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## Well-being and unemployment during the Great Recession: An empirical analysis across UK Local Authority Districts

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### Synopsis

The paper examines the relationship between unemployment and psychological well-being before and during the post-2007 'Great Recession' across 249 UK Local Authority Districts (LADs). Substantial evidence demonstrates that unemployment has a large negative effect on psychological well-being. However, unique social norms develop in geographical areas with high unemployment rates, which significantly reduce the negative impact of unemployment on well-being. Though the Great Recession period was characterised by widespread unemployment, few studies have examined the impact of this crisis on well-being in high- and low-unemployment local areas. Our analysis constructs a rich panel data set which follows 15,798 individuals from 1998 to 2014. Our findings indicate that unemployment had a large negative impact on psychological well-being, but the magnitude of this effect did not change or was even slightly lower during the Great Recession. The unemployment social norm also ceased to have any additional effect on well-being during the Great Recession in high-unemployment LADs.

### Introduction and Background

One of the most pronounced effects of the global financial crisis of 2007, and subsequent Great Recession, was a large and prolonged rise in unemployment rates. Unemployment has a large negative impact on psychological well-being. Social norms play an important role in moderating the impact of unemployment on psychological well-being (Clark et al., 2010; Clark 2003). Typically, social norms of unemployment have been operationalised at the geographical level using the unemployment

rate in region where individuals live (Clark and Oswald, 1994). However, regions are large geographical agglomerations which may not fully capture unemployed individuals' reference group (Becchetti et al., 2017; Chadi 2014). Therefore, we exploit a unique feature of our dataset which enables us to operationalise the social norm using the local unemployment rate in 249 UK LADs. In this context, we examine whether the impact of unemployment on psychological well-being was worse during the Great Recession, relative to the preceding period.

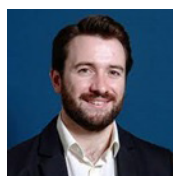
### Issues and Questions Considered

The Great Recession produced a profound series of negative impacts on individuals' physical and mental health (Bell and Blanchflower, 2010; Drydakis, 2015). However, no studies have directly investigated the impact of being unemployed in the Great Recession (i.e. 2008-2014) relative to being unemployed in the preceding period of economic stability and expansion. This is important because in a large-scale economic shock such as the Great Recession, it may become more normal to be unemployed, thus shifting the social norm and lowering the negative impact of unemployment on well-being. Therefore, we test a common hypothesis of the literature, in the novel context of the Great Recession:

*Hypothesis 1:* Being unemployed during the Great Recession is more psychologically distressing than being unemployed in the preceding non-recession period.

The negative impact of unemployment on psychological well-being is significantly mitigated by how common it is in an unemployed

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individual's reference group (Stutzer and Lalive, 2004). To explain this phenomenon, unemployment has been conceptualised as a form of social norm. Unemployed individuals living in an area with a weak social norm to work (i.e. high unemployment rate) suffer less mental distress (and *vice versa*). Due to lack of available data on the unemployment rate at the local-level, to our knowledge, this potential reference group has so far been unexplored in the literature as a means of operationalising the unemployment social norm in granular detail. Therefore, we test the following hypothesis:

**Hypothesis 2:** Being unemployed in high unemployment localities during the Great Recession is even less psychologically distressing than being unemployed in high unemployment localities during the pre-recession period.

## Methodology

To examine our hypotheses, we construct a novel panel data set by merging two rich UK data sources: The British Household Panel Survey (BHPS) and the UK Household Longitudinal Study (UKHLS). Our final data set follows 15,798 individuals over 15 waves (1998–2014). In each wave, each individual completed the General Health Questionnaire, which captures individuals' self-reported psychological well-being. A unique feature of both the BHPS and UKHLS data sets is that they record in which of the UK's LADs individuals live. To operationalize the social norm to work at the geographical level, this paper then used data on the local unemployment rate in 249 UK LADs to test whether unemployment hurt less in high unemployment local areas during the Great Recession period relative to the preceding period (Figure 1). We employ robust difference-in-differences fixed-effects and general method of moments estimators, which control both for unobserved individual heterogeneity and for any form endogeneity of the unemployment variable.

## Outcomes and Findings

Our findings indicate that unemployment has a large negative effect on well-being. However, there is not enough evidence to suggest that the well-being of unemployed persons decreases further during the Great Recession, relative to the pre-recession period. Moreover, the effect of being unemployed is found to be even slightly smaller during the Great Recession period. While becoming unemployed decreases the well-being by 14% for all respondents in the sample, during the Great Recession well-being of the unemployed fell by 9%. Our results are more in line with Brand (2015), who suggests that the psychological cost of unemployment may be lower in the context of a deep and prolonged unemployment crisis, because individuals blame the overall economic conditions as opposed to themselves.

In addition, our results indicate that during the pre-recession period, the psychological well-being of unemployed males living in high-unemployment localities is less negatively affected than the well-being of unemployed men living in low-unemployment LADs, confirming the social norm effect. The lower well-being of unemployed males in a high-unemployment locality will be offset by about 1%. However, during the Great Recession period the social norm to work ceased to have any additional moderating effect. Thus, we find that there was no departure from the standard social norm to work effect during the Great Recession. Finally, a consistent result across the estimations is that social norms of unemployment have a significant effect for men, but no significant effect for women. Recently, Beer et al. (2019) have highlighted the important role gender can play in the various impacts of unemployment at the local level. Though beyond the scope of our study, future research would benefit from a close examination of gender differences in the effects of social norms of unemployment.

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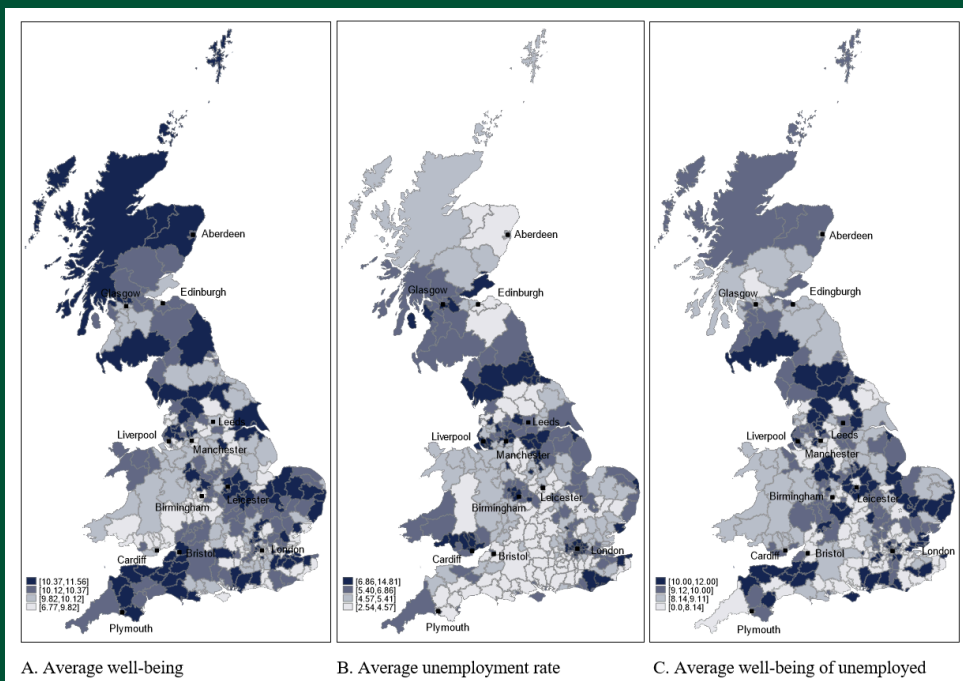


Figure 1. Average well-being and unemployment at the local level. Note: Dark fields denote the higher average well-being of all respondents (A), higher average local authority district (LAD) unemployment rates (B), and higher average well-being of unemployed respondents at the LAD-level (C). Light fields denote, in contrast, the lower values of these variables.