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Employed But Still Unhappy? On the Relevance of the Social Work Norm

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Abstract

In the modern welfare state, people who cannot make a living usually receive financial assistance from public funds. Accordingly, the so-called social work norm against living off other people is violated, which may be the reason why the unemployed are so unhappy. If so, however, labour market concepts based on the notion of promoting low-paid jobs that are subsidised if necessary with additional payments would appear far less favourable. It could be that people are employed, but still unhappy. Using German panel data, this paper examines the relevance of the social work norm and finds significant disutility effects of living off public funds. Although there is evidence that this is true for employed people as well, one individual seems to be much better off having a job that requires additional assistance than having no job at all. On the other hand, such policies as the recent German labour market reforms can trigger undesired side effects if the issue of the social work norm is ignored.

Zusammenfassung

Wenn Menschen ihren Lebensunterhalt nicht selbst bestreiten können, dann werden sie in Gesellschaften mit sozialstaatlicher Prägung für gewöhnlich finanziell unterstützt. Lebt man allerdings als Leistungsempfänger sozusagen auf Kosten der Allgemeinheit, so wird dies in der Literatur als ein Verstoß gegen die soziale Arbeitsnorm interpretiert. Dieser Artikel stellt fest, dass eine solche Norm nicht zwingend und ausschließlich im Fall der Arbeitslosigkeit verletzt ist, sondern generell beim Bezug potenziell stigmatisierender Sozialleistungen. Da dies auch auf anspruchsberechtigte Geringverdiener zutreffen kann, stellt sich die Frage nach deren Wohlergehen. Die Analyse deutscher Paneldaten legt nahe, dass Beschäftigte auch unter Berücksichtigung anderer Einflussfaktoren signifikant unglücklicher sind, wenn sie von ihrem eigenen Einkommen nicht leben können. Ebenso finden sich Hinweise auf unbeabsichtigte Effekte der im Beobachtungszeitraum umgesetzten Arbeitsmarktreformen, mit denen die Regierung jene staatlich unterstützte Beschäftigung im Niedriglohnbereich fördern wollte. Auf der anderen Seite

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wird aber auch deutlich, dass Menschen ohne Arbeit eine noch weitaus geringere Lebenszufriedenheit aufweisen.

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1. Introduction

> "We have established a functioning low-wage sector, and, in terms of social benefits, we have placed special emphasis on incentives to take up employment."
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> (Gerhard Schröder, World Economic Forum Davos, Jan 28th 2005)

For many countries, unemployment is one of the most pressing social problems. In the ongoing debate on the most promising policies in this context, economic advice focuses mainly on the real wage and its determinants. In line with the classical labour market model, in which wages above equilibrium levels lead to a labour surplus, the point is made that falling real wages can stimulate the demand for labour and reduce unemployment. However, even if not induced consciously by a particular labour market concept, large low-wage sectors are a reality in a number of countries. In contrast, there is widespread consensus that the community should ensure the minimum income needed to exist, at least for those who are not simply refusing to work. Given these facts, it is not surprising that, for many labour market economists, the design of low-wage sectors is seen as a fundamental economic challenge. Typically, proposals are based on the notion that individuals earning less than the subsistence level should receive additional payments from public funds. This financial support can be paid directly or indirectly, such as via tax credits. Yet, although such concepts have indeed been implemented in some cases, the viability of the economic advice is often refuted. Laymen and researchers, mostly from non-economic disciplines, are sceptical of supplementing earned income with taxpayer money. In Germany, for instance, a heated debate developed during the implementation of the recent labour market reforms, especially on the issue of the low-wage sector. Critics argue that too many people in Germany cannot make a living from their work, which they believe is particularly unacceptable for those working full-time. It is claimed that economists do not understand the true nature of the problem when people live off public funds entirely or in part and not from their own (earned) income.

The disagreement over how to arrange the labour market is surely related to the particular perspective. Traditionally, economists have a rather pecuniary view, but rarely distinguish between different kinds of income, although the number of researchers refuting the notion that "income is income" (Moffitt, 1983, 1024) might be growing. Indeed, if people seek to earn their own living, so as to avoid depending on others, they do in fact distinguish between differ-

ent sources of income. The corresponding belief that it is not right to live off public funds, which induces pressure to earn one's own living, is referred to as the social work norm and has been introduced to economics over the past years. In reference to the philosopher and social scientist Elster (1989a), this social norm against living off others has been used primarily to explain the occurrence of multiple unemployment equilibria. Economic researchers, such as Stutzer / Lalive (2004) or Kolm (2005), argue that regional unemployment interacts with the pressure on the affected individual to comply with such a norm, resulting in "weak norm" and "strong norm" communities, with correspondingly different levels of unemployment. Apart from this argument, however, the relevance of the social work norm to labour market economics and policy-making has not yet been considered comprehensively, despite the important implications to be drawn simply from its existence and the probable consequences of people suffering psychologically from a dependency on benefits.

Therefore, instead of simply assuming the existence of the social work norm, this paper argues that its relevance first needs to be confirmed, and that this can be achieved by an empirical investigation of the impact on well-being of receiving social benefits.[1] The logical connection is that if there is a normative pressure to earn one's income from work, people who fail to conform would presumably suffer psychologically from the fact that they are living off other people.[2] These potential disutility effects can be measured by using the happiness research approach, which applies reported subjective well-being as an approximation of individual utility levels (see, e.g., Frey / Stutzer, 2005; Frey, 2008; van Praag / Ferrer-i-Carbonell, 2008).

While happiness research has shown convincingly that unemployment makes people unhappy, researchers have not yet answered the question of why this is so (Winkelmann, 2009, 429).[3] Therefore, one of the research objectives of this paper is to find out whether unhappiness from not conforming to the social work norm is the true reason for unemployment-induced disutility.[4] Hence, if there is a norm-induced impact on well-being, which would demonstrate the relevance of the social work norm, the next step is to compare both potential

1 As an example, in probably the first economic contribution on the social norm of living off one's own work, referring to the original definition from Elster, the assumption is made that "the existence of such a social norm is taken as given" (Lindbeck et al., 1996, 2).

2 Note that, for reasons of simplicity, and in accordance with the original definition of the social work norm, the term "living off other people" is used throughout the paper, despite its negative connotations.

3 The Clark / Oswald (1994) article "Unhappiness and Unemployment" is not the first, but certainly the most well-known economic contribution in this context. For a list of studies, see Carroll (2007, 299).

4 In this context, Carroll (2007, 288) conjectures "that norms about work […] are key drivers of the non-pecuniary unemployment costs"

sources of unhappiness with one another; that is, unemployment and benefit dependency. Furthermore, if non-conformity also exerts a happiness-reducing impact on employed people, this would have strong implications for labour market concepts based on the notion of promoting low-paid jobs that are subsidised if necessary with additional benefits. It could be that people are employed, but still unhappy. Finally, the use of German panel data from 1999 to 2008 allows a closer look at the interaction between such labour market policies and the potential effects of living off other people.

The paper proceeds as follows. Section 2 provides an overview of the literature on the social work norm and related labour market issues. Section 3 briefly discusses the German social system and identifies benefits whose receipt is potentially perceived as norm-violating. In Section 4, the data is introduced and some preliminary statistics are presented. Section 5 contains the main empirical analysis and its results, which are discussed in the following section, aimed at potential policy implications. Section 7 concludes.

2. The Social Work Norm and the Labour Market

The issue of social norms has long been ignored by economists. Yet, over the past decades, scepticism towards their relevance and measurability has diminished, so that social norms have found their way into theoretical models (e.g. Akerlof, 1980; Lindbeck, 1997; Azar, 2004; Sliwka, 2007) and into a series of empirical investigations (e.g. Goerke/Pannenberg, 2004; Heinemann, 2008; Torgler et al., 2009; Halla et al., 2010), including studies using experimental methods (e.g. Fehr et al., 1998; Alm et al., 1999). Since interdisciplinarity and behavioural approaches have become common practice, increasing numbers of economists feel uneasy about leaving the issue of social norms to other disciplines such as sociology. Although there is now a large and continuously growing body of economic research, the measurement of social norms remains a challenge.

The New Palgrave Dictionary of Economics (Young, 2008) characterises social norms as customary rules that affect the behaviour of individuals and thereby coordinate social interactions. This can lead to uniform behaviour within social groups, the more the rule is established and the more people expect others to conform. Since these expectations and the establishment of rules are in most cases very different, the adherence to norms often varies substantially between social groups. Elster (1989b) characterises social norms similarly, pointing out that they must be shared and sustained by other people, through their approval and disapproval, as well as by feelings of embarrassment, anxiety, guilt and shame in the event of norm-violation.

Without doubt, a variety of social norms are potentially relevant to many different sectors of the economy, including the labour market. In his article on the

significance of social norms to economic theory, Elster (1989b) lists a number of examples. As an instance of a work norm, he defines a behavioural regularity that Stutzer / Lalive (2004) refer to as the social work norm: "There is a social norm against living off other people and a corresponding normative pressure to earn one's income from work" (Elster, 1989a, 121). This particular phenomenon was introduced to economics in the mid-1990s to explain multiple equilibria, mostly in the labour market.[5] The argument is that there are regional differences in unemployment levels, which correlate with normative pressure to conform to such a norm and thus the varied degree of adherence to it. If more people violate the norm of earning one's own income, such emotions as embarrassment and anxiety should decline, because it is more socially acceptable to live off public funds. As stated above, people tend to conform to informal rules when they expect their peers to do so as well. Depending on the level of norm-conformity, social interactions in a specific region determine the conviction that people should earn their own income and therefore, in turn, determine the non-pecuniary costs of failing to comply with the social work norm. Since the regional strength of norm adherence also affects unemployment levels, this relationship contributes to explaining different unemployment equilibria in otherwise similar communities (Kolm, 2005).

By focusing on norm-guided behaviour and the corresponding beliefs, a direct measurement of the social work norm is certainly very difficult. Stutzer / Lalive (2004) propose capturing the strength of the belief that people should earn their own income by using the results of a referendum on the level of unemployment benefits. They find that regional differences in the duration of unemployment can be connected to voting results, so that the typical social norm pattern emerges: The stronger the norm in a certain community, the more people conform to it and the shorter the unemployment duration. Moreover, Stutzer / Lalive provide further evidence supporting the hypothesis of social pressure on potential norm-violators by examining individual well-being. They find that the stronger the norm, the less comfortable the state of unemployment. This approach of linking regional differences in unemployment-induced unhappiness to different levels of norm compliance and the corresponding unemployment figures has also been applied by Clark (2003).[6] Using British panel data, his study reveals a positive impact of the unemployment of others on the well-being of a given unemployed individual. After first replicating this finding for German panel data (see Clark et al., 2009), Clark et al. (2010) go a step further by considering whether the dividing line should really be drawn be-

[5] In addition to the studies discussed here, Lindbeck et al. (1999; 2003) also examine the dynamic aspect of the social norm against living off benefits and how it interacts with economic and political decisions.

[6] There are further empirical studies from Hedström et al. (2003), as well as from Tolciu (2009). Although they refer to the Elster understanding of the social work norm, the focus is also on the regional unemployment argument.

tween employed and unemployed individuals. While instead, they differentiate between good and poor job prospects, in this paper, the question is also raised as to where the line needs to be drawn; but the suggestion offered here is significantly different from that of Clark et al.

The abovementioned studies are investigations of norm-related effects on the well-being of unemployed individuals, implying that unemployment entails norm-violation and vice versa. While the former seems quite logical, the reverse relation does not correspond perfectly with the original understanding, which defines norm-violators as those living off other people, not necessarily as those who are unemployed. According to Elster's definition, the social work norm requires one to earn income from work and to avoid depending on others. This seems to be associated only with being either employed or unemployed, but on closer examination, employed individuals also do not conform to a norm that is defined in this manner when they receive additional financial assistance from the state. Therefore, the appropriate distinction must be made between people who live off their own income and those who live in benefit-receiving households, which can explicitly include employed individuals.

The potential consequence of living off other people is stigmatisation. On further reflection, there is not much of a difference between the disutility that is caused by the failure to conform to the above social norm in the definition of Elster and the welfare stigma. Accordingly, research on the latter is also relevant here. As a major contributor, Moffitt (1983) finds that the welfare stigma is constant with respect to income levels, so that the disutility effect results from the mere fact of receiving transfer payments. Against this background, in the empirical investigation, it is therefore reasonable to distinguish simply between those who receive benefits, thus violating the social work norm, and those who not. However, by contrast, Moffitt (1981; 1983) argues that the welfare stigma is not constant over different social programs, so that benefits can indeed be more or less stigmatising. This is highly relevant to an analysis of the social work norm, since the receipt of a certain payment may, in one case, be regarded as "living off other people," while in another case, one may feel perfectly entitled to do so. Furthermore, the issue of stigma and how to avoid it are aspects of some research on labour market concepts. Feist/Schöb (1998, 465), for instance, discuss the issue of workfare and expect a "reduction in stigmatization" from temporary employment for otherwise unemployed individuals.[7] On closer inspection, they refer to the disutility that is generally caused

[7] In addition, Besley/Coate (1992) also expect the concept of workfare to be less stigmatising than pure welfare, because when recipients have to supply their labour, the misuse of welfare becomes unattractive to non-needy people. Moffitt (1983, 1034) asks whether a negative income tax would be less stigmatising than the existing system in the United States by referring to Samuelson's introductory words in his standard textbook on economics. Furthermore, Elster (1988, 75) discusses how certain kinds of direct payments can lead to negative reactions, so that people "resist being subsidized in ways that

by unemployment, which should be distinguished here from the isolated psychological impact of living off public funds. Since the argument of reduced stigma would come to nothing if stigmatisation, as a jobless person, is similar to that encountered by a person living off public funds, a comparison of both effects is a promising basis for a novel perspective on such labour market concepts.

Most of the studies on welfare stigma derive their findings from investigations of non-take-up rates, which are certainly determined in part by stigma, but not completely.[8] Despite the obvious measurement problems of such an empirical approach, the notion of using happiness data to investigate welfare stigma is applied only sporadically. An exception is a study on potential stigma effects from the receipt of income support payments, finding no significant well-being impact on Australian youths (Lee/Oguzoglu, 2007). By contrast, the empirical investigation presented below measures the general well-being impact on adult individuals of living off others. This potential disutility effect is then investigated further according to the above research objectives.

3. Social Benefits and Stigmatisation in Germany

Concerning the investigation of disutility effects from living off other people, it is necessary to establish exactly when this is the case. For instance, as long as it is not means-tested, the receipt of child benefits surely does not conflict with the norm of earning one's income from work. In Germany, nearly all parents would otherwise become norm-violators, simply by virtue of having children. Therefore, in order to understand which benefits are relevant to the present investigation, it is necessary to take a brief look at the German social system.

People in Germany initially receive benefits called "Arbeitslosengeld" (ALG) from the quasi-governmental unemployment insurance if they become unemployed and if requirements are met. Until 2004, unemployed persons received unemployment assistance after a limited period of ALG receipts. This follow-up benefit program was subsequently merged with the social assistance program into one transfer scheme referred to as ALG2, as part of the recent German labour market reforms. Since this package of legislation (the so-called "Hartz concept") came into effect fully on January 1, 2005, ALG2 has assumed the central role in the German social system. While eligibility is calculated on a

make it obvious that they do not make any productive contribution." On this issue, see also Andrade (2002, 306).

[8] For example, Riphahn (2001) discusses stigma as a potential determinant of the large numbers of eligible households in Germany not taking up the financial support available to them. For a general review of relevant studies, see Andrade (2002). On the other hand, Smolensky et al. (1995, 10) point out that "the effect of stigma is difficult to separate from the influence of transaction costs, ignorance, or the researcher's imperfect knowledge of eligibility requirements."

household basis, this benefit also targets low-income earners when household income is below a certain level.[9] Because of the option of topping up low earnings, ALG2 has, in fact, the abovementioned combination component, which allows wages to fall, although a minimum level of income (needed to exist) is always guaranteed, if necessary, by additional payments from public funds. Other relevant types of social benefits to which households in Germany can be eligible are housing assistance, social assistance[10] and basic protection for the elderly or those with a reduced capacity to work. In addition to the latter having been paid since only 2005, there is a true break to be expected in the wake of the reforms, which must be considered in the following empirical investigation. Also, note that unemployment assistance, as the predecessor of ALG2, was not determined on a household, but on an individual basis. However, since most benefits are not paid to individuals but to households, obviously, the best way to distinguish between those who comply with the norm against benefit dependency, and those who do not, is to compare households. Accordingly, the group of norm-violators consists of individuals living in households that receive at least one of the abovementioned benefits.[11]

There are at least two good reasons not to consider the unemployment insurance benefit ALG as another component in the bundle of benefits classified here as relevant to the social work norm. Firstly, ALG is calculated individually (instead of a calculation on a household basis), which is true before and after the reforms. But secondly, and more importantly, it is because of the special nature of this benefit. When people receive social benefits that are financed by the community, i.e. by "others," the norm against living off other people is violated. Ultimately, this is the case with ALG as well, but because of its configuration as a payment from an insurance system, into which the unemployed individual has previously contributed on a mandatory basis, it is supposedly perceived differently. While recipients of taxpayer-funded welfare benefits, such as social assistance, are typically seen as those who are living off others, ALG benefits are presumably regarded as "citizens' rights" (Lindbeck, 1995, 481). If so, people would be less stigmatised and certainly less reluctant to live on unemployment insurance benefits. Therefore, there are good reasons to separate ALG from the bundle of norm-relevant benefits and to assume a less negative (or maybe even a positive) effect of ALG receipts on unemployed individuals.

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9 The law defines persons as either directly eligible or as part of a so-called "Bedarfsgemeinschaft", which, in order to reduce complexity, is treated here as a regular household.

10 Since the German labour market reforms have been implemented, many employable persons, who would previously have been eligible for social assistance, are receiving ALG2, but a small number of households still participate in the so-called "Sozialhilfe".

11 With regard to the empirical investigation, this means that all members of households with at least one recipient of the individually paid unemployment assistance (in the period up to 2005) are treated technically just like those in ALG2-receiving households (in the period since 2005).

4. Data and Preliminary Statistics

The data used in the present investigation on individual well-being is from the German Socio-Economic Panel Study (SOEP).[12] In the SOEP questionnaire, respondents evaluate their general life satisfaction level on an ordinal scale ranging from 0 to 10, which can then be used as a proxy for utility levels. For each year and each category, Table 1 gives observation numbers in the SOEP data sample, which consists of individuals, aged 18 to 65, and covers the period 1999 to 2008.

Table 1

Observation Numbers and General Life Satisfaction for Each Category

Year	Number of Observations				
	UNEMP	ALG	SWN	EMPLOYED	ALL
1999	901	440	1,055	7,363	11,393
2000	1,390	595	1,591	12,240	19,142
2001	1,281	543	1,361	11,252	17,498
2002	1,302	584	1,306	12,266	18,735
2003	1,371	613	1,370	11,267	17,388
2004	1,367	585	1,489	10,885	16,735
2005	1,313	508	1,468	10,352	15,909
2006	1,395	460	1,767	10,795	16,602
2007	1,128	316	1,472	10,366	15,400
2008	941	258	1,278	9,852	14,302
mean happiness	5.71	5.97	5.91	7.13	6.99
standard error	0.018	0.029	0.017	0.005	0.004
N	12,389	4,902	14,157	106,638	163,104

Explanation of the categories:

UNEMP individuals who are registered as unemployed.

ALG unemployed individuals who receive unemployment insurance benefits ALG ("Arbeitslosengeld").

SWN individuals living in households, in which at least one individual or the entire household receives one of the following as norm-related identified benefits:
- unemployment assistance ("Arbeitslosenhilfe"*),
- ALG2 ("Arbeitslosengeld 2"**),
- social assistance ("Sozialhilfe"),
- housing assistance ("Wohngeld"),
- basic protection for the elderly or those with a reduced capacity to work ("Grundsicherung im Alter und bei Erwerbsminderung"**).

EMPLOYED individuals in full-time or part-time employment, including regular and marginal or irregular employment.

* denotes period from 1999 to 2004; ** denotes period from 2005 to 2008.

Data: SOEP waves from 1999 to 2008 with individuals, aged 18 to 65.

[12] For a description of the SOEP, see Wagner et al. (2007).

As argued above, the categories of particular interest in this study are unemployed registered individuals (UNEMP), recipients of unemployment insurance (ALG) and those living in households that violate the social work norm (SWN). Since unemployed people usually receive some kind of payment, the groups inevitably overlap to a great extent. On the other hand, there are also employed individuals living in households that receive norm-relevant benefits. Since unemployment-induced disutility is well documented in the literature, these cases are of particular importance in examining norm-induced effects.

In order to gain an initial impression of the relationship between well-being and the examined categories, the corresponding life satisfaction means are also given in Table 1. As found in many other studies, the unemployed have a much lower level of well-being, compared to the average person (5.71 to 6.99). With an average life satisfaction of 5.97, recipients of ALG are slightly better off, even though they are all unemployed.[13] Compared to the mean value for all unemployed individuals, recipients of norm-relevant benefits are also better off, having an average value of 5.91. The reason for this is surely connected to the fact that this category also consists of individuals who are actually employed and, thus, potentially happier. In Table 2, not only is a distinction made between unemployed and employed individuals, but the latter is also divided into people conforming to the social work norm and those living in benefit-receiving households. In fact, the mean values for life satisfaction support the general finding that people are happier with work than without it, but the positive impact of employment seems to be much lower for those living off public funds (average life satisfaction of 6.44), compared to those conforming to the norm (average life satisfaction of 7.15).

Another way of obtaining insights about the relevance of the social work norm is to examine changes in labour force status and corresponding well-being changes in a transition matrix. With reference to similar studies, such as Winkelmann / Winkelmann (1998, 6), but adapting these to the present research objectives, Table 2 presents case numbers and average changes in life satisfaction. As expected, taking up employment is associated with a significant increase in well-being. However, those who are also living off their own earnings become happier, in comparison to employed low-earning individuals who are not. On average, the increase in happiness is 0.43 for the latter and 0.76 for those complying with the social work norm. More corroborative evidence could be expected from considering employed individuals who switch between norm-

[13] Note that there are some observations in the original data sample, where individuals answered "yes" to the question about ALG receipts, but denied being unemployed. In this case, a cleansing of the data is certainly useful in order to ensure clearness and correctness. The same applies to observations of respondents who said they were registered as unemployed, but simultaneously denied being "not employed" (when asked for their employment status). Although there are plausible explanations for this, these observations have also been dropped from the sample.

violation and norm-conformity. While there is a slightly significant drop in well-being from becoming dependent on benefits (–0.10), there is no significant increase in life satisfaction for employed individuals who stop living off other people. However, the insignificant outcome of 0.05 includes information that can be detected when the potential structural break is considered. An additional calculation, focusing only on transitions since 2005, yields an average increase in life satisfaction of 0.16, which is indeed significant. Since these changes in average life satisfaction could also be associated with other relevant factors, such as differences in income levels, this study continues with a multiple regression analysis, which considers other determinants of life satisfaction, in order to yield isolated relationships.

Table 2

Transition Matrix: Change in Life Satisfaction by Labour Force Status

Labour Force Status at $t-1$	Labour Force Status at t			
	I. Employed, conforming to the social work norm	II. Employed, living in a household receiving payments	III. Unemployed	
I. Employed, conforming to the social work norm	–0.06	–0.10	–0.68	mean changes
	0.005	0.051	0.040	standard error
	74,746	1,123	2,421	*N*
II. Employed, living in a household receiving payments	0.05	–0.07	–0.55	mean changes
	0.047	0.045	0.114	standard error
	1,293	1,256	291	*N*
III. Unemployed	0.76	0.43	–0.07	mean changes
	0.043	0.112	0.026	standard error
	2,029	309	5,505	*N*
	7.15	6.44	5.71	mean changes
	0.005	0.028	0.018	standard error
	102,777	3,861	12,389	*N*

Notes: Classification of categories in accordance with explanations in Table 1.

I. Employed, conforming to the social work norm: SWN = 0 & EMPLOYED = 1.
II. Employed, living in a household receiving payments: SWN = 1 & EMPLOYED = 1.
III. Unemployed: UNEMP = 1.

Data: SOEP waves from 1999 to 2008 with individuals, aged 18 to 65.

5. Empirical Strategy and Results

A large body of existing research on the determinants of happiness facilitates the establishment of an appropriate set of control variables needed for the regression analysis. For instance, health is known to be a very important influencing factor, simply because healthier people are much more satisfied with their

lives. On closer inspection, it is particularly relevant to consider this aspect in the investigation of stigma effects, because unhappiness among benefit recipients may be strongly related to ill health. Hence, the multiple regression analysis considers people's health by using several variables (on current health status, hospital stay and severe handicap). Similarly, it is very important to have an accurate measure for income, because obviously the idea here is to capture the psychological impact from benefit receipts, apart from the expected disutility effects related to the inevitably lower levels of income. Since the number of members varies from household to household, simply using household income levels would lead to the problem of incomparability. Therefore, this study integrates equivalised income, which is the monthly household net income divided by the square-root of the number of household members, so that reduced individual living costs for larger households are considered (see, e.g., Förster/Pearson, 2002). Further control variables take into account employment and family status, age, nationality and household composition (number of children, and whether there is someone in need of care). Additionally, fixed time effects and state effects are included.

The most important factor determining well-being, however, is the time-invariant personality trait, which results from genetic inheritance (see Lykken/Tellegen, 1996). From a methodological perspective, this suggests the use of fixed-effects models that take account of these given, but unobservable factors. Although Ferrer-i-Carbonell/Frijters (2004) have shown that the consideration of fixed individual effects is substantial, and likely to be more important than the ordinality of the life satisfaction responses, the ordinary least squares (OLS) method, which assumes cardinality, is supplemented here by the use of the conditional logit estimator (Chamberlain, 1980).[14]

Table 3 reports the first set of results from the regression analysis, investigating the social work norm in general. In the two middle columns, as always, showing the results for both estimation methods, the first major finding is evident. A strongly significant OLS coefficient of about –0.121 (and –0.181 in the case of the conditional logit estimator) implies that there is indeed an isolated negative impact on life satisfaction from living off public funds. This effect exists when other factors that influence well-being are controlled for, and irrespective of the isolated disutility caused by unemployment. The latter effect, on

[14] This method requires the transformation of the ordinal happiness variable into a binary format. Therefore, a fixed threshold is needed. Throughout the empirical investigation, observations with a life satisfaction score of more than 7 are "happy", while accordingly, the other scores are combined to form the category "unhappy". Regarding the use of logit estimations, economists researching happiness, such as Clark et al. (2009), are increasingly aware of a potential problem that was generally introduced in the methodological discussion by Ai/Norton (2003) and may arise from using interaction variables. While this certainly needs to be considered when interpreting the results, the use of two estimation methods reduces the impact of such problems.

the other hand, is, as expected, very large, and also taking into account the results for the first specification, becomes slightly smaller when variables for norm-induced effects are included. Hence, the social work norm helps to explain why the unemployed are so unhappy, but, since the differences between the coefficients are very small (–0.457 to –0.431 in the case of OLS), the negative impact of living off other people is obviously not the ultimate cause of unemployment-induced disutility found in so many empirical studies.

Furthermore, the results in Table 3 demonstrate why unemployment insurance benefits (ALG) should be considered separately. While there is a strongly significant impact in the case of the other benefits, neither of the two estimation methods yields a significant effect on unemployed individuals in the case of ALG receipts. In the third specification, which uses variables for the interaction (IA) with three age categories, different patterns can be detected. While unemployment-induced utility decreases with age, an inverse relationship emerges with respect to the impact of the social work norm. On the other hand, no such pattern can be found for recipients of ALG. Moreover, ALG generally does not mitigate the unhappiness caused by unemployment to a significant extent. For individuals younger than 30, the logit results even indicate a marginally significant increase in the probability of being additionally unhappy, presumably because ALG is generally less rewarding for people with fewer years of compulsory coverage. Taking account of this general insignificance, the issue of ALG receipts is not part of the subsequent analysis.[15]

While some preliminary evidence of normative pressure on employed individuals to earn a living is given by the transition matrix, the first specification presented in Table 4 reveals the isolated disutility impact of living off other people, specifically for those who are employed. For both estimation methods, the negative coefficients representing the interaction between norm-violation and employment are at least significant at the 5% level. This indicates that eligibility for benefits, resulting logically from earning very little, makes employed people unhappy, irrespective of the general effect of income, which is routinely controlled for. On the other hand, this disutility effect (–0.094 and –0.155 respectively) is again far smaller than that caused by unemployment.

[15] Further regressions, which are not presented here, show that people without German nationality do not seem to be affected similarly by the above insurance argument, so that separate calculations for this group generally yield (more) negative outcomes. Another promising object of examination is education, which yields two distinct patterns. The negative impact of unemployment increases with increasing education, while there is a countering compensation effect of ALG receipts. This is quite plausible, since ALG is typically more rewarding for people with higher education and, thus, higher income levels. Remarkably, for this latter group, the social work norm effect is not very significant, while people with average education levels suffer the most. This could be interpreted as meaning that the typical working class is affected most by a social norm effect. Another explanation could be non-take-up, which is to be expected from people who can afford it.

Table 3

Well-Being and the Social Work Norm: Basic Models

	Specification (1)		Specification (2)		Specification (3)	
	OLS FE	C LOGIT	OLS FE	C LOGIT	OLS FE	C LOGIT
Equivalent income	0.047*** (0.009)	0.144*** (0.021)	0.046*** (0.009)	0.141*** (0.021)	0.047*** (0.009)	0.142*** (0.021)
Unemployed	–0.457*** (0.024)	–0.603*** (0.047)	–0.431*** (0.031)	–0.536*** (0.060)		
IA1 (unemployed, age: 18 to 29)					–0.567*** (0.061)	–0.688*** (0.101)
IA2 (unemployed, age: 30 to 49)					–0.480*** (0.044)	–0.620*** (0.089)
IA3 (unemployed, age: 50 to 65)					–0.252*** (0.050)	–0.206* (0.110)
ALG			0.004 (0.035)	–0.053 (0.070)		
IA4 (ALG, age: 18 to 29)					–0.078 (0.078)	–0.230* (0.132)
IA5 (ALG, age: 30 to 49)					0.015 (0.053)	–0.003 (0.110)
IA6 (ALG, age: 50 to 65)					–0.019 (0.056)	–0.123 (0.126)
SWN			–0.121*** (0.025)	–0.181*** (0.051)		
IA7 (SWN, age: 18 to 29)					–0.090** (0.040)	–0.084 (0.075)
IA8 (SWN, age: 30 to 49)					–0.133*** (0.033)	–0.210*** (0.067)
IA9 (SWN, age: 50 to 65)					–0.148*** (0.044)	–0.335*** (0.099)
SB (SWN, 2005)			–0.027 (0.034)	–0.072 (0.069)	–0.027 (0.034)	–0.060 (0.070)
Wave dummies	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	163,104	105,010	163,104	105,010	163,104	105,010
Adj./Pseudo R^2	0.088	0.063	0.088	0.063	0.089	0.063

Notes: * denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level. Controls include variables for employment status, marital status, health status, hospital stay, severe handicap, number of children in the household, having a household member in need of care, age, German nationality and federal state.

Data: SOEP waves from 1999 to 2008 with individuals, aged 18 to 65.

Table 4

Well-Being and the Social Work Norm: Employment Status

	Specification (1)		Specification (2)		Specification (3)	
	OLS FE	C LOGIT	OLS FE	C LOGIT	OLS FE	C LOGIT
Equivalent income	0.046*** (0.009)	0.141*** (0.021)	0.046*** (0.009)	0.141*** (0.021)	0.047*** (0.009)	0.141*** (0.021)
Unemployed	–0.448*** (0.040)	–0.574*** (0.075)	–0.450*** (0.040)	–0.575*** (0.075)	–0.452*** (0.040)	–0.576*** (0.075)
IA1 (SWN, unemployed)	–0.104** (0.045)	–0.130 (0.088)	–0.107** (0.045)	–0.133 (0.089)	–0.148*** (0.048)	–0.224** (0.097)
IA2 (SWN, employed)	–0.094*** (0.032)	–0.155** (0.065)				
IA3 (SWN, full-time)			–0.006 (0.036)	–0.083 (0.076)	0.032 (0.039)	0.017 (0.088)
IA4 (SWN, part-time)			–0.278*** (0.055)	–0.309*** (0.103)	–0.262*** (0.068)	–0.208 (0.129)
IA5 (SWN, rest)	–0.166*** (0.037)	–0.240*** (0.073)	–0.175*** (0.038)	–0.248*** (0.073)	–0.143*** (0.043)	–0.261*** (0.082)
SB (SWN, 2005)	–0.029 (0.034)	–0.077 (0.069)	–0.024 (0.034)	–0.073 (0.069)		
SB (IA1, 2005)					0.066 (0.052)	0.125 (0.110)
SB (IA3, 2005)					–0.121** (0.062)	–0.338** (0.137)
SB (IA4, 2005)					–0.055 (0.095)	–0.297 (0.288)
SB (IA5, 2005)					–0.103* (0.062)	–0.032 (0.017)
Wave dummies	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	163,104	105,010	163,104	105,010	163,104	105,010
Adj./Pseudo R^2	0.088	0.063	0.088	0.063	0.088	0.063

Notes: * denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level. Controls include variables for employment status, marital status, health status, hospital stay, severe handicap, number of children in the household, having a household member in need of care, age, German nationality and federal state.

Data: SOEP waves from 1999 to 2008 with individuals, aged 18 to 65.

In the next specification, the effect for norm-violating people is divided further into full-time and part-time employment. The results show that the interaction between part-time employment and benefit receipts reduces well-being significantly, while the corresponding estimates for full-time employment are insignificant. With reference to the political debate in Germany, this latter finding is

rather remarkable, clearly warranting further investigation, particularly taking into account potential effects related to labour market policies.

It is important to note that the assumption of a structural break in 2005 is based on technical considerations. As discussed above, some benefit programs were introduced in 2005, while others were modified fundamentally at that time. On the other hand, a psychological effect may be associated with the implementation of reforms, which could have outweighed the technical implications. For instance, over the course of the political debate, German citizens could have changed their views on issues such as how important it is to earn one's own income. In Tables 3 and 4, the results of a general structural break (SB) in the impact of living in a benefit-receiving household indicate an additional negative, but insignificant effect. Although, at first glance, it seems that there is no break with regard to the impact of living off others, this could also be the result of countering effects on individuals in different sub-categories, so that the model is in fact specified inappropriately. The findings from the transition matrix, which indicate a structural break, suggest splitting up the group of norm-violators, according to their employment status. Indeed, the extended specification, presented in the last two columns of Table 4, yields further remarkable outcomes. For the period since 2005, there is a significant disutility effect for those in full-time employment who do not conform to the social work norm. Furthermore, unemployed individuals in benefit-receiving households experience an additional effect in the period since 2005, which counters the generally negative impact of living off other people. While, at least in the OLS regressions, the interaction between norm-violation and unemployment is generally significantly negative, the normative pressure to earn one's own living seems to have declined since the implementation of the policy reforms. However, this counter-effect is not significant, at least not in this specification.

In order to confirm these findings, Table 5 offers a different method of examining the interaction between employment status and potential norm-effects. Instead of using interaction variables, the data sample is reduced to certain groups of individuals. Indeed, the results for people in full-time and part-time employment confirm the previous insights, while the outcomes for the group of unemployed individuals are even more striking. In this specification, the negative impact of living off other people is overcompensated by a significant counter-effect related to the structural break in 2005. Hence, the social work norm effect, that is, the normative pressure on unemployed individuals to earn income from work, has changed considerably in its impact on people's well-being over the course of the labour market reforms.[16]

[16] This conclusion of a psychologically rather than a technically determined structural break is supported by further regressions, using 2004 as the year of change and yielding fairly similar outcomes. Since the political debate on the labour market reforms commenced well before their actual implementation, the psychological impact on affected well-being can be found for that year as well (see Chadi, 2010).

Table 5

Well-Being and the Social Work Norm: Restricted Samples

Restricted to:	Full-Time Employed		Part-Time Employed		Unemployed	
	OLS FE	C LOGIT	OLS FE	C LOGIT	OLS FE	C LOGIT
Equivalent income	0.044*** (0.012)	0.163*** (0.035)	0.041** (0.020)	0.129** (0.051)	0.282*** (0.067)	0.194* (0.115)
Marginal, irregular part-time			–0.082** (0.034)	–0.061 (0.077)		
SWN	0.038 (0.041)	0.032 (0.101)	–0.375*** (0.083)	–0.333* (0.171)	–0.117** (0.056)	–0.241* (0.136)
SB (SWN, 2005)	–0.128** (0.064)	–0.380** (0.151)	0.121 (0.112)	–0.070 (0.238)	0.221** (0.089)	0.467** (0.208)
Wave dummies	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	80,444	49,555	26,194	13,665	12,389	3,255
Adj./Pseudo R^2	0.076	0.062	0.074	0.060	0.046	0.062

Notes: * denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level. Controls include variables for marital status, health status, hospital stay, severe handicap, number of children in the household, having a household member in need of care, age, German nationality and federal state.

Data: SOEP waves from 1999 to 2008 with individuals, aged 18 to 65.

For the above reasons, this study on the relevance of the social work norm uses information about benefit receipts at the household level. Thus, there are not just eligible individuals, but members of households categorised as norm-violators. Accordingly, this group is certainly not homogeneous, and one could object to the underlying assumption that the corresponding estimates express a constant individual norm-induced disutility effect. Some members of benefit-receiving households may be unreceptive to any kind of norm, although they are also targeted by the calculations, and the measured disutility effect might be triggered by other causes. As a matter of fact, it is possible to conduct regressions based on a more narrowly defined group of norm-violators. Moreover, against the background of the policy debate in Germany, it seems promising to specifically look at those who receive ALG2 benefits because of their low earnings. In fact, while ALG2 benefits are calculated on a household basis, survey participants are also asked about the receipt of such payments in the individual questionnaire. By only defining these ALG2 recipients as norm-violators, the focus may shift more exactly to those employed individuals who feel stigmatised by violating the social norm against living off public funds.

The results presented in Table 6 come from regressions using data samples with only employed individuals in order to find further empirical evidence for norm-related disutility effects. Contrary to expectations, the first two columns indicate no significant reductions in well-being for those individually acknowledging receipt of ALG2. While this certainly supports the notion that this bene-

fit, as the main component of the German labour market reforms, has successfully worked as a non-stigmatising transfer, it is for the first time necessary to distinguish between men and women here. Whereas in all the other specifications there are no significant gender differences, the well-being of women does not seem to be affected negatively when the earned income is too low for the household to lose its ALG2 eligibility. By contrast, the two middle columns in Table 6 show a strongly significant disutility effect on employed men, indicating that they do feel stigmatised for violating the norm against living off other people. The results from a final step of distinguishing three different age groups confirm the above findings for the more broadly defined group of norm-violators. According to the last two columns, the social work norm is particularly relevant to prime-aged individuals and even more so to the elderly, while younger individuals do not seem to care very much about being dependent on public funds.

Table 6

Well-Being and the Social Work Norm: Alternative Definition of Norm-Violation

Restricted to:	All Employed		Employed Men		Employed Men	
	OLS FE	C LOGIT	OLS FE	C LOGIT	OLS FE	C LOGIT
Equivalent income	0.047*** (0.011)	0.164*** (0.029)	0.045*** (0.015)	0.168*** (0.045)	0.045*** (0.015)	0.168*** (0.045)
Regular part-time	–0.069*** (0.023	–0.062 (0.051)	–0.198*** (0.051)	–0.301*** (0.114)	–0.198*** (0.051)	–0.300*** (0.114)
Marginal, irregular part-time	–0.141*** (0.033)	–0.140* (0.073)	–0.137** (0.064)	–0.276* (0.146)	–0.137** (0.064)	–0.269* (0.147)
ALG2	–0.061 (0.138)	–0.108 (0.297)	–0.562*** (0.184)	–1.396** (0.667)		
IA1 (ALG2, age: 18 to 29)					–0.291 (0.532)	–0.679 (0.982)
IA2 (ALG2, age: 30 to 49)					–0.607** (0.244)	–1.339 (0.870)
IA3 (ALG2, age: 50 to 65)					–0.653** (0.269)	–13.827*** (0.807)
Wave dummies	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	106,638	66,505	57,396	35,823	57,396	35,823
Adj./Pseudo R^2	0.075	0.059	0.077	0.063	0.077	0.063

Notes: * denotes significance at the 10% level, ** at the 5% level, and *** at the 1% level. Controls include variables for marital status, health status, hospital stay, severe handicap, number of children in the household, having a household member in need of care, age, German nationality and federal state. Note that the definition of norm-violation here includes only those survey participants individually (i.e. in the personal questionnaire) acknowledging receipt of ALG2 benefits.

Data: SOEP waves from 1999 to 2008 with individuals, aged 18 to 65.

One argument in favour of the alternative definition of norm-violation is certainly that those ALG2 recipients identifying themselves on the individual questionnaire may be considered more likely to be those who feel stigmatised from living off public funds. On the other hand, the fact that ALG2 is paid to households and not to individuals leads to the problem of a very small group of norm-violators that does not even include all people living based on ALG2. Primarily because of the above-described legal framework, the main part of this study is, therefore, based on the broader definition of benefit dependency at the household level. In addition to this, thanks to the separation of the more heterogeneous group of norm-violators into various sub-categories, the potential problem of focusing on the wrong people can certainly be mitigated. For instance, the outcomes for the category of full-time employment correctly represent the disutility effects on individuals who are not earning enough from work for their household to lose its eligibility for benefits. On the other hand, potential symptoms that could be expected in socially disadvantaged households, such as a lower standard of health, are captured mainly by the broad set of control variables, so the problem of measuring the impact of something other than that which was intended is also mitigated.[17]

The outcomes not only demonstrate the well-being effect of not conforming to the social work norm; there is also a strong argument suggesting that the impact of norm-violation is actually understated. As mentioned in Section 2, researchers identify stigmatisation as one reason for the non-take-up of social benefits, which many studies have revealed to be a relevant empirical phenomenon. Accordingly, individuals with a particularly marked reluctance to live off other people certainly try to avoid receiving benefits. In this case, however, these eligible persons, who are actually affected very strongly by the norm, are not part of the examined group. Because, instead, they are part of those categorised as norm-conformers, a self-selection bias that attenuates the calculated norm effect must be expected.[18] Therefore, even seemingly small effects can be regarded as evidence of the relevance of the social work norm, since the coefficients cannot capture the entire impact.

[17] One might argue that there are non-pecuniary symptoms, such as general adversity, which are not ascertainable through the panel interviews. However, further tests using separate measures for the different benefits tend to refute this notion. Members of households that receive social assistance would be expected to be worse off, compared to those receiving other benefits, but the results yield comparatively weak effects.

[18] As mentioned in Footnote 15, further estimations yield surprisingly small effects on highly educated people. Assuming that higher education is associated with higher wealth, so that there is no basic need for replacement income, this group of people may indeed be particularly receptive to non-take-up.

6. Discussion

The empirical results demonstrate that the social work norm is more than just a theoretical construct, and that there is every reason to consider norm-effects, not only in labour market economics, but in policy-making as well. Especially in constructing labour market concepts that are based on supplementing low-paid jobs with additional benefits, it is imperative to take account of such a norm, because it is clearly not the case that income is just income. Overall, however, this study suggests that norm-induced disutility, caused by the failure to earn one's own income, is not the major reason why the unemployed are so unhappy. In this regard, the social work norm has only limited explanatory power, so that unemployment-induced unhappiness is obviously determined mainly by other factors. Therefore, it must be concluded that individuals are generally better off being employed rather than unemployed, even when in the former case the norm against living off public funds is violated. Yet, from a policy perspective, this major finding is certainly not sufficient to fully assess large-scale programs like the German Hartz concept. While it is generally true for one individual, that being employed and subsidised by additional benefits is better than being unemployed, other effects of such policies aimed at bringing unemployed individuals into subsidised employment must be considered as well.

First, it is important to note that not everyone who has a low-paid job and is eligible for social benefits would otherwise be unemployed. An increase in size of the low-wage sector will not thus produce only profiteers, but also people who are worse off. From the findings of this study, it can be concluded that such low-income earners would at least suffer from failing to conform to the social work norm. Secondly, the economic literature argues that various factors are determining norm strength and the relevance of norms in general, so individuals may have different motivations to follow such informal rules and ac cordingly are sometimes more, and sometimes less concerned about norm-violation. While one major determinant is certainly the behaviour of others in the region, there are many other potential "norm senders" (Lindbeck / Nyberg, 2006, 1474), such as legislation. Hence, the level of conformity may not only differ regionally (as investigated in other studies, see Section 2), but also over time (e.g. before and after significant legislative changes). In fact, the empirical results here indicate that, since the implementation of the policy reforms, the disutility effect of living off other people has been reduced for the unemployed. This reduction in normative pressure on unemployed individuals to earn their income from work, can certainly be linked to the policies designed to make benefit receipts more common, through promoting subsidised low-wage jobs. Furthermore, since non-governmental institutions, such as unions, may also act as norm senders, it is important to note that, in the political debate in Germany, the argument has routinely been brought forward that it is not right to have full-time workers in need of social benefits. Remarkably, the empirical results show that since then, the combination of full-time employment and bene-

fit receipts has indeed had a negative connotation, as if a self-fulfilling prophecy has come true.

Regarding the assessment of labour market policies, the identification of the various impacts on well-being is surely a necessity for drawing useful conclusions. However, it is equally important to make clear which of the utility effects are politically desirable and which are not. One might argue that, if people suffer from something, it should be opposed. Motivation, on the other hand, even if the result of dissatisfaction, could be regarded as socially beneficial, especially when it is about terminating unemployment and avoiding benefit receipts.[19] Social norms encouraging such behaviour are attractive, at least from a fiscal point of view, when governments would otherwise have to spend large amounts of money to create identical incentives. In addition, research on intrinsic motivation has identified further problems of extrinsic pecuniary incentive schemes (see Frey / Jegen, 2001). Hence, there are good reasons for a society to foster social norms, although norm-violators may suffer from stigmatisation. On the other hand, norms may lose their relevance or power over time. For example, changing economic conditions may make it difficult or even impossible for people to comply with a particular social norm, so that adherence might even become obsolete.

Although hard to achieve in practice, ideally, there is considerable societal consensus as to the social norms that should prevail. Applied to the issue of labour market policies discussed in this paper, there are two distinct paths. One is that wages are above the subsistence level and people are pressured by a broadly accepted social norm to earn their income from work. For the second path, where there is a significant low-wage sector, there is no real benefit from a social work norm as understood here. If a large low-wage sector is not regarded as a social problem, but as something that is inevitable or even desirable, then there is a need for concepts that combine low-paid employment and additional governmental support. These payments for eligible persons should then have no stigma attached if policies aim to increase happiness and approval among citizens. The empirical results for the receipt of the unemployment insurance benefits of ALG indicate that a stigma is not necessarily associated with benefit programs. Accordingly, with regard to both the acceptance and success of labour market concepts, this study suggests the appropriateness of payments that appear as earned income, as something to which one is entitled, so that people do not suffer from the perception that they are living off other people.

However, if a society is opposed to a low-wage strategy and urges policymakers to combat or reduce the low-wage sector, instead of promoting it, the

[19] A very similar debate on the potential advantages of stigma can be found in the economic literature. For instance, Smolensky et al. (1995, 10) discuss "how much we should worry about it." Also, see Chadi (2010) on the strong relationship between unemployment-induced unhappiness and willingness to work.

policy advice is accordingly different. Moreover, when people agree on a common behavioural rule, that it is the duty of all citizens to earn their own living, this belief should be cultivated not only by policy-makers, but by society in general. In this context, Fehr/Falk (2002, 711) examine a "management of social norms" and discuss how norm-guided behaviour can be enforced. For instance, they argue in favour of clarity with regard to the messages conveyed by the implemented incentive scheme. Applied to the matter at hand, labour market policies should then all the more target the creation of jobs above subsistence levels, through, for example, implementing union-friendly legislation, insofar as this is the preferred path.

7. Conclusions and Further Research

The empirical investigation of the social work norm and its normative pressure to earn one's own income leads to a series of significant policy recommendations. First, there is empirical evidence that people in Germany suffer substantially from living off public funds. Since this norm-violation also affects people in employment, economists and policy-makers need to consider this issue, especially in connection with labour market concepts for low-wage sectors. On the other hand, the study also demonstrates that the main problem is not disutility from living off other people, but from unemployment itself. Therefore, the results generally support those who promote policies aimed at bringing the unemployed into (low-paid) employment, even if, in some cases, households need to be subsidised by public funds. Moreover, underlined by theoretical arguments and the empirical findings, stigmatisation is neither a given nor an unavoidable problem inevitably associated with benefit receipts, so that this potential side effect can be addressed effectively.

As pointed out in the discussion, there are essentially two paths for the development of national labour markets. Assuming that this development is capable of being influenced, policies should either promote the creation of jobs with wages above subsistence levels, in order to allow as many people as possible to live entirely off their own earnings, or pursue a low-wage strategy, aimed at stimulating labour demand and increasing overall employment. In this case, governmental transfers to low-wage earners should be free of stigma and norm-induced disutility effects, so that dissatisfaction and disaffirmation in the population are prevented as much as possible. If, however, policy-makers ignore these issues, the consequences may be unhappiness among employed workers who suffer from the stigmatisation of being partly dependent on social benefits, while on the other hand, the normative pressure on unemployed individuals might decline, due to potentially increasing numbers of people receiving benefits.

Due to space limitations, the present discussion does not delve further into the complex issue of unemployment and its determinants, nor does it consider

whether large low-wage sectors are an unavoidable phenomenon. Yet, what does seem clear is that, whatever path is chosen, even if it is not derived from a social consensus, it should at least be pursued consistently. In Germany, the government planned to tackle unemployment by increasing the number of low-qualified jobs, thus promoting a low-wage sector that involves an option of additional benefits for those earning less than the subsistence level. However, this empirical study suggests that in the wake of those reforms, the receipt of benefits is indeed perceived as stigma, at least for some of the employed, while conversely the unemployed seem to suffer less. While it is certainly debatable whether the implementation of the Hartz concept has been successful or not, there is good reason to assume that such side effects are avoidable. Either way, the consideration of social norms and potential stigma effects can definitively contribute to the acceptance and overall performance of labour market policies.

The development of promising labour market models that take into account aspects such as norm-guided behaviour and stigmatisation is a task for economic researchers. In some cases, these issues have already been considered, which will hopefully be expanded and extended by further theoretical and empirical research on labour market concepts. There are various vital questions to investigate, such as whether negative income taxes are indeed less stigmatising than regular social benefits. It is highly relevant to policy-makers to determine how models such as workfare actually affect people, and not only the unemployment statistics. Moreover, it is to be hoped that further research will also consider the potential dynamics associated with social norms. Since the level of adherence to such norms is determined by various factors, there is a clear need for theoretical and empirical research in this area. A meaningful and useful investigation of the development of norm-conformity and the changing impact of social norms over time may require long data sets, but these will become increasingly available in the near future.

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