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Means-Tested Welfare Benefits and Subjective Well-Being Through Time: Does Clients' Life Satisfaction Recover?

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ABSTRACT

We study the process of subjective well-being adaptation to receiving welfare benefits. Using 15 waves of the German Panel Study Labour Market and Social Security and fixed-effects regression models, we find that welfare benefit receipt decreases life satisfaction. Furthermore, on average, the results speak against the hypothesis of adaptation to receiving the benefit; the subjective well-being of welfare benefit receipt starts poor and stays poor. On average, the life satisfaction of women with small children does not decrease upon receipt of welfare benefits.

JEL Classification: I30, J68

1 | Introduction

Means-tested government programmes that distribute funds to individuals and households that fulfil programme eligibility conditions are essential to the modern welfare state. Among such programmes, the means-tested welfare benefit (welfare benefits) for persons who are in need but capable of working and their families plays a critical role. Welfare benefits (WBs) aim to improve living standards and quality of life and increase the subjective well-being of recipients. However, these programmes are often criticised for stigmatising and disempowering recipients (Stuber and Schlesinger 2006; Swartz et al. 2009). In such a situation, adverse effects on an individual's subjective well-being may arise. According to the literature, subjective well-being incorporates various nonmaterial aspects of quality of life, such as personal security, social connections, and resilience (Clark et al. 2018; Layard 2010; Oswald and Wu 2010). However, the magnitude of such effects remains an understudied topic.

This paper uses 15 waves of the German Panel Study Labour Market and Social Security (PASS) to study the effect of welfare benefit receipt on subjective well-being. In the analysis, we focus

on the measure of general life satisfaction, which represents a subjective evaluation of an individual's life as a whole (Andrew and Withey 1976). Although the link between household means-tested income transfers and changes in life satisfaction has been extensively studied in the context of developing countries,¹ evidence for developed economies is limited. The available results suggest that means-tested welfare benefit receipt is negatively associated with both short- and long-term health and mental well-being (Nordenmark et al. 2006; Rodriguez et al. 2001; Shahidi et al. 2020). Recent studies have also reported the negative effects of receiving welfare benefits on life satisfaction (Swenson 2015; Thornton and Iacolla 2024). We contribute to this emerging literature by providing new evidence on the effects of receiving welfare benefits on life satisfaction in Germany.

Welfare benefits are awarded to households with limited assets and savings to mitigate the negative effects of poverty, making them a crucial instrument for addressing material deprivation and poverty. However, in developed welfare states, poverty is, for a substantial part, combated by welfare state transfer income and other services and may be considered alleviated poverty. Thus, it makes sense to expand the analysis to investigate the

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effect of welfare reciprocity on well-being. Prolonged periods of welfare benefit may reinforce deprivation and social exclusion (Popp and Schels 2008) and potentially lead to chronic benefit dependency. Persistent welfare dependence imposes direct costs on society through foregone benefit payments. This may lead to a rise in poverty cultures that can be transmitted across generations and prevent individuals from exploiting economic opportunities (Dahl et al. 2014; Lewis 1966; Ristikari et al. 2018). We use a longitudinal dimension of our data to study how an individual's life satisfaction adapts during receiving means-tested welfare benefits. Adaptation in life satisfaction refers to the psychological process by which individuals adjust their subjective well-being in response to changes in their life circumstances (Lucas 2007). While previous studies have examined adaptation to various life events, such as marriage, migration, divorce, unemployment, and poverty (see Clark et al. 2008; Clark et al. 2016; Clark and Georgellis 2013; Frijters et al. 2011; Oswald and Powdthavee 2008), there has been no research on adaptation to receiving means-tested welfare benefits. By utilising a longitudinal approach across 15 waves of PASS data, our research provides a rare insight into the dynamic relationship between welfare benefit receipt and subjective well-being, capturing the evolution of life satisfaction over a welfare benefit spell. We examine the psychological adaptation processes of welfare recipients, which is a largely unexplored aspect in the literature, to understand how welfare support influences their perception of life satisfaction.

The means-tested welfare benefit (*Arbeitslosengeld II*) in Germany is a social assistance programme that aims to provide financial help to needy households, regardless of the employment status of household members (see overview in Hohmeyer and Lietzmann 2020; Fuchs et al. 2023).²

Eligibility for the benefit is based on the concepts of employability and neediness, as outlined in the Second Book of the Social Code (SGB II).³ Under employability, it is understood that any household⁴ with at least one employable person of working age can apply for benefits. This includes unemployed individuals, those with jobs that insufficiently pay, and those who are temporarily not obliged to look for work (e.g., due to sickness, caring for young children or other household members). Employability requires the ability to work at least 3 h a day, even if one is temporarily not required to work or search for a job. Neediness is determined by having an income below the legally defined subsistence threshold that considers physical subsistence minimum, housing, and basic social and cultural participation costs.

The monthly benefits include a cash transfer (e.g., 449 euro for a single-person household in 2022) and payment for rent, heating, and health insurance costs within certain limits. When the duration of receipt is unlimited, the benefits are generally below the 60% poverty threshold (Hanesch 2016), ensuring sufficient incentives for trying to leave welfare benefit receipt through job uptake. Full compliance of welfare recipients with legal obligations, such as mandatory job search, is required to receive benefits and is monitored by caseworkers.

Since the mid-2000s, the number of welfare recipients in Germany has been declining almost continuously, from a peak of 7.2 million in 2006 to 4.9 million in 2021. As a percentage of the total population, the share of welfare recipients has declined

from 9.8% to 6.6%. The incidence of welfare receipt varies among various sociodemographic groups, with the highest share among migrants (19%) and youth under 25 years of age (8.9%) in 2019. Approximately half of the welfare recipients received benefits for at least 21 months in the past 2 years (Department for Statistics of the Federal Employment Agency 2023).

Confronted with a relatively stagnant pool of WB recipients (Hohmeyer and Lietzmann 2020; Ilmakunnas 2023), policy-makers have paid considerable attention to this group's economic progress (Immervoll et al. 2015). Our study contributes to the policy discussion on ensuring that the provision of means-tested welfare benefits aligns with incentives to end poverty (Eichhorst et al. 2008).

By examining how individuals adapt to receiving welfare benefits, this study underscores the importance of designing welfare programmes that are not only safety nets but also stepping stones, offering both protection and opportunity for individuals to achieve economic independence. Well-being and life satisfaction are crucial factors that should be observed in this process of entering, staying, and leaving poverty and benefit reciprocity. Through this lens, we contribute to the formulation of policies that balance immediate assistance with the long-term goal of reducing benefit dependency, thereby promoting a more inclusive and dynamic approach to social welfare.

In the following sections, we explore the relevant literature and formulate our hypotheses. Then, we detail our data and methodology before presenting the results and various robustness checks. Finally, we wrap up the paper with a discussion of the findings, policy implications, and study limitations.

2 | Literature Review and Hypothesis of the Study

The impact of government social protection programmes on subjective well-being is a complex and multifaceted area of study, with evidence suggesting varied effects depending on the nature of the benefit. Extensive research indicates that generous public social spending can enhance individuals' well-being (Han and Gao 2020; Livani and Graham 2019; Mitrut and Wolff 2011; Ribanszki et al. 2022). Conversely, there are studies that find no significant or even negative effects of social spending on subjective well-being (Veenhoven 2000). A key factor in these disparate findings is the diversity in programme design, target demographics, eligibility criteria, and manner of implementation across countries (Nordheim and Martinussen 2020).

Focusing on the German welfare benefit system, income support is intricately linked with conditionality requirements. These requirements demand that claimants actively seek to end their dependence on welfare benefits under the threat of sanctions for noncompliance. This necessitates claimants to disclose detailed personal financial information, effectively sacrificing significant autonomy and economic independence for government support. The literature consistently associates greater control over one's life and actions with greater subjective well-being, thus suggesting potential conflict (Lang and Heckhausen 2001; Steckermeier 2021). Furthermore, the stigma associated with welfare benefit receipt, alongside the psychological stress of potential

sanctions, has been shown to contribute to psychological distress, which in turn undermines life satisfaction (Baumberg 2016; Besley and Coate 1992; Martin et al. 2022; Marum et al. 2014; Mehta et al. 2021). This forms the basis of our first hypothesis:

H1. *The receipt of welfare benefits, with its associated conditionality requirements, harms the life satisfaction of recipients.*

The literature on adaptation and well-being suggests that individuals can habituate to various life circumstances, with their subjective well-being returning to a baseline level after experiencing significant life events (Diener et al. 2006). However, the situation of welfare benefit receipt might differ. Research show that although adjustment occurs in many life areas, chronic stressors such as poverty can prevent this adjustment, continuing to have a prolonged negative effect on subjective well-being (Clark et al. 2016). Moreover, long-term unemployment, which often precedes welfare receipt, results in a significant and enduring decrease in life satisfaction, indicating limited habituation to this state Luhmann et al. (2012). Welfare benefits are intimately linked with poverty and unemployment. Consequently, part of the impact of receiving welfare benefits is related to changes in household income levels and transitions to unemployment. Nevertheless, the psychological strain and stigma attached to reliance on welfare benefits, along with the conditions and loss of autonomy involved, may act as chronic stressors, in addition to poverty and unemployment, all of which hinder adaptation.

Moreover, the concept of learned helplessness, as discussed by Seligman (1972), further complicates the potential for habituation. When individuals repeatedly face adverse conditions that they perceive as uncontrollable, they may stop attempting to improve their situation, which is a state that can persist even when opportunities for change arise. This psychological condition can prevent adaptation and habituation to the receipt of welfare benefits, leading to a sustained or even worsening impact on life satisfaction. Given these considerations, it becomes evident that while habituation might mitigate the impact of certain life changes on subjective well-being, the specific conditions associated with welfare benefit receipt—such as stigma, conditionality, and loss of autonomy—create a unique set of psychological and social challenges that hinder this process.

These observations lead to our second hypothesis, which is intricately connected to the first:

H2. *Despite potential habituation, the negative impact of welfare benefit receipt on life satisfaction persists over time.*

The preceding discussion, which encompasses the immediate and enduring impacts of welfare benefits on subjective well-being, lays the groundwork for a more nuanced analysis of these effects across different demographic groups. It is plausible that the German welfare benefit system, which is designed to accommodate a diverse array of recipients with varying backgrounds and personal circumstances, may exert heterogeneous effects on life satisfaction among these groups.

Extensive research has highlighted gender differences in life satisfaction, often noting that women report higher levels of

well-being than men, which is a trend that persists among welfare recipients (Inglehart 2002; Wulfgramm 2011). Additionally, the literature suggests that women tend to experience less detriment to their well-being from unemployment than men (Clark et al. 2008), which may be partially explained by societal expectations and roles (Offe and Hinrichs 1984). Despite the increase in women's labour force participation and the prevalence of dual-earner couples, traditional social norms may still exert pressure on men as the primary breadwinners, whereas women may be more often perceived in the role of homemakers, which is often seen as an exclusion or disadvantage in terms of labour force participation (Gottschall and Schröder 2013; Pfau-Effinger 2005) and may reduce some of the pressure on the labour market re-entry. Mothers, in particular, may derive increased life satisfaction from their multifaceted roles within the household, potentially offsetting any negative impacts of welfare benefits. This notion aligns with the 'role expansion hypothesis', which posits that engaging in multiple roles can enhance an individual's sense of purpose and fulfilment (Nordenmark 2004). Therefore, the varied roles that women, especially mothers, play in society could mediate the relationship between welfare receipt and life satisfaction.

From this standpoint, we introduce a third hypothesis:

H3. *The life satisfaction of women with childcare obligations should be less affected by welfare benefit receipt.*

This hypothesis suggests that the effect of fulfilling childcare and potentially other familial roles might counterbalance the negative psychological impact associated with welfare receipt.

3 | Data, Sample and Methodology

3.1 | Data and Sample

We analyse data from the German Panel Study Labour Market and Social Security (PASS). The information is collected annually at the household and individual levels (Trappmann et al. 2019). A household head is asked to complete a household questionnaire, and each household member aged 15 years or older is asked to complete a personal questionnaire. The survey began in 2006, with the latest wave available at the time of writing being 2021. The survey combines two samples—a sample of the residential population of Germany and a sample of welfare benefit claimants obtained from a complete register of welfare benefit recipients. The survey provides extensive household and person-level information regarding income, living conditions, WBs, labour market histories and current labour market status. One important advantage of PASS data is the large number of observations (ca. 10,000 households/15,000 persons per wave), as well as a design that allows for the study of adaptation to receiving welfare benefits. Furthermore, PASS data can be linked to the administrative datasets of the German Federal Labour Agency available at the Institute for Employment Research (IAB) (Antoni and Bethmann 2019).

We use the information from the household questionnaire to determine whether the household received welfare benefit payments at the time of the interview. We assume that welfare

benefit receipt affects the life satisfaction of all household members irrespective of the individual eligibility conditions for receiving benefits. The information on life satisfaction comes from the personal questionnaire. Life satisfaction is measured on an 11-point scale. The respondents were asked the following question: *In general, how satisfied are you currently with your life on the whole? '0' means that you are 'very dissatisfied', and '10' means that you are 'very satisfied'. The numbers '1' through '9' allow you to grade your assessment.*

The analysis focuses on the period from 2006 to 2021 using 15 waves of data. The sample comprises men and women in East and West Germany with valid information on welfare benefit receipt and life satisfaction. The analysis is restricted to new entrants to welfare benefit, that is, people who claimed benefits for the first time during the observation window and were observed in the data before their first welfare benefit claim. People who entered the survey after they were already receiving welfare benefits are excluded from the analysis. Our sample is unbalanced; that is, we do not observe the same individuals in all waves. The total sample includes 80,569 person-year observations. After excluding observations with missing values for the key dependent and independent variables, our analytical sample consists of 70,523 observations of 14,346 individuals and 329 welfare benefit entries. We observe individuals on average for approximately 5 years. In all regressions, we control for the following time-varying variables: household equivalent income, age, marital status, labour force status, residency in East Germany, education, number of children in the household and wave dummies. For further information on the operationalisation of the dependent and independent variables used in the analysis, see Table S1.

3.2 | Method

We investigate the effect of welfare benefit receipt on individual life satisfaction using fixed-effects linear regression models, which control for unobserved time-invariant individual characteristics and potential variation in using the satisfaction scale across individuals (Brüderl and Ludwig 2015). We adopt 'within' fixed-effect linear regression models, following Ferreri-Carbonell and Frijters (2004) and other studies in the literature. As our measure of welfare benefit receipt is recorded at the household level, we cluster standard errors at the household and wave levels.

Our model takes the following form:

$$LS_{it} = \alpha_i + \gamma_t + \theta C_{it} + \beta WB_{i0-1} + \beta WB_{i1-2} + \beta WB_{i2>} + \epsilon_{it} \quad (1)$$

where LS_{it} represents the life satisfaction of individual i at time t . The individual-specific fixed effect α_i captures unobserved time-invariant factors such as ability, motivation, or social background, as well as the baseline satisfaction level. γ_t is a set of dummy variables for each year in the sample period that captures the general time pattern in the economy and time fixed effects. C_{it} is a vector of standard controls at the individual level. WB_{it} is a variable that indicates that an individual belongs to a household that receives welfare benefits.

In practice, the effect of welfare benefits may change with the duration of receipt. The effect on life satisfaction may be the strongest during the first year of receipt and declines afterwards. This would suggest that people tend to adapt to receiving welfare benefits. Alternatively, if there is no adaptation, one may expect the negative effect of welfare benefits on life satisfaction to persist over time. To investigate this hypothesis, we split the welfare benefit recipient period into three groups: those receiving welfare for 0–1 year 1–2 years and those receiving welfare for 2 years or more.

The proposed approach directly tests H1 and H2. First, if the receipt of welfare benefits with conditionality requirements harms life satisfaction, then the β coefficients for welfare benefit receipt should be negative. Second, if the negative impact of welfare benefits on life satisfaction persists over time, then this would be reflected in the coefficients for longer periods of welfare receipt not being significantly more positive than for the initial period of receipt. We test H3 by dividing the sample into two groups based on whether the female respondents have children.

4 | Results

4.1 | Descriptive Analysis

We start the empirical analysis by presenting descriptive statistics on the dependent and independent variables. Figure 1 presents the distribution of life satisfaction scores by WB status. The distribution of life satisfaction scores in the welfare recipient group is more skewed to the left than that in the nonrecipient group. The mean (standard deviation) life satisfaction score of welfare recipients is 5.89 (1.53), which is lower than that of nonrecipients (7.54; 2.08).

The diverging socioeconomic characteristics of recipients and nonrecipients of welfare benefits may explain part of the differences in the distribution of life satisfaction scores. Table S2 in the Appendix shows the descriptive statistics of the key variables used in the analysis. Compared to nonrecipients, an average welfare benefit recipient is younger, somewhat more likely to be a woman, single or divorced and has more children. Recipients with lower levels of education are more likely to live in East Germany. While more than 50% of benefit recipients are unemployed, 50% of nonrecipients are employed. The groups further contrast in income levels. Over 80% of benefit recipients have incomes in the first and second lowest quantiles of the income distribution, as opposed to 33% of nonrecipients. Income differences are translated into unequal poverty rates for the two groups. The poverty rate in the nonrecipient group is 8.8%, while it is 57.9% among benefit recipients. Not all welfare recipients are income-poor in terms of the below 60% net equivalent income standard because the means-test used to determine eligibility for the benefit considers other aspects of a household's neediness.

4.2 | Regression Results

We start by estimating the effect of welfare benefits on life satisfaction, as explained in Equation 1. In Table 1, we present the results from the life satisfaction regression on various explanatory

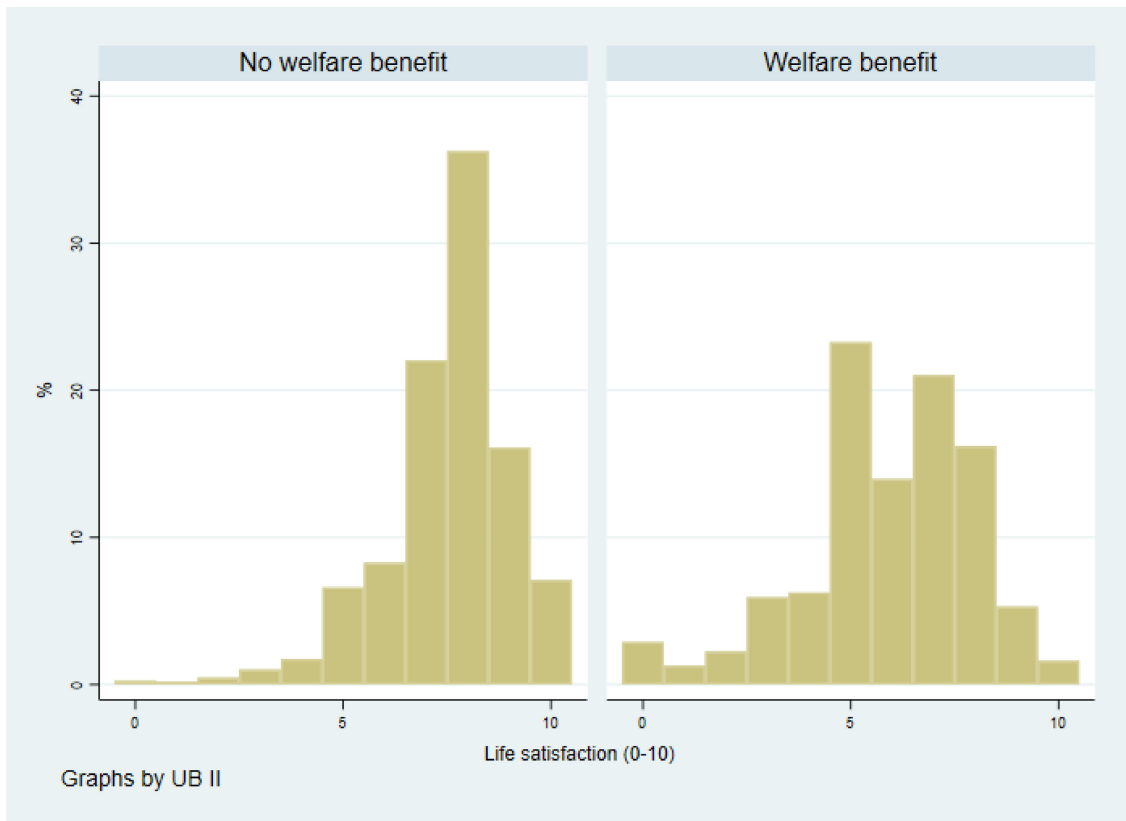


FIGURE 1 | Distribution of life satisfaction by welfare benefit status. Number of observations are 70.523 and number of persons are 14.346. *Data source:* Waves 1–15 of the panel study ‘Labour Market and Social Security’ (PASS), own calculations.

variables. All of the specifications include wave/year dummies. The first specification controls for the periods of WB receipt, and the second adds income quintiles. The last specification includes all other controls and WB dummies.

Our models compare the subjective well-being of the same individual before the start of the welfare benefit spell to that reported during their first observed welfare benefit spell. The first year of welfare benefit receipt is associated with a 0.510-point-lower subjective well-being. However, as welfare benefit receipt is correlated with current (low) income, the result may capture the income effect. As expected, controlling for income in Specification 2 reduces the estimated coefficient (0.312). Furthermore, controlling for other explanatory variables does not change the estimated effect by much.

If people adapt to receiving welfare benefits, we may expect that life satisfaction scores increase with welfare benefit duration. The estimates in Table 1 suggest that welfare benefit receipt is associated with a lower level of well-being irrespective of duration. The coefficients on the dummies that capture the length of welfare benefit receipt are statistically significant and negative. We further find no significant differences between coefficients on duration dummies. Thus, we find no support for an adaptation process to welfare benefit receipt. As such, welfare benefit receipt at any duration negatively affects life satisfaction.

We conduct a dominance analysis to assess the importance of controlling for the welfare benefit receipt dummies relative to

other independent variables (Luchman 2021). The dominance statistic represents the average net increase in the model within R^2 resulting from adding an independent variable to the model constructed using all possible subsets of the other predictors. These analyses show (Table S3) that welfare benefit receipt is the third dominant predictor; income and employment status are more important for life satisfaction. However, welfare benefit receipt contributes more to the within R^2 than other explanatory variables (age, education and marital status).

4.3 | Robustness of the Results

4.3.1 | Model Choice

We estimate alternative models to examine the implications of model choice. We consider a fixed-effects ordered logit regression and pooled cross-sectional linear regression. In our baseline specifications, life satisfaction is assumed to have a continuous scale. We relax this assumption using fixed-effects ordered logit regression (FEOL), in which life satisfaction is treated as an ordinal scale (Baetschmann et al. 2015). The coefficients for the welfare benefit duration dummies reported in Table S4 are consistent with the signs of the relationships reported earlier.

The fixed-effects model, as described in Equation (1), represents the impact of within-individual differences in the duration of welfare benefit receipt on within-individual differences in life satisfaction. The pooled cross-sectional regression model (POLS)

TABLE 1 | Effects of WB on subjective well-being (fixed-effects regression, stepwise inclusion of explanatory variables).

WB: 0–1 years	–0.510*** (0.093)	–0.312*** (0.094)	–0.309*** (0.094)
WB: 1–2 years	–0.673*** (0.163)	–0.472*** (0.164)	–0.467*** (0.164)
WB: 2 > years	–0.640*** (0.161)	–0.415** (0.163)	–0.413** (0.163)
Income: 2nd quintile		0.180*** (0.023)	0.171*** (0.023)
Income: 3rd quintile		0.262*** (0.024)	0.252*** (0.024)
Income: 4th quintile		0.292*** (0.025)	0.279*** (0.025)
Income: 5th quintile		0.295*** (0.028)	0.279*** (0.028)
Unemployed		–0.441*** (0.043)	–0.444*** (0.043)
Out of the labour force		0.077*** (0.018)	0.055*** (0.019)
Age (centered)			0.022 (0.015)
Age2 (centered)			0.013** (0.005)
Single			–0.064 (0.042)
Divorce/separated			–0.027 (0.045)
Widowed			–0.094 (0.063)
No. of children (centered)			–0.018 (0.013)
Education: Ongoing			0.238*** (0.087)
Education: Medium			0.013 (0.085)
Education: High			0.069 (0.092)
Region: East German			0.176 (0.107)
Constant	7507*** (0.018)	7295*** (0.028)	7455*** (0.103)

(Continues)

TABLE 1 | (Continued)

R ² : Within	0.015	0.022	0.023
Observations	70.523	70.523	70.523
Number of WB spells	623	623	623
$p > F$	0.581	0.628	0.633

Note: Fixed-effects regression with stepwise inclusion of explanatory variables. Robust standard errors in parentheses. Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. $p > F$ (0–3 years) refers to a joint F -test that coefficients on elapsed duration of welfare benefit receipt (WB) are jointly equal to zero.
Data source: Waves 1–15 of the panel study ‘Labour Market and Social Security’ (PASS), own calculations.

considers both within- and between-differences and produces larger (and statistically significant) negative coefficients on the duration of welfare benefit receipt dummies (Table S4). This means that in addition to the transition to welfare benefit receipt, which translates into a decline in life satisfaction, recipients of welfare benefits have, on average, a lower subjective well-being. Thus, fixed-effect coefficients produce a lower bound estimate of welfare benefit receipt on life satisfaction.

4.3.2 | The Role of Income Poverty

Income poverty may confound the estimated effects. On the one hand, nonincome-poor people may find it stigmatising to receive the benefit; hence, their life satisfaction may decline more with benefit receipt. On the other hand, income-poor people may benefit more from state assistance. In this case, we may overestimate the negative effect of benefits on life satisfaction. We estimate this issue empirically by first substituting income quintile dummies with the measure of income poverty and controlling for both the incidence and intensity of poverty. Second, we split the sample between poor and nonpoor individuals and re-estimated the model. The results (see Table S5) support our previous finding, as controlling for the incidence and intensity of poverty does not affect the results. Moreover, welfare benefit receipt equally decreases the life satisfaction of poor and nonpoor individuals.

As fixed effects require the strict exogeneity of welfare benefit receipt, the treatment group (welfare benefit recipients) and control group (nonrecipients) are assumed to experience parallel trends in life satisfaction and other explanatory variable trajectories before the start of welfare benefit receipt. Recent literature has shown that a fixed-effect estimator may be biased in the presence of heterogeneous slopes or growth curves, i.e., selection into welfare benefit receipt based on the individual expected change in life satisfaction (Rüttenauer and Ludwig 2023). For instance, this approach allows us to account for selection into the WBs of people who are on a poor income trajectory. To address this issue, we estimate the fixed-effects individual slope model (FEIS), which allows regression slopes to vary by individual poverty status. The results confirm the negative relation between welfare benefit receipt and life satisfaction, as well as the absence of adaptation (Table S5).

4.3.3 | Misreporting of Welfare Benefit Receipt

Misreporting welfare benefit receipt could affect the findings on adaptation to benefits. To examine the potential influence

of misreporting, we use a linked survey-administrative dataset available at the IAB and estimate Equation (1) using the information on welfare benefit receipt from the administrative data. At the time of writing, merged data were available until 2017, and approximately 66% of respondents could be linked to the register data (Antoni and Bethmann 2019). We use all welfare benefit spells available to increase the number of observations. Our data show that 8.7% of German welfare recipients underreported and 2.6% overreported benefit receipt. As before, we find negative effects of entering and receiving welfare benefits, implying a lack of adaptation to welfare benefit receipt (the results are reported in Table S6).

4.3.4 | Age Restriction

Thus far, the analyses have included all age groups. However, persons older than 64 are generally not subject to the rules and regulations of WB receipt for people of working age considered herein. Their subjective welfare may be affected either by living in a household where other members receive WBs or by receiving social aid money for retired persons. To exclude confounding effects that might accompany the inclusion of older persons, we examine the sensitivity of the results by restricting the sample to persons between 18 and 64 years of age. The results reported in Table S7 support the previously reported findings.

4.3.5 | Sensitivity to Omitted Variable Bias

In the last robustness check, we assess the potential effects arising from unobserved selection bias by employing the approach proposed by Oster (2019). This technique helps to examine and reinforce the causal relationships inferred in observational studies. The approach is centred on the computation of the ‘delta’ parameter, which compares the estimated coefficient obtained from a regression model that accounts for observed variables against an adjusted coefficient that hypothetically includes both observed and unobserved variables. This comparison serves as an indicator of the extent to which omitted variable bias could influence the findings. Through this evaluation, we ascertain the strength of selection based on unobservable factors compared to that based on observable factors, which would be necessary to drive the estimated coefficients of the WB coefficients to zero. Our findings indicate that the selection of unobservables would need to be four to six times greater than that of observable ones to drive the reported effect sizes to zero. Consequently, we conclude that

our results exhibit a considerable degree of robustness to the potential effects of unobserved variables.

4.4 | Heterogeneity Analysis

We investigate whether the relationship between welfare benefit receipt and life satisfaction differs between men and women. The results of the estimation of separate models for men and women are presented in Figure 2. While the negative effect of welfare benefit receipt on life satisfaction persists for men, for women, it is generally smaller in absolute size and often fails to reach statistical significance. The somewhat weaker effects for women may be explained by childcare obligations (Kopf and Zabel 2017) that serve as alternative identity sources (Gottschall and Schröder 2013). The weaker effects can also be explained by the benefits receipt rules that allow nonemployed women with small children to avoid searching for work and participating in activation measures while receiving the benefit. To examine this issue further, we split the sample of women by the presence of children under 13 years old in the household. We find smaller and statistically nonsignificant effects for women with children under 13 years old. Women without children under 13 years of age who receive welfare benefits, such as men, experience a decrease in subjective well-being.

5 | Summary and Conclusion

This paper analyses the impact of welfare benefit receipt on individuals' life satisfaction using longitudinal data from

Germany. In the short term, there is hardly any adaptation to poverty, unlike other critical life events, and obtaining welfare at the present level and under the present conditions and settings does not negate the decrease in one's quality of life. Our findings indicate that welfare benefit receipt or combated poverty is associated with a lower level of life satisfaction on average, which confirms the first hypothesis of our study. However, our results also suggest that welfare benefits may have fewer negative effects on specific groups, such as women with care obligations, for whom we find essentially no effect of welfare benefit receipt on life satisfaction. This finding supports the third hypothesis of our study. Moreover, we investigate the adaptation profile of life satisfaction to receiving benefits over time. Consistent with our second hypothesis, we find a lack of adaptation, indicating that the negative effects of welfare benefits are consistent throughout the period of benefit receipt and that life satisfaction does not recover over time.

The persistent negative impact of welfare receipt, despite its function as financial assistance, may be attributed to psychological anchoring, which is a concept wherein individuals' expectations and satisfaction are anchored to their previous economic status (Epley and Gilovich 2006; Tversky and Kahneman 1974). This anchoring effect can hinder adaptation to the current receipt of welfare benefits, as individuals continually assess their well-being against a preferred past situation. At the dawn of the 20th century, Georg Simmel stated that seeing oneself as poor depends on self-comparison to one's peers. When we validate our observations in this light, we might be able to state that it is not the peirage with which one lives when one is poor for a

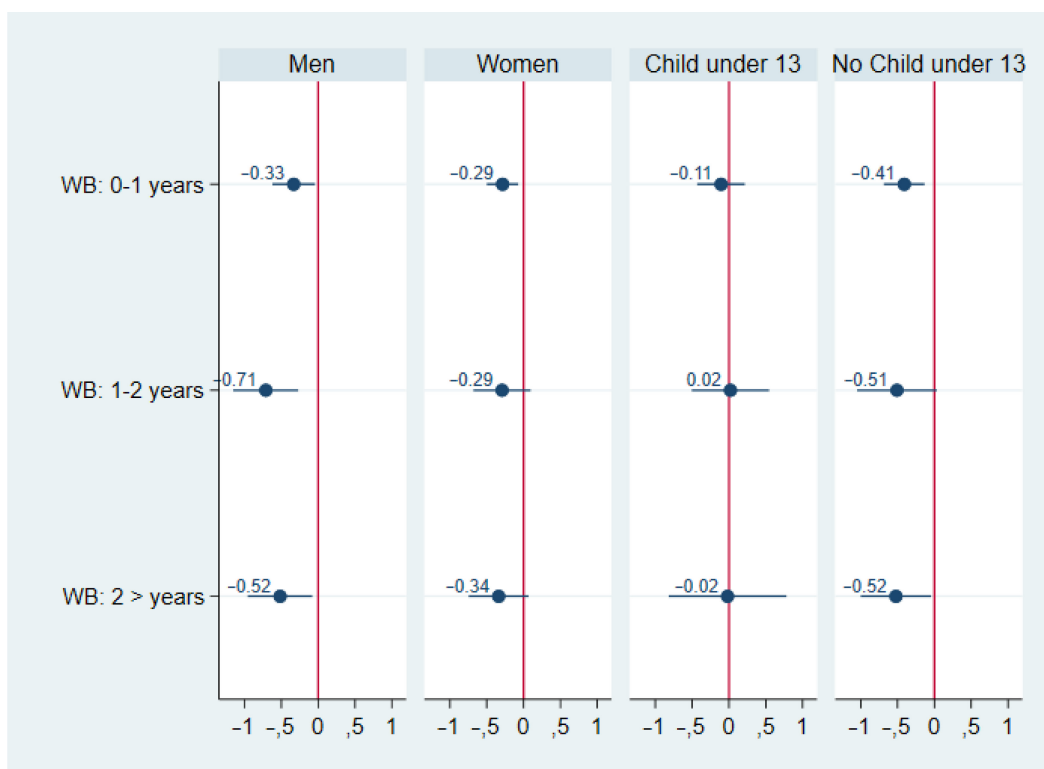


FIGURE 2 | Effects of welfare benefit (WB) on subjective well-being, by gender and presence of children. Figure shows effect of WB receipt duration for men and women. For women the sample is split between women with and without children under 13. Further analysis for men does not show difference in the WB effects by presence of children (results are available on request). Reference category “No WB receipt”. Regression results are in Table S8. *Data source:* Waves 1–15 of the panel study ‘Labour Market and Social Security’ (PASS), own calculations.

long time, but rather the peerage where one comes from and thus might have lost during impoverishment that is the focus. According to Karl Marx (1992) and Max Weber (Lepsius 1979), the class position related to the source of revenue changes when people move from market incomes to transfer incomes, while the culturally acquired class position—such as the orientation towards a peerage—remains the same. Nonadaptation to poverty may thus be stabilised by a biographical self-orientation on where someone comes from instead of where one actually finds itself. Thus, people continue to feel poor, as they still compare themselves with the peerage they come from. In other words, it may well be that the long arm of class (or subclass) culture reaches out to make someone feel poor and dependent, even when people learn to get by with some support.

Additionally, our results could be interpreted through the lens of the theory of subjective well-being homeostasis. While individuals have a set-point of well-being, external shocks such as the receipt of welfare can disrupt this balance (Headey and Wearing 1989). Furthermore, the stability of life dissatisfaction in alleviating poverty could depend on the psychological costs of interacting and complying with authorities and of losing autonomy (Lang and Heckhausen 2001; Steckermeier 2021). Our findings of a persistent negative effect and a lack of adaptation align with the idea that the welfare system, as currently structured, may not provide adequate means for individuals to return to their subjective well-being.

However, our analysis has several limitations. First, we lack reliable data to determine potential eligibility to receive welfare benefits. Many people eligible to receive means-tested welfare benefits choose not to claim them. The reasons for this are complex and may be influenced by several factors, such as differences in awareness of benefit programmes, attitudes towards government assistance, income and educational level (Bruckmeier and Wiemers 2012). While stigma and the desire to maintain one's social status may play a particularly important role in discouraging eligible people with slightly higher incomes from claiming benefits, lower benefit levels relative to current income and hence higher costs associated with applying to receive the benefit may further deter such persons from claiming the benefit. Thus, we are likely to understand the negative effects of claiming benefits on subjective well-being. Nevertheless, in light of this issue, care needs to be taken in interpreting the results of the paper as a causal analysis. Second, people who anticipate the receipt of welfare benefits can lower their subjective life satisfaction even before they begin receiving such benefits. If this is true, then we are likely underestimating the negative impact of entering welfare benefits. Moreover, the adaptation profile should not be affected. Third, other social programmes with less strict eligibility and activation requirements available to people living in poverty may have smaller negative effects on individuals' subjective well-being.

The reported results confirm findings from the literature (e.g., Clark et al. 2016) reporting that being poor reduces life satisfaction. However, our definition of poverty through benefit receipt captures the situation of a disadvantaged group that lacks appropriate resources to combat the adverse effects of poverty. One obvious explanation of our findings is that the amount of welfare benefits may not always be sufficient to

alleviate all the financial challenges that deprived individuals face. On the one hand, financial difficulties may reinforce incentives to search for and accept jobs by lowering reservations wages (Fuchs et al. 2023). On the other hand, financial insecurity can lead to stress, anxiety, and a lower level of life satisfaction. Additionally, the self-inflicted stigma and negative social perception of benefit recipients may impact an individual's sense of self-worth and well-being, leading to a lower level of life satisfaction. Strict rules of benefit receipt may also impose stress, depression, and other mental health challenges, further contributing to a lower level of life satisfaction. In this context, the reported nonnegative effects of welfare benefits on women with children may be attributed to either laxer activation rules for women with small children or societal stereotypes of breadwinners and home carers. Further research is needed to differentiate between these two competing explanations. Finally, while WBs can provide income support, they may not always offer long-term solutions for economic mobility. Some individuals may feel limited in their ability to access education, training, and employment opportunities that could help them break the cycle of poverty. This lack of upward mobility and perceived barriers to economic self-sufficiency can impact life satisfaction and require diverse government responses.

Our study has important implications for employment and social policy. Welfare benefits may provide necessary relief but at the price of distorted incentives to achieve financial self-sufficiency, loss of autonomy and increased benefit dependency. In this view, welfare benefits are a double-edged sword; that is, a higher level of life satisfaction may enable people to take up chances, while a lower level of life satisfaction could lead to their discouragement and withdrawal from the labour force. On the other hand, stable or improved well-being through benefits may lock people into welfare reciprocity, while a lower level of well-being increases the pressure for job search. Our results do not provide a definite answer to which effect is more important; increasing the reliance on active labour market programmes that contribute to transitioning to gainful employment attenuates the negative effects of generous benefits.

Gainful employment is an important way of exiting poverty in Europe (Vaalavuo and Sirniö 2022). Therefore, activating household members who are capable of working through upskilling and targeted employment support may indeed be a way out of the poverty trap, as in the so-called culture of poverty, which confirms findings from early literature (e.g., Lewis 1966). Targeted employment support may provide a double benefit by improving the subjective well-being of participants relative to nonparticipants (e.g., Wulfgramm 2011; Gundert and Hohendanner 2015;) and providing a stepping stone to better working conditions and associated subjective welfare improvements (Schöb 2021; Wolff and Stephan 2013).

From a social policy perspective, interventions that autonomously target social and cultural participation and mental health from job uptakes can improve the well-being of poor people. Our findings emphasise that the policy question is not whether to support benefit claimants by improving well-being in poverty or job uptakes but rather how to combine both aspects in

a well-targeted set of programmes. Further research should shed more light on the effects of such programmes for welfare benefit recipients and the associated costs and benefits.

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Data Availability Statement

Data available on request from the authors.

Endnotes

¹The literature often finds a positive well-being effect of cash transfer programs in the context of developing countries (e.g., Han and Gao 2020; Haushofer and Shapiro 2016; Kilburn et al. 2018; Livani and Graham 2019).

²As of 31 December 2022, Arbeitslosengeld II was relabelled Bürgergeld, with some marginal changes in regulation and a turn to destigmatising communication intended.

³Sozialgesetzbuch (SGB) Zweites Buch (II)–Grundsicherung für Arbeitsuchende.

⁴Note that to award the welfare benefit, the legislator defined a concept of welfare benefit unit (Bedarfsgemeinschaft) that may not always correspond to the concept of the household as a group of people who live in the same residence and share resources. Typically, a benefit community consists of a person who is able to work and their partner. Children are only considered part of the benefit community if they are younger than 25, unmarried, do not have children, and do not have enough money to pay for their livelihood.

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Supporting Information

Additional supporting information can be found online in the Supporting Information section.