unemployment spell has been emphasised by many previous studies in different contexts, e.g., Eisenberg and Lazarsfeld (1938), Jahoda (1979, 1982) and Clark (2006).⁷ In general, we find relatively strong short-run effects for some activities (i.e., cinema, helping, socialising; in particular after the first year of entry into unemployment), which however disappear with the duration of the unemployment spell in the case of socialising. By contrast, there is little evidence that unemployed quickly adjust their level of social interaction for other activities such as attending cultural events or cinema and helping. Rather, unemployment turns out to have a severe and lasting effect for these activities. Overall, our findings suggest a decline of public social activities and at the same time a retreat of individuals into private life.

The remainder is structured as follows. Section 2 provides a review of the related literature on unemployment and social participation and some conceptual background on how unemployment may affect social participation. Section 3 describes the data and Section 4 our econometric strategy. Section 5 presents our main results and provides several robustness checks. Section 6 discusses the main results. Section 7 concludes.

³ See also the studies by Creed and Reynolds (2001) and Paul and Batinic (2010), which provide tests of Jahoda's latent deprivation model. They find that, in general, employed individuals have better access to the five latent functions than unemployed individuals, including higher levels of social contact. However, these analyses are based on cross-section data with only a few observations implying that they are subject to the usual limitations with this kind of data.

⁴ Throughout this paper we follow Sen's account of well-being which is elaborated within the capability approach (e.g., Sen, 1992). According to this approach, well-being is an inherently multidimensional construct, where dimensions (called functionings) are the beings and doings individuals have reason to value, e.g., being well-nourished, well-sheltered, healthy, happy and participating in social life or appearing in public without shame. The choice set of functionings is called an individuals' capability. By contrast, subjective well-being may reflect many of these achievements, but may also depend on other things (e.g., the frame of reference, experience, custom, adaptation or genetic disposition). Finally, life satisfaction is understood as the cognitive component of subjective well-being (Diener et al., 1999).

⁵ See Section 3 for a more detailed discussion of these variables.

⁶ See also the growing literature on job displacements using administrative data (see, e.g., Sullivan and von Wachter, 2009 and Browning and Heinesen, 2012). The main finding from this literature is that job loss due to plant closure increases the overall risk of mortality.

⁷ See Clark et al. (2008) for a related analysis on adaptation of subjective well-being.

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