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**The Effect of the Unemployment Benefit  
Systems on the Motivation to Re-Enter  
the Labor Market**



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market*

**Bachelor Thesis International Economics & Finance**

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*“Today, I signed the unemployment insurance extension to restore desperately needed assistance to two and a half million Americans who lost their jobs in the recession. After a partisan minority used procedural tactics to block the authorization of this assistance three separate times over the past weeks, Americans who are fighting to find a good job and support their families will finally get the support they need to get back on their feet during these tough economic times.”*

*- President Obama<sup>1</sup>*

## **1 Introduction**

In his speech, President Obama seems to be assuming that more unemployment insurance will help Americans who have trouble finding a job. However, President Obama’s statement is still subject to investigation, since it is not clear whether providing more unemployment benefits increases the likelihood that people will search for and actually find a job. More specifically, there is no general consensus on which type of unemployment benefits is most effective, as multiple types of unemployment benefits exist around the world.

Wang and Williamson (1995:2) state that the main problem related to unemployment insurance is that the government cannot observe “the search effort of the unemployed and the job-retention effort of the employed”, which is called moral hazard. According to them, “the optimal unemployment insurance problem becomes a programming problem, which involves minimizing the steady state cost of delivering a particular expected utility level to each new labor force entrant, subject to temporary incentive compatibility constraints and promise-keeping constraints.”

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<sup>1</sup> Statement of Barack Obama on signing the Unemployment Compensation Extension Act of 2010. Source: <http://content.usatoday.com/communities/theoval/post/2010/07/obama-to-sign-unemployment-benefits-extension/1>. Accessed on 5 April, 2011.

As illustrated in Figure 1 in Appendix A, the relative expenditure on unemployment compensation systems in selected OECD Countries is significantly high, ranging from 40% of total labor market expenditures in Sweden to almost 75% in the United Kingdom. In addition, the figure in Appendix B shows that all selected OECD countries experienced an increase in unemployment rates and unemployment benefits recipients in the period 2008-2009, compared to the period 2007-2008. This implies that there is a substantial amount of money involved in unemployment benefits and therefore it is important that the government's policies of unemployment benefits are efficiently designed. Moreover, Baily (1977:379) states that "the more recent development of search theory has brought out clearly that the intensity with which people search for jobs and the wage they are willing to accept are key determinants of the length of a spell of unemployment." Accordingly, it is important to investigate how the intensity with which people search for jobs and the wage they are willing to accept can be influenced by adjusting the policies of unemployment benefits.

Previous studies dealt with optimal unemployment benefits systems and several studies discussed the psychological effects of unemployment. However, none of these studies compared the different types of unemployment benefits and their effect on the psychological factors of unemployment. In this thesis therefore, I will evaluate the different types of unemployment benefits according to their ability to stimulate unemployed to re-enter the labor market, taking into account psychological factors. In order to achieve this, I will carry out a critical review of the existing literature on unemployment benefits and the psychological effects of being unemployed.

The research question is as follows: "What is the effect of the unemployment benefits systems on the motivation to re-enter the labor market?" To answer this question, I will first review the different existing types of unemployment benefits. Second, I will study the main factors that influence the motivation of people to re-enter the labor market. Finally, I will conclude by assessing the effect of the different types of unemployment benefits on those motivational factors.

Subsequently, I will show that the impact of unconditional and conditional compensation systems on extrinsic and intrinsic motivation and on cognitive and non-cognitive skills differ significantly. Overall, my analysis suggests that a conditional compensation system consisting of requirements both to work and to participate in trainings attenuates the psychological effects of unemployment and therefore, increase the probability that persons will be motivated to search for a job.

The rest of the thesis is structured as follows. Chapter 2 briefly discusses the several types of unemployment, provides a critical overview of three most used unemployment benefits (i.e. welfare, workfare and training systems), highlighting their advantages and disadvantages. The third chapter reviews the factors which influence the decision to re-enter the labor market, which are extrinsic motivation, intrinsic motivation, cognitive skills and non-cognitive skills. In the fourth chapter, the findings of chapter 2 on welfare, workfare and training systems are integrated with the findings of chapter 3 on the psychological effects of unemployment. Finally, a conclusion is given based on the previously examined literature, and recommendations on how to improve the current unemployment policy.

## **2 Types of unemployment benefits**

In order to investigate the effect of the different unemployment and unemployment benefits systems on the behavior of the unemployed, it is necessary to have a clear overview of the different types of unemployment and unemployment benefits that exist. A distinction is made between unconditional unemployment compensation and conditional unemployment compensation, which is also referred to as the difference between welfare and workfare systems (Chambers, 1989). However, it is also possible to distinguish between other characteristics of unemployment benefits and there are also certain examples of conditional unemployment compensation, which are not dealt with in particular in this thesis. Some examples are provided in this chapter. This review is limited to the unemployment benefits that are most appropriate for the research question that this thesis poses.

There are multiple types of unemployment, and not all of them are subject to unemployment insurance or benefits. To have a clear overview, all unemployment types are discussed briefly.

According to Blaustein and Craig (1977:7), unemployment “frequently is classified according to its cause as frictional, seasonal, cyclical, or structural.” First of all, frictional unemployment is the kind of unemployment that exists because somebody who has become unemployed needs time to find a new job. Frictional unemployment cannot be reduced to zero and it is always present in the market. Seasonal unemployment, on the other hand, results from people who have become unemployed because they have jobs which are related to certain periods during the year, for example jobs in tourist industries or road construction. There is also a type of unemployment that is cyclical, caused by economic downturns. Since previous jobs become unavailable for a certain period of time, this kind of unemployment generally lasts longer than frictional unemployment. Finally, there is the so-called structural unemployment, which exists due to technological changes in production and unexpected shifts in demand. Changing jobs or participating in retraining might be the consequence for workers who have become part of the unemployed

(Blaustein and Craig, 1977:7-9). This thesis only takes into account the latter type of unemployment, since frictional, seasonal and cyclical unemployment are not always covered by unemployment benefits.

The first category of unemployment benefits for structural unemployment entails the unconditional unemployment compensation, which is also referred to as welfare programs. Chambers (1989) argues that welfare programs are special cases of workfare programs, yet the difference is that in welfare programs there is no work requirement in order to receive a transfer from the government. Within the welfare system, unemployment insurance and unemployment assistance can be distinguished. In their study, Blaustein and Craig (1977) state that, “under the social insurance approach all covered workers or their employers, or both, contribute to a fund for financing benefits which are payable to any eligible worker, regardless of his means or need, who suffers the contingency covered by the insurance. In the case of social assistance, however, individual entitlement to benefits is subject to a means or income test, and the cost is borne entirely by the general tax revenues of the government.”

One of the countries which solely make use of welfare systems is Germany. In Germany, the only requirement for being eligible to unemployment benefits is that the individual has become unemployed involuntarily and that he is registered at the employment office (Blaustein and Craig, 1977).

The second category of unemployment benefits consists of the conditional unemployment compensation, which is also referred to as workfare systems. Here, the unemployed only receives benefits when having met several conditions, for example when the unemployed has participated in on-the-job trainings. Conditional unemployment compensation is an example of a conditional cash transfer. Conditional cash transfers have proven to be successful based on several programs such as the “Progres/Oportunidades” in Mexico, “Familias en Accion” in Colombia and “Bolsa Escola/ Bolsa Familia” in Brazil (Janvry and Sadoulet, 2005).



In these programs, families were provided with cash under the condition that their children go to school, health care is assured and nutrition and immunization are monitored. In this way, the parents have more incentive to take better care of their children. According to Soares (2004), defenders argue that these programs are successful since the conditional cash transfers manage to decrease short-term as well as long-term poverty and inequality; in the short term families receive cash and in the long term an investment in human capital takes place. However, there are also arguments against this. For instance, it could be argued that the conditions which are typical for the conditional cash transfers are not necessary for this effect to occur. Following this argument, "Cash transfers already address the credit constraints faced by poor families. Thus, their increased incomes help improve education, health and nutrition achievements (Soares, 2004:3)."

Workfare systems are used for example in New Zealand and the United Kingdom. In New Zealand the unemployed is required to attend interviews with program officials, search actively for jobs and to not refuse work offers (Kerr, 1996). In the United Kingdom a bonus is provided to those who work while receiving allowances.

As already mentioned before, there are more types of conditional unemployment compensations than the requirement to work or to participate in on-the-job trainings. In what follows, I will provide some examples. To begin with, Snower (1994) has proposed a new system in which the unemployed people receive vouchers from the government, which they have to give to firms that hire them. These vouchers are part of the unemployment benefits of the unemployed. It is also possible "to split the vouchers between the firms and the newly hired workers." This would give the unemployed greater incentive to search for jobs, but reduce the firms' incentive to hire them. This system in which unemployment benefits are converted in employment subsidies is the base for the "Benefit-Transfer Program", which was introduced in Britain in 1993. This program is similar to the "Jobstart" program in Australia and the United States and Italy have done several experiments related to these initiatives (Snower, 1994).

Wang & Williamson (1996) propose another conditional unemployment compensation system. Based on a quantitative comparison in the United States, rewarding individuals who transfer from being unemployed to employed and penalizing individuals who become unemployed would be the optimal system. In practice, this would mean that “workers receive a subsidy when they become employed after a spell of unemployment, and that benefits initially rise during an unemployment spell and then decline monotonically (Wang & Williamson, 1996:29).”

Existing literature provides several arguments in favor of welfare systems. According to Blaustein and Craig (1977), the fixed benefits of which the welfare programs consist are introduced mainly because “every worker covered by the program that loses his job and qualifies for benefits should be guaranteed a minimum means of subsistence while he is looking for work.” Hence, according to Blaustein and Craig, under welfare systems the unemployment benefits can be considered a safety net for people who have become unemployed. Likewise, Hamermesh (1992:2-3) is also positive regarding welfare systems. He states that the most important reason for the implementation of unemployment benefits is the “individual-based goal of consumption stabilization”, which means that the unemployment benefits help to remain savings for households at a sufficient level in order to “prevent substantial welfare losses when a family member becomes unemployed.”

On the contrary, Besley and Coate (1992:250) are critical regarding welfare systems. They argue that “it has been suggested that welfare programs have reduced individuals’ incentives to acquire the human capital necessary to avoid poverty.” Besley and Coate (1992:249-250) also provide arguments in favor of workfare systems. They distinguish two arguments for the introduction of workfare programs, namely the screening and the deterrent argument. The screening argument claims that “work requirements may serve as a means of targeting transfers.” There is a need for directly reaching the poor, and according to the screening argument the best way to achieve this is by introducing conditions to the unemployment benefits system.” The deterrent argument states that the work requirements are meant to encourage poverty-reducing investments.

Clasen et. al. (2001:199) are dubious about the workfare system. They stress the importance of work-conditionality as a key “determinant of eligibility and entitlement to social protection.” Work-conditionality is referred to as the degree in which previous unemployment experience is important regarding eligibility for unemployment benefits. In their research, they compare the systems of the Nordic countries (Norway, Sweden, Denmark and Finland) with Germany, the Netherlands and the United Kingdom. In Figure 1, the differences between work-conditionalities among Nordic countries, Germany and the Netherlands, and the United Kingdom are illustrated.

	<i>Access</i>	<i>Level</i>	<i>Duration</i>	<i>Obligation</i>	<i>Guiding principle</i>
Nordic countries	±	–	–	+	Egalitarian
Germany/ Netherlands	±	+	+	+	Merit/status
UK	+	–	–	+	Need

*Explanations:*

+ equals strong degree of work-conditionality;  
– equals weak degree of work-conditionality.

**Figure 1** Profiles of work-conditionality

Source: Clasen et al. (2001)

A clear difference is the duration of unemployment benefits. In Germany and the Netherlands this duration depends on previous work of the unemployed, while in Sweden, Finland and Denmark the same maximum period of receiving unemployment benefits applies to all unemployed. Another difference is that the United Kingdom does not provide longer periods of compensation to older unemployed, while the other countries do. However, the main difference between the countries is that the duration of unemployment in the Nordic countries “is not determined by the length of previous participation in the labour market (Clasen et al., 2001:213).”

Clasen et al.(2001:223) conclude that, as opposed to the Nordic countries, Germany and the Netherlands provide more benefits and longer periods of benefits to people who have been employed for a longer period and who have received higher wages previous to becoming unemployed. Moreover, unemployed individuals in Germany and the Netherlands have to deal with “fewer and less strict obligations to take up training and work than their counterparts in the Nordic countries. On the other hand, persons with less stable jobs and lower earnings are likely to be considerably better off in the Nordic countries than in Germany or the Netherlands.[...] These groups are likely to receive better benefit for longer periods in the Nordic countries than elsewhere, but will be required to participate in training programmes and actively look for work.”

### **3 Psychological factors of unemployment**

As the purpose of this thesis is to evaluate the different types of unemployment benefits according to their ability to stimulate the unemployed to re-enter the labor market, it is important to investigate how the unemployed can be stimulated to search for a job and to which extent unemployment benefits can play a role here. In this chapter, the most appropriate effects of unemployment on the psychological condition of the unemployed and psychological factors which influence the behavior of the unemployed to search for a job are discussed. However, these psychological effects and motivational factors are only looked at in terms of how they affect the unemployed, since the next chapter investigates which types of unemployment benefits manage to attenuate the psychological effects of unemployment and affect the motivational factors which the unemployed need to search for a job.

First of all, the decrease in income which takes place once an individual becomes unemployed is an important cause of psychological distress. (Warr and Jackson, 1984) In particular, Turner (1987:214) argues that “if the difficulties posed by unemployment are primarily financial in nature, then reemployment has the potential to remove much of the stress – particularly if the income is comparable to what the worker had been earning.” However, he hereby assumes that much of the stress will be reduced if the unemployment benefits are close enough to the previous income of the unemployed. Thus, he assumes that, if the unemployment benefits are close enough to the previous income, the unemployed could have less incentive to search for a job. This assumption is subject to investigation, since Stavrova et al. (2010:160) point out that “numerous studies have shown that the unemployment effect on life satisfaction and happiness persists even after controlling for income and other socio-demographic characteristics.” Jahoda (1981, 1988) provides an insightful analysis, addressing this issue. She argues that the psychological impacts of unemployment are so destructive because of the loss of the “hidden benefits of work.”

The five benefits of work which Jahoda (1981, 1988) mentions are “time structure to the day, regular contact with peers, interaction with people holding some common goals, status and identity, and forced activity. Hence, only providing unemployed with a financial compensation is not sufficient for attenuating the psychological effects of unemployment.

Next to the decrease in financial security that the unemployed faces, in their analysis on the impact of unemployment on health, Kessler et al. (1987) focus on three other features which are plainly damaged by job loss. The first feature is the marital tranquility, since “after an extended period during which initial hopes are frustrated, marital and family relationships become strained.” However, in their analysis, Kessler et al. could not find any evidence for an increase in marital tension. A reason for this is provided by Thomas et al. (1980), who argue that family relationships are positively affected by unemployment, since the individual who has become unemployed is now able to spend more time with his family. The second feature concerns social integration, which refers to the effect of losing the “primary source of contact with friends” when people become unemployed (Bolton & Oatley, 1987:951). Similar to the effect of unemployment on marital tension, no evidence was found on the relationship between unemployment and a decrease in social integration. This could be the case because the experiment was conducted in an area and a time period in which a substantial amount of individuals were unemployed and the likelihood that they would find a job was truly small. Therefore, these unemployed found their social interaction with other unemployed. Kessler et al. (1987) conclude with the decrease in protection from unrelated life events, such as other family members reentering the labor force, deferment of educational plans, forced relocation and marital separation (Ferman, 1981).

As Turner (1987) points out, it is important to note that the psychological distress depends on the area in which the individual who lost his job lives. As a matter of fact, in high unemployment areas there are limited reemployment opportunities, while in low unemployment areas the probability that people are able to find new work is higher. Therefore, people in high unemployment areas face stronger effects of psychological distress than people in low unemployment areas.

Moreover, Turner (1987:214) considers a difference between the effects of unemployment on working-class and middle-class individuals; “the possibility that the working-class unemployed suffer more in the domain of financial stress while their middle-class counterparts suffer more in terms of reduced self-esteem and social status provides potential explanations for certain unexpected and/or conflicting findings in the unemployment literature.”

To this point I have considered the psychological effects of unemployment. I now want to determine other psychological factors which influence the motivation of people to re-enter the labor market. Existing literature distinguishes between cognitive and non-cognitive skills. According to Bandura (1993:119), the notion cognitive skills refers to “understanding the factual knowledge and reasoning operations for given activities”. Heckman and Rubinstein (2001) point out that, although there have been many discussions on the formation of skills focused on cognitive ability, non-cognitive skills have not been discussed that much. One of the reasons could be that non-cognitive skills are difficult to measure. The degree of cognitive and non-cognitive skills of an individual affects schooling, employment, work experience and choice of occupation (Lindqvist and Vestman, 2009). However, does it also have an influence on the transition from being unemployed to being employed? In what follows, the concepts of cognitive and non-cognitive skills are discussed, and emphasis is put on their influence on the motivation of unemployed to search for a job and the success in finding one.

In particular, an example of non-cognitive skills is the notion of self-efficacy. According to Bandura (1993:119), who invented the Self-Efficacy-Theory, “a person with the same knowledge and skills may perform poorly, adequately, or extraordinary depending on fluctuations and self-efficacy thinking”. Collins (1982) did an experiment with children with respectively low, medium and high mathematical skills. In each level she tested children with low and high self-efficacy. She found that in all levels of mathematical skills, the children with the high self-efficacy achieved better results. Bandura (1993:135) states that “The stronger the people’s belief in their efficacy, the more career options they consider possible, the greater the interest they show in them, the better they prepare

themselves educationally for different occupations, and the greater the staying power and success in difficult occupational pursuits.”

Another non-cognitive factor which is important for an unemployed is intrinsic motivation. According to Ryan and Deci (2000:55), intrinsic motivation refers to “doing something because it is inherently interesting or enjoyable” on the contrary to extrinsic motivation, which refers to “doing something because it leads to a separable outcome.” There are various measures for intrinsic motivation. The “free choice” measure, which is a behavioral measure, is often used in basic experimental research. To illustrate, experiments have been held in which the participants are left alone in a room where they can find the target task, as well as other activities. In this setting, the participants have a “free choice” to do whatever activity they want to do. Ryan and Deci (2000:57) conclude that “if there is no extrinsic reason to do the task (e.g. no reward and no approval), then the more time they spend with the target task, the more intrinsically motivated they are for that task.” People who behave in an extrinsically motivated way do so because of the instrumental value of that behavior. For instance, this is the case when an individual is participating in an activity mainly because he is receiving a reward in the form of money, and not because he really enjoys participating in this activity.

Heckman et al. (2006) are one of the few researchers who focused in their studies on non-cognitive skills. While measuring cognitive skills on the basis of arithmetic reasoning, word knowledge, paragraph comprehension, mathematical knowledge, and coding speed, they test the non-cognitive skills on the basis of the Rotter Locus of Control Scale and the Rosenberg Self-Esteem Scale. The Rotter Locus of Control Scale “measures the degree of control individuals feel they possess over their life” The Rosenberg Self-Esteem Scale tests the perceptions of self worth of the individual. Heckman et al. (2006:27), argue that “for many dimensions of behavior [...] non-cognitive ability is as important, if not more important, than cognitive ability.” However, in their analysis, Heckman et al. (2006:2) solely investigated the impact of non-cognitive skills on “wages, schooling, work experience, occupational choice and participation in a range of adolescent risky behaviors”.



Uysal and Pohlmeier (2009), on the contrary, examined the relationship between an individual's non-cognitive skills and the duration of the unemployment spell. They use the principle of the Big Five of Norman (1963), which are "extraversion, agreeableness, conscientiousness, emotional stability, and culture". The main conclusion of Uysal and Pohlmeier (2009:1) is that "job search intensity is not solely driven by economic incentives but also by the worker's propensity to motivate and control herself while searching for a job." In addition, they state that the likelihood that the unemployed receives and accepts job offers increases as a result of improved non-cognitive skills.

## **4 Evaluation of the different types of unemployment benefit systems**

To this point, I have elaborated upon the different types of unemployment and unemployment benefits, the psychological effects of unemployment and the psychological factors which influence the behavior of the unemployed to search for a job. In this chapter, these findings are integrated in order to evaluate the different types of unemployment benefits.

The first system of unemployment benefits to be addressed is the welfare system. In this system there are no conditions for receiving the cash transfers once the individual has become unemployed. In order to investigate the impact of the welfare systems on the unemployed, it is necessary to investigate both the short and the long term effects (Soares, 2004; Hamermesh, 1992). In the short term, the unemployed are compensated for their loss in income, which in turn compensates for the welfare loss which the households of the unemployed would have experienced in the absence of unemployment benefits (Hamermesh, 1992). When looking at the long term, on the contrary, it is unclear to which extent the unemployed is stimulated to re-enter the labor market, since the unemployed is mainly compensated financially. In order to prevent that the unemployed solely benefit from the unemployment compensation and are not provided with an incentive to search for a job, several researchers focused in their studies on the provision of incentive effects within welfare systems. For instance, Hopenhayn and Nicolini (1997) argue that unconditional unemployment compensation systems would be more effective once the amount of unemployment benefits would decrease over time and when a tax is provided to the individuals who re-entered the labor market, the amount of which being dependent on the duration of the individual's previous unemployment.

However, the key question to be answered at this point is whether financial compensation is sufficient to respond to the need for efficient stimulation of unemployed individuals to search for jobs, thereby taking into account the costs of the unemployment benefit programs for the government. Therefore, I will now elaborate upon the impact of welfare systems on the cognitive and non-cognitive skills of the unemployed.

In the case of welfare systems, the amount of cognitive skills is not affected, since the unemployed is not creating knowledge. The impact on non-cognitive skills, on the contrary, is less clear. First and foremost, self-efficacy is not affected by the welfare system, since this system does not alter the activities of the unemployed and does not learn the individual to bring his knowledge into practice (Bandura, 1993). Extrinsic motivation, on the other hand, is slightly affected by the welfare systems. Because the unemployed receives a monetary compensation (i.e. extrinsic reward) for being unemployed, the higher the compensation compared to his previous income, the lower the extrinsic motivation of this individual to search for a job (Turner, 1987). The impact on intrinsic motivation turns out to be unclear. Since the cash transfers are not related to a specific task, the transfers in the welfare system are referred to as “task-noncontingent rewards [...] Accordingly, intrinsic motivation for the task is predicted not to be affected by these rewards (Deci et al., 1999:628).”

Yet, it is interesting to examine whether it would be possible to motivate a person intrinsically to search for a job when initially the person is mainly extrinsically motivated. Therefore, I will provide an overview of the theory concerning the relationship between extrinsic and intrinsic motivation. An important concept here is Perceived Locus of Causality (PLOC). Heider (1958) made the distinction between the personal and impersonal causation, personal causation being related to the person’s intentions and impersonal causation being related to the environment. According to DeCharms (1968), the personal causation can be further divided into internal and ternal PLOC (Ryan and Connell, 1989). The Cognitive Evaluation Theory (CET) presumes that external factors<sup>2</sup> result in less strong feelings of autonomy, a shift from internal to external PLOC, but on the other hand it is also possible that external factors result in stronger feelings of autonomy and a shift from external to internal PLOC. Moreover, CET considers autonomy and competence feelings as important factors for intrinsic motivation. Additionally, Deci (1972) concluded that positive feedback also resulted in the stimulation of intrinsic motivation. According to a study of Deci et al. (1999), intrinsic motivation was not undermined by extrinsic tangible

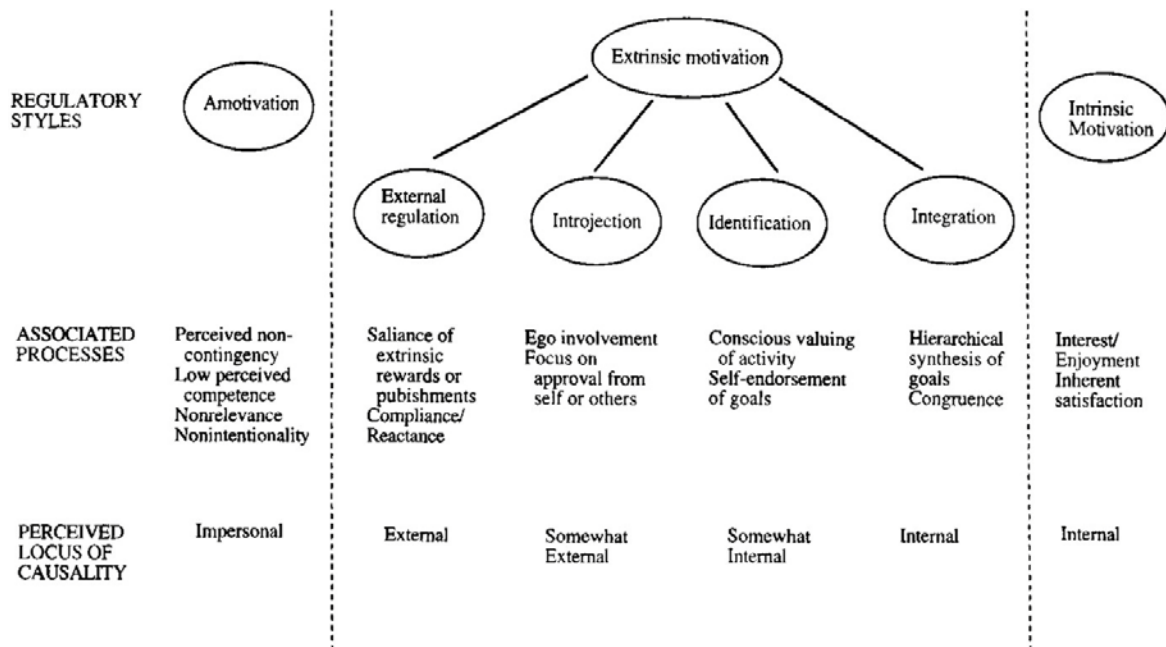
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<sup>2</sup> For instance, rewards, deadlines and evaluations (Gagné and Deci, 2005)

rewards when the rewards did not depend on a specific task engagement such as a salary, or when the person did not expect any rewards, which can take place with a bonus.

As a response to practical implications of the CET, the Self-Determination Theory (SDT) was introduced by Deci and Ryan in 1985. The SDT focuses on the distinction between autonomous and controlled motivation. Whereas autonomous motivation takes into account the possibility of free choice, controlled motivation involves motivation where the person is confronted with pressure. The SDT explains the process of motivating people in doing something which they do not consider to be intrinsically interesting by *internalization*, referring to people taking in “values, attitudes, or regulatory structures, such that the external regulation of behavior is transformed into an internal regulation and thus no longer requires the presence of an external contingency (Gagné and Deci, 2005:334).”

According to the SDT of Ryan and Deci (2000), extrinsic motivation is not always non-autonomous. For instance, when the student is not merely doing his homework because he enjoys it, he could do it because he keeps in mind his future career. Another reason could be that his parents insist him in doing his homework. In both cases the student is not intrinsically motivated, but in the first case the student still has a degree of free choice, which he does not have in the second case. This implies that there is a difference in relative autonomy. Organismic Integration Theory (OIT) explains the differences in extrinsic motivation and “the contextual factors that either promote or hinder internalization and integration of the regulation for these behaviors” (Ryan and Deci, 2000:72). Figure 2 provides an overview of the OIT (Ryan and Deci, 2000).



**Figure 2** Amotivation, Extrinsic and Intrinsic Motivation

Source: Ryan and Deci (2000)

Applying this theory to the research, it is of substantial importance to consider that extrinsic motivation varies in degree of autonomy, and compensation systems which have a significantly pressuring effect on individuals result in a decrease in intrinsic motivation. On the other hand, rewards which are less controlling in nature tend to increase the intrinsic motivation of individuals (Deci et al., 1999). It would be interesting to further investigate the specific effect of welfare systems on the different degrees of extrinsic motivation. However, in this thesis I assume that it is more effective to address the intrinsic motivation of people directly, that is, by applying conditional unemployment benefits.

In what follows, the conditional unemployment compensation systems are evaluated. As to the workfare systems, the unemployed have to work in order to receive unemployment insurance. The main impact of the workfare systems is that the unemployed regain the “hidden benefits of work” Jahoda (1981, 1988), as mentioned in the previous Chapter. For instance, the psychological distress which is caused by the loss in the daily time structure is removed by the condition to work. In addition, the unemployed develop their cognitive skills by engaging in working activities (Deci et al., 1999).

The last type of unemployment benefits to be addressed are the training systems. Here, the unemployed has to participate in on-the-job trainings in order to receive the monetary compensation for being unemployed. The most important impact on the individual of on-the-job training is the development of self-efficacy, since the persons gain more insight in how to use their knowledge by participating in trainings (Bandura, 1993). Furthermore, the literature provides no evidence that training systems enhance the individual's cognitive skills.

One particular aspect which has not been mentioned yet, but which is of considerable importance when assessing the differences between the welfare, workfare and training systems is the concept of leisure. This concept is intensively addressed by Frederiksson and Holmlund (2003). They state that the government can either have "welfarist" or "non-welfarist" social objectives. As to the welfarist objectives, the government cares about income as well as the leisure of the individual. With non-welfarist objectives however, the government is merely concerned about income and not about the value of leisure. They provide an example on this issue, in which it is assumed that the government has no information about preferences and job search behavior. In the case of welfare programs, even people who are voluntarily unemployed (i.e. they are not searching for a job) will request for unemployment benefits. However, with unemployment benefits conditional on having to work, the voluntary unemployed have to give up their leisure. Therefore, only the persons who are willing to give up their leisure will apply for the workfare programs. Moreover, applying conditions to the unemployment benefits ensures that only the people who are in highest need apply for the unemployment benefits, which is also explained in the deterrent argument of Besley and Coate (1992). Because of this, less people will apply for the conditional compensation system than for the unconditional compensation system, resulting in lower costs for the government.

All in all, the conditional unemployment compensation system is more efficient since it directly addresses the psychological aspects of the unemployment and it decreases costs for the government with respect to unconditional unemployment compensation systems. Moreover, Bandura (1993:119) provided some insightful analysis on this issue, stating that

“there is a marked difference between possessing knowledge and skills and being able to use them well under taxing conditions”. It is necessary for the development of cognitive skills to be combined with the development of non-cognitive skills in order to motivate the unemployed to search for a job (Bandura, 1993). Hence, a conditional unemployment benefit system in which workfare and welfare systems are integrated would be optimal, taking into account the psychological factors of unemployment.

## 5 Conclusion

During the course of this thesis, I have evaluated the effects of two categories of unemployment benefits, which are unconditional and conditional compensation systems, by investigating their effects on the motivation of the unemployed to re-enter the labor market. The distinction between unconditional unemployment compensation and conditional unemployment compensation is also referred to as the distinction between welfare and workfare systems (Chambers, 1989). As I have shown, researchers who examined the welfare systems agree that individuals who lost their jobs should be financially compensated for this. However, I have demonstrated in this essay that solely financial compensation is not sufficient, since it does not address the psychological factors of unemployment, which is necessary to stimulate the unemployed to search for a job. Conditional compensation systems, on the contrary, are more efficient in stimulating the unemployed, as they address the psychological effects of unemployment and are less expensive for the government than unconditional compensation systems. As a matter of fact, Bandura (1993) argues that both cognitive and non-cognitive skills are important for the motivation of an individual to search for a job. As I have shown, workfare systems fail to address a substantial part of the non-cognitive skills which could help the unemployed in order to search for a job, while training systems do not consider the development of the cognitive skills. In order for the government to be most efficient in the provision of unemployment benefits, this thesis proposes a conditional unemployment benefit system in which workfare and training are integrated. By implementing this system, the costs of the government are decreased, as opposed to the unconditional compensation system, and unemployed individuals are better motivated to search for a job.

Given the complexity and the diversity of the unemployment benefit systems that exist in the world, there are several limitations to this research. First, a general distinction between conditional and unconditional unemployment compensation systems has been made, since it is hard to compare standards of different countries. As Hamermesh (1992) states, “there is no available index that shows the relative generosity of each country’s



program under a fixed set of labor market conditions.” Second, researchers have different interpretations of the unemployment benefits and its effectiveness, since each country has to take into account its distinctive aspects of their labor markets (Blaustein and Craig, 1977; Hamermesh, 1992). However, in this thesis I have not taken into account these differences in interpretations.

To do a more detailed analysis, it is recommended to gather more empirical data about the unemployment benefit systems of different countries. For instance, it is interesting to investigate the impact of a change in the unemployment benefit systems (e.g. a change from solely unconditional unemployment compensation to conditional unemployment compensation) on the reemployment rates and the length of the unemployment spell. Lastly, it could be interesting to compare the cases of developed and developing countries, since there might be differences between the ways in which unemployed are affected in developed and developing countries.

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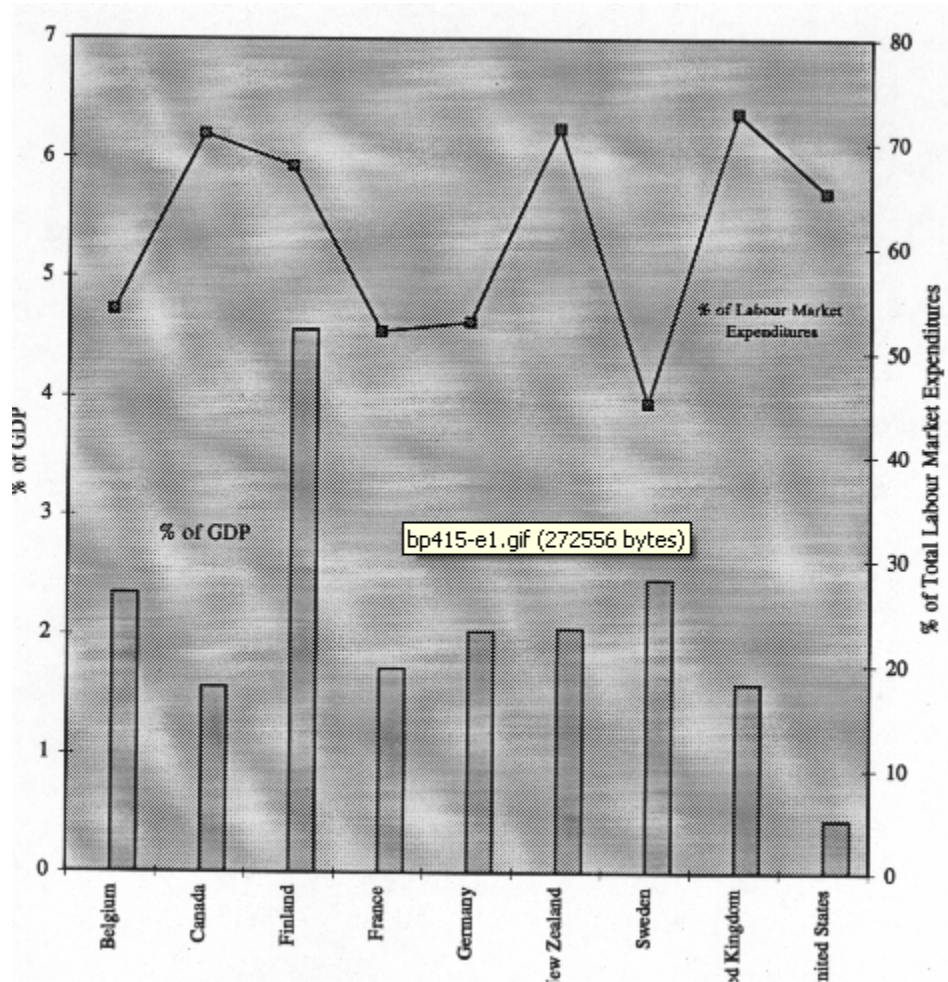
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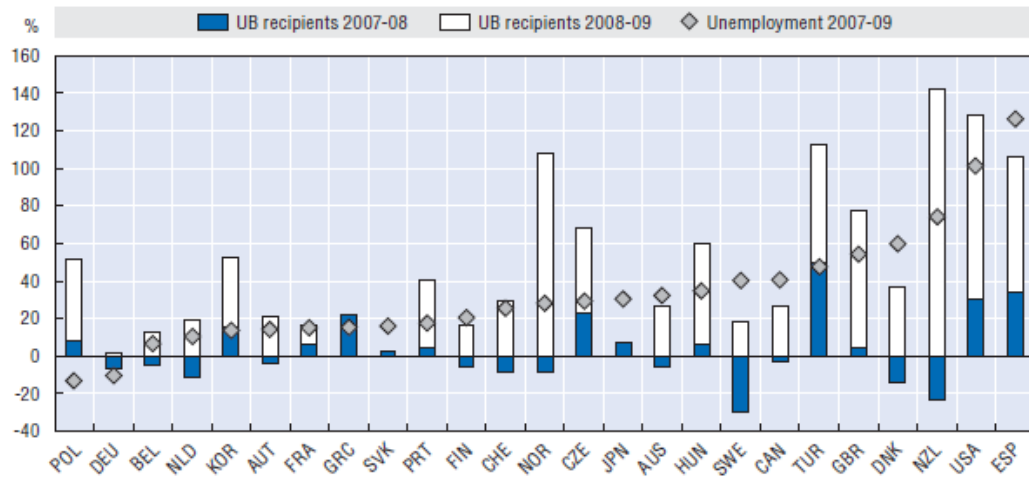
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## Appendix A1: Relative Expenditures on Unemployment Compensation Systems in Selected OECD Countries



Source: Kerr (1996)

## Appendix A2: Growth in unemployment benefit recipients and unemployment<sup>3</sup>



Note: "UB recipients" is the sum of recipients of unemployment insurance (UI) and unemployment assistance (UA), but does not include social assistance or workers in receipt of partial unemployment benefits for reduced working time. It is possible that some people could receive both UI and UA in a single year and so be counted twice. Annual unemployment data for 2007 and 2009 are used, except for New Zealand, the Slovak Republic, Switzerland, Turkey and the United Kingdom, which use data for 2009 Q3. Data on unemployment benefit recipients are not available for 2009 for Japan and the Slovak Republic.

Source: .OECD Employment Outlook 2010

<sup>3</sup> Measured as a percentage of the level in 2007.