

## THE MENTAL HEALTH OF JOB SEEKERS

Why does the mental health of unemployed workers decline the longer they receive unemployment benefits?

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Self-reported mental health has fallen sharply over the past decade. Past research has highlighted that part of this decline in mental well-being is connected to indicators of labour market disengagement, such as job loss and skill mismatch. Unemployment benefit recipients are particularly susceptible to poor mental health. Since over half of this group have been receiving benefits for 2 years or more, it is critical that we better understand the role that mental health plays in long-term labour market disengagement.

We examine the link between unemployed workers' beliefs about finding a job and their mental health. We also study how an unemployed worker's mental health changes the longer they are unemployed.

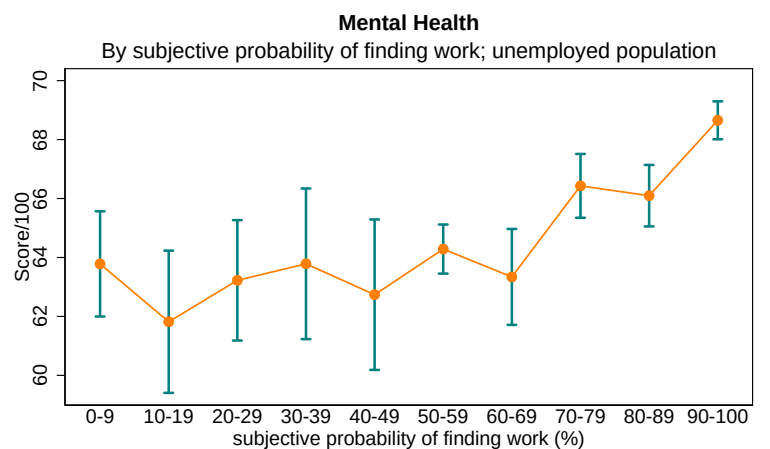
For those that are unemployed, mental health scores typically improve as a worker becomes more optimistic about finding work (Figure 1). This relationship holds even after controlling for a worker's gender, age, income, and physical health.

A worker who believes they have an 80 per cent chance of finding a suitable job in the next year reports a mental health score that is 0.5 per cent higher than a worker who believes they have a 70 per cent chance of finding a job. A difference in mental health score of this magnitude is roughly the same as the difference between the mental health score of an employed worker and another similar worker with \$60,000 less in annual income.<sup>1</sup>

**Unemployed workers who appear to be more optimistic about finding work report higher levels of mental health.<sup>2</sup>**

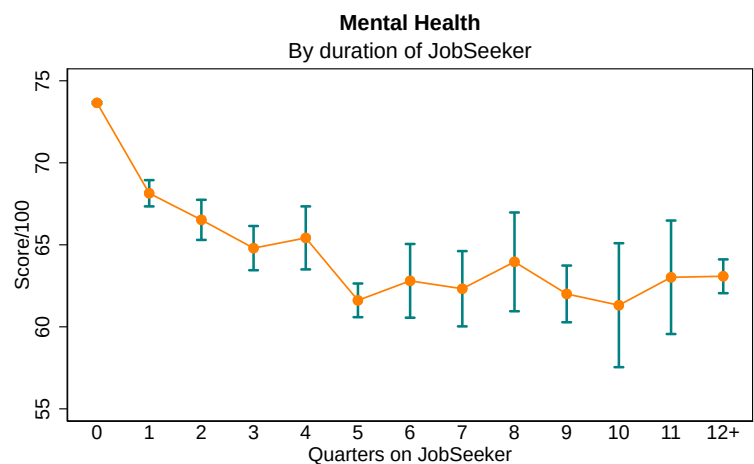
Mental health is also strongly related to the duration of unemployment. Self-reported mental health is lower for workers that receive unemployment benefits for longer (Figure 2). The decline in reported mental health is particularly strong over the first year of benefit receipt.

Figure 1: Mental health and job finding expectations



Notes: Plot shows 95 per cent confidence intervals for average mental health by self-reported probability of not finding suitable work in the next 12 months. Mental health score based on a 0-100 scale, created according to Ware, Snow, Kosinski, (2000), SF-36 Health Survey. Higher scores correspond to better mental health.  
Sources: e61; HILDA Survey Release 21.0

Figure 2: Mental health and unemployment benefit duration



Notes: Plot shows 95 per cent confidence intervals for average mental health by duration of JS spell. Mental health score based on a 0-100 scale, created according to Ware, Snow, Kosinski, (2000), SF-36 Health Survey. Higher scores correspond to better mental health.  
Sources: e61; HILDA Survey Release 21.0

<sup>1</sup> See technical appendix for details.


<sup>2</sup> Optimism about finding work is also related to the duration of unemployment: longer-term unemployed workers have lower expectations (see Mueller, Spinnewijn and Topa (2021) for the United States and Penrose and La Cava (2021) for Australia). This is not because a given worker becomes more discouraged the longer they are unemployed, but because workers with lower job finding expectations are unemployed for longer.

This relationship between mental health and the duration of unemployment benefits could reflect two mechanisms which matter for policy:


1. A given worker's mental health declines the longer they are on benefits ('within worker' effect)
- or
2. Long-term benefit recipients have poorer mental health than short-term benefit recipients ('between worker' effect)

If mental health deteriorates the longer someone receives benefits, then labour market policies that incentivise workers to find suitable work as quickly as possible could lift the overall mental health of the Australian workforce. But if the relationship is due to long-term and short-term benefit recipients having very different mental health levels, health policies that boost the mental wellbeing of benefit recipients could lead to better labour market outcomes.

Using longitudinal data on unemployment benefit recipients, estimates of their own mental health, and econometric analysis, we find that:

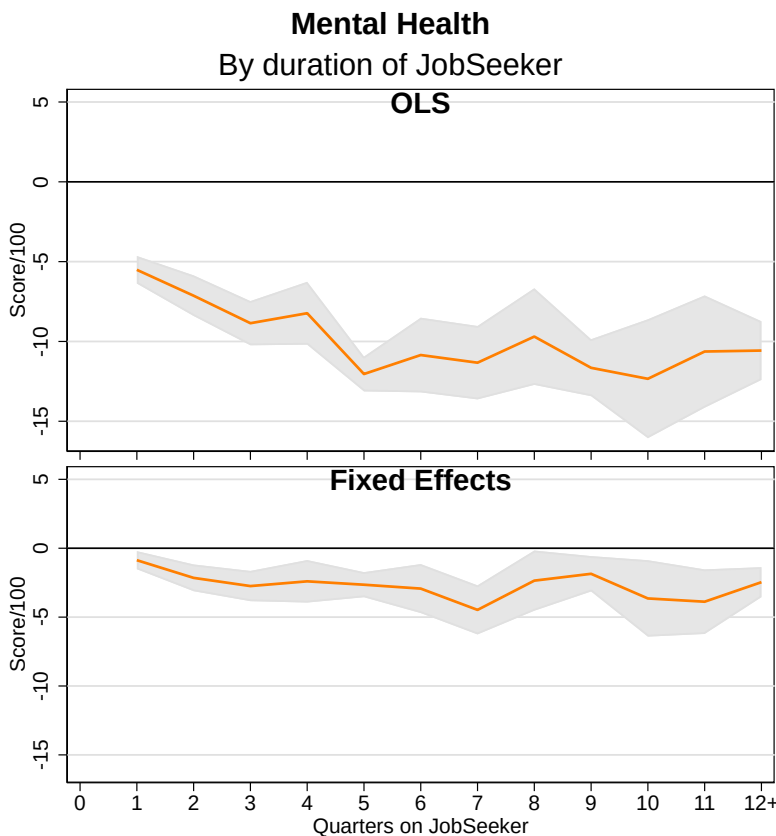


Average mental health declines with the length of benefit spell (top panel of Figure 3); but



This effect mostly disappears after accounting for the composition of workers receiving benefits (bottom panel of Figure 3)

Figure 3: Regression analysis of mental health and JobSeeker duration



Notes: Coefficients from regressions of an indicator of the number of quarters spent on JobSeeker on mental health scores; shaded area is a 95 per cent confidence interval with errors clustered at the individual level. Mental health score based on a 0-100 scale, created according to Ware, Snow, Kosinski, (2000), SF-36 Health Survey. Higher scores correspond to better mental health. Sources: e61; HILDA Survey Release 21.0

This suggests that a given recipient's mental health does not necessarily deteriorate the longer they receive benefits. Rather, long-term benefit recipients have poorer mental health than short-term benefit recipients (for reasons other than the length of time they receive benefits) and this 'composition effect' explains the inverse aggregate relationship between mental health and unemployment benefit duration.

Poor mental health and worse job finding outcomes may be both caused by a third factor, such as a physical health shock or a relationship breakup. While the relationship remains significant after controlling for physical health, age, gender, education, disadvantage, and family structure, other unobservable factors may still be at play.

**More research is needed to disentangle these competing explanations and identify the causal links between mental health, workers' beliefs and labour market outcomes. This research would ideally use administrative data on health and incomes as well as survey data on worker beliefs about the future.**