



Unpacking the misery multiplier: How employability modifies the impacts of unemployment and job insecurity on life satisfaction and mental health

Francis Green*

Institute of Education, 20 Bedford Way, London WC1H 0AL, UK

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ABSTRACT

Employability strongly moderates the effects of unemployment and of job insecurity on life satisfaction and mental health. Using nationally representative panel data from Australia, I find that an increase in employability from zero to 100% cancels around three quarters, in some cases more, of the detrimental effect of unemployment. Employability also matters for employees: an increase in men's employability from zero to 100% reduces the detrimental effect of job insecurity by more than half. The effects of extreme job insecurity and of unemployment are large and of comparable magnitudes. The findings are used to compute estimates of the well-being trade-off between increases in job insecurity and increases in employability, relevant to the support of "flexicurity" policies, and of the "misery multiplier", the extent to which the effect of a rise in aggregate unemployment on those becoming unemployed is supplemented by the effects on others' insecurity and employability.

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1. Introduction

Luiz Felipe Scolari has shrugged off the pressure mounting on him at Chelsea and declared that another managerial position would always be around the corner for him. "If I lose my job, I have another job Maybe tomorrow, maybe after one year or two years. I have worked for 25 years." (Guardian, 14 January, 2009).

It has been firmly established, in a wide range of empirical studies at individual and country levels, that unemployment is detrimental for health and well-being, both in itself and because it entails a loss of income. At the same time, a large number of psychological studies and a few in economics have found that job insecurity itself also generates substantial losses in well-being. Within both literatures, some studies have uncovered heterogeneous effects associated with scarring and social norms, or across different socio-economic groups. The issue which I address in this paper is that an important reason for heterogeneity in the effects

of unemployment and job insecurity is rarely recognised in theory or empirically investigated: namely, that employability matters. The Guardian quotation illustrates one instance of this proposition: Chelsea coach Scolari was reported to be unconcerned by his job being at risk because he felt he was very employable. More generally, the effects on well-being of being unemployed or of the fear of job loss are each potentially mitigated if there are good prospects of finding another job: the question is, how much?

The broad term "employability" refers to the ability of an individual to find and sustain employment. A characteristic of the individual in context, employability is indicated by the probability of obtaining employment, though often proxied by measures of its determinants (skills, adaptability and so on). In this paper I develop a simple conceptualisation of the roles of employment insecurity and employability, with two central features. First, it allows for the uncertainty surrounding unemployment and employment to affect well-being both directly and indirectly through its impact on expected income. The direct effects are justified in psychological and social theory, while the indirect effects are economic. Second, the framework allows for the interaction between unemployment and employability, and between job insecurity and the employability of the employed. To empirically implement this framework, the three key variables – employability of the unemployed, job loss

* Tel.: +44 0 207 911 5530.
E-mail address: f.green@ioe.ac.uk

risk, and the employability of the employed – are directly measured by the subjective expectations of the probabilities of future employment transitions.

An understanding of the role of employability in modifying the detrimental impacts of unemployment and job insecurity is greatly relevant to the formation of unemployment and employment policies. European debate, for example, in recent years has focused on “flexicurity”, a strategy to devise employment and welfare legislation that will optimise the ability of employers to redeploy labour (thereby, other things equal, raising job insecurity) while at the same time providing generous support and training for the unemployed (European Commission, 2007). “Flexicurity” policies are argued, not only to be efficient, but also to provide a political compromise by protecting the welfare of the unemployed. There is, however, no empirical evidence through which the impacts of job insecurity and of employability could be compared, and any trade-off evaluated from the perspective of the well-being of workers.

My findings provide new estimates of the impact of unemployment and of job insecurity, in the context of a model that takes account of the effects of the interacting transition risks. These findings are gleaned using fixed effects estimation on panel data, and are therefore more confidently interpreted as causal than in the many cross-section studies in the literature. I examine how the magnitude of the effects of insecurity among employees compares with the effects of being unemployed.

It turns out that, as predicted, unemployed people with little hope of finding a job enjoy the least well-being by a considerable margin, while employed people who are both highly employable and in a secure job enjoy the most. In between there is substantial differentiation according to employability, job insecurity and their interaction. The estimates imply that there are considerable gains from raising the employability of an unemployed person. Meanwhile, high job insecurity substantially lowers subjective well-being, but less so if the employee is more employable. Relative to a secure job the deleterious effects of a high level of job insecurity are comparable in magnitude with the effects of unemployment. I compute crude estimates of the “misery multiplier” ranging between 3.2 and 3.5 – this being the ratio of the total impact of a rise in unemployment on well-being to the impact on just those made unemployed. It is this broader impact of unemployment, deriving from its extended impact on job insecurity and employability, that accounts for the society-wide impact of recessions. The estimates also allow the trade-off between greater job insecurity and improved employability to be computed, thus providing a first step for a potential evaluation of “flexicurity” policy.

The paper proceeds as follows. Section 2 overviews the two literatures on unemployment and job insecurity, and sets up the simple framework and specification that takes account of the interactions among the uncertainties. Section 3 describes the data and Section 4 my findings, and I conclude in Section 5 with the policy implications.

2. Theory and literature

Whether or not they have a job workers face uncertainty: in any given period employees might lose their jobs, while the unemployed might find one. This uncertainty affects well-being both directly, in that it is uncertain whether they will experience the well-being associated with having a job *per se*, and indirectly through its impact on expected income. The aim of this section is to develop a simple framework that allows the separate and interactive effects on well-being of the different elements of this uncertainty to be distinguished.

The welfare-reducing uncertainty surrounding employment is what is typically referred to as employment insecurity. The narrower focus of most studies, however, is on the lack of continuity of the current job, i.e. job insecurity, commonly conceived as the probability of involuntary job loss.¹ The broader concept of employment insecurity also encompasses uncertainty over future prospects in the labour market. Although employment insecurity is an objective concept, it also has an important affective dimension defined by how people perceive the uncertainty. The antecedents and consequences of job insecurity perceptions have received a great deal of attention in psychological studies. By contrast, the economics literature has largely been dominated by studies of objective ex-post indicators, such as redundancy or job loss (e.g. Nickell et al., 2002). Only quite recently has it been established that perceptions of job insecurity are quite well correlated with subsequent job loss frequencies (Campbell et al., 2007; Stephens, 2004; Dickerson and Green, 2009), in effect bridging two literatures.

A robust finding from the psychological literature is that job insecurity is a source of lower health and well-being (for good overviews see Burchell, 1994; Nolan et al., 2000; Wichert, 2002; Cheng and Chan, 2008). This effect holds for a variety of indicators of job insecurity, including the form of employment contract (Kompier et al., 2009). The main rationalisation in psychological theory is the argument that job insecurity is a stressor, leading to work strain. Loss of control over one’s work and life situation is at the heart of this process, and the strain may be exacerbated by inability even to assess the chance of job loss. The impact is also interpreted as contributing to a repudiation of the implicit “psychological contract” between worker and employer (Mauno et al., 2005), and the effect of rising insecurity on health has also been seen as part of a shift in power relations (Scott, 2004). The economic rationale, namely that greater job insecurity entails a loss of expected income, is also found in some of the psychological theory, though with less prominence.

It is recognised that the impact of perceived job insecurity on well-being varies both among individuals (Sverke and Hellgren, 2002), and across socio-economic categories, though there are few firmly established regularities across many studies (Nolan et al., 2000). Cheng and Chan (2008) find robust evidence that health outcomes were more severe for older than for younger employees. Mauno et al. (2005) and De Cuyper and De Witte (2007) find that the impact on job satisfaction is notably greater for permanent than for temporary contract workers. An important underlying explanation for these apparent regularities is the perspective from psychology, holding that the impact of insecurity is moderated by an individual’s dependency on the current job, which is governed by alternative economic security and the degree of occupational mobility (Greenhalgh and Rosenblatt, 1984). This “dependency perspective” can also be seen as an economic interpretation: it proposes that job loss (hence also job insecurity) has greater effect for individuals who possess fewer transferable skills and are hence less employable. Dependency on one’s job is also affected by institutional factors: it has been found that employees in countries with high levels of employment protection legislation (EPL) express lower satisfaction with security (Clark and Postel-Vinay, 2009). The latter finding is interpreted as EPL reducing outflows from unemployment, thereby raising the cost of job loss. Thus, the same risk of job loss has different well-being implications across differing institutional environments.

These findings about the effects of employment insecurity complement others from economics and psychology that unem-

¹ Job insecurity can also involve uncertainty over valued job features within the current job, including fears over promotion/demotion and relocation.

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