Unemployment Narratives

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Motivation: Narratives are the stories that people tell to explain the world. They serve essential purposes, such as helping individuals make sense of reality and providing a lens through which information can be interpreted. The importance of narratives in human reasoning has been acknowledged for a long time in psychology. More recently, it has gained attention in economics (Andre et al., 2022; Eliaz and Spiegler, 2020; Graeber et al., 2022; Shiller, 2017). Narratives – defined as causal explanations for observed events (Pennington and Hastie, 1992; Sloman and Lagnado, 2015; Trabasso and van den Broek, 1985) – should be especially relevant in complex settings where observable patterns are consistent with multiple competing explanations. Our project centers on a context where this holds true: the job search of unemployed workers.

Job search is a daunting endeavor, and jobseekers encounter significant challenges in understanding their personal situation. For instance, they tend to systematically underestimate their risk of long-term unemployment (Balleer et al., 2021; Mueller et al.,2021; Spinnewijn, 2015), but the underlying reasons for such misperceptions are not well understood. In this project, we study the economic narratives that jobseekers invoke to explain why certain workers become long-term unemployed. We then relate these narratives to jobseekers' quantitative beliefs about the risk of becoming long-term unemployed, as well as a range of other relevant beliefs and actions related to their job search.

Various factors can pose challenges for jobseekers in securing employment, including a scarcity of job openings (Michaillat, 2012), insufficient job search efforts (Marinescu and Skandalis, 2021; DellaVigna et al., 2022), instances of discrimination (Jarosch and Pilossoph, 2019), ineffective job search assistance from employment agencies (Card et al., 2010, 2018) as well as occupational or geographical mismatches (Sahin et al., 2014; Marinescu and Rathelot, 2018). This suggests that there is substantial scope for heterogeneity in narratives, that is, different individuals might hold different beliefs regarding the causes of long-term unemployment. At the same time, the narratives that unemployed workers hold might have significant implications for how they think about their own job search. For example, individuals

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who believe that long-term unemployment can be generally attributed to insufficient search effort may be more motivated to intensify their own search activities. Conversely, jobseekers who assume that long-term unemployment is primarily caused by the scarcity of vacancies may conclude that the returns to search are low, leading them to exert less effort in their own job search.

Empirical setting: To understand the role of narratives in shaping job search behavior, we plan to conduct a large-scale survey inviting 20,000 jobseekers who are registered as UI benefit recipients at the beginning of the year 2024, expecting around 3,500 completed questionnaires. The key element of the survey is an open-ended question asking respondents to explain in their own words which factors cause some jobseekers to stay unemployed for an extended period (i.e., for more than six months). Open-ended measurements have recently become more commonly used in economics (Andre et al., 2022, Stantcheva, 2021). The key advantage of such measurement compared to more structured question formats is that it allows eliciting the narratives that are on top of respondents' minds without limiting the range of possible answers or inadvertently priming participants on available response options. Different to structured questions that have been used by previous literature to understand job search behavior, our narrative question should be easy to understand and therefore capture respondents' real-world reasoning. To quantitatively analyze the open-ended data, we categorize the responses using human coding with the help of research assistants. In this context, we will distinguish between narratives attributing long-term unemployment to different factors including (i) a general scarcity of job opportunities, (ii) skill mismatch (iii) inadequate job search by unemployed workers, (iv) discrepancies between jobseekers' expectations and actual job offers, (v) insufficient support from the public employment service or (vi) personal characteristics that hinder successful job placements, including factors such as education, labor market experience, age, health conditions or language barriers.

Research plan: Our empirical analysis will proceed in three steps. First, we plan to characterize the narratives endorsed by jobseekers, document heterogeneity in narratives and investigate how narratives evolve over the unemployment spell. For instance, we plan to examine whether workers become more likely to attribute the occurrence of long-term unemployment to factors outside the control of the individual worker once the unemployment spell proceeds. We also plan to study how jobseekers' narratives correlate with previous own unemployment experiences, as measured in the Danish register data, or those of their reference

group (see, e.g., Hvidberg et al., 2023). We additionally intend to examine differences between jobseekers' narratives and (i) narratives of the general population and (ii) the narratives endorsed by labor economists. To that end, we plan to conduct two additional surveys with households from the general population, including mostly non-unemployed individuals (whom we will recruit in collaboration with Statistics Denmark), and experts in labor economics (whom we will recruit from the research network of the Institute of Labor Economics (IZA)).

Second, we will investigate how narratives shape the job search process. In particular, we will correlate the narratives of unemployed workers with their quantitative beliefs about their own job finding prospects and re-employment wages, their job search behavior, and their labor market outcomes. To that end, we will link our survey data to individual-level click-by-click data collected on the online platform *jobnet.dk* and register data administered by Statistics Denmark. This allows us to precisely trace the search activities of unemployed workers including their intensity of search (e.g., time spent on the search platform), the types of jobs they aspire to secure, and realized job matches.

Lastly, we aim to complement our correlational evidence on the role of narratives in shaping beliefs and decisions with experiments that change the narratives endorsed by jobseekers. Specifically, we aim to expose a randomly selected group of jobseekers to narratives from labor market experts. As an illustration, providing jobseekers with expert forecasts emphasizing the significance of occupational mismatch might induce them to adapt their narrative. As a result, they may explore alternative occupations that offer ample job opportunities or even contemplate retraining their skills.

Policy relevance: Preventing jobseekers from long-term unemployment is a primary concern of public policy, as long-term unemployment comes with significant societal and individual costs, including direct transfer payments, reduced tax revenues, and the risk of individuals losing human capital (Jacobsen et al., 1993; Neal, 1995) or experiencing long-term health issues (Sullivan et al., 2009). Our results are expected to inform labor market policy on how to effectively improve jobseekers' decision-making. Specifically, many citizens in Denmark claim that the social security system is marked by intricate and irrational regulations, leading to the perception of a system that does not adequately prioritize the individual citizen's needs at its core (Beskæftigelsesministeriet, 2023). Our project will shed light on the extent to which jobseekers attribute long-term unemployment to a failure of the unemployment system, including insufficient help from job centers and a perception that high levels of pressure on the unemployed adversely affect job search outcomes. Similarly, our data collections will highlight

how important jobseekers consider factors such as poor mental health, stress, and experiences of discouragement over the course of the spell to be in keeping people out of re-employment. Our study will thereby inform this key current policy debate in Denmark.

In this context, our findings will also point to potential policy approaches to prevent jobseekers from becoming long-term unemployed and to improve the unemployment system. By suggesting opportunities for interventions that take into account the narratives endorsed by unemployed individuals hold and speak to them in their "own language", our results may help policymakers in providing more effective job search advice. For instance, jobseekers who attribute long-term unemployment to a shortage of vacancies may revise their search strategy when they learn about the abundance of job opportunities in related occupations. At the same time, individuals who consider insufficient support as a key factor for long-term unemployment may require more intensive counseling, while those who report factors such as poor mental health may benefit from interventions that reduce stress levels or improve jobseekers' self-esteem.

Contribution to the academic literature: Our study will advance the academic literature along several margins. First, we add to a growing body of research studying narratives in economics (Andre et al., 2022, Bénabou et al., 2018; Eliaz and Spiegler, 2020; Schwartzstein and Sunderam, 2021; Shiller, 2017, 2020). In this context, we offer the first empirical evidence regarding the relevance of narratives within the labor market. More precisely, we focus on jobseekers' narratives about long-term unemployment, a situation that poses a very tangible threat to this particular group of workers. Relying on open-text responses enables us to measure workers' causal reasoning about the functioning of the labor market without constraining the range of possible answers and without inadvertently priming respondents.

Moreover, our findings offer insights into the mental models shaping jobseekers' beliefs and actions during the job search process. As a result, we expect to shed light on the factors contributing to long-term unemployment and the causes behind jobseekers' frequently overly optimistic outlook on their labor market prospects. For instance, linking survey evidence on jobseekers' expected unemployment duration to the actual outcomes of their job search, Spinnewijn (2015) documents a striking optimistic bias, with more than 80% of jobseekers underestimating the length of their spell. This optimistic bias in beliefs held by jobseekers has been corroborated using different elicitation methods and in different macroeconomic contexts (Balleer et al., 2021; Caliendo et al., 2023; Mueller et al.,2021; van den Berg at al., 2023). At the same time, empirical evidence on the drivers of jobseekers' misperceptions remains scarce.

Our study is expected to address this research gap by exploring narratives that are on top of respondents' minds while avoiding preconceived assumptions about their mental models of the job search process. This enables us to examine how jobseekers' quantitative beliefs relate to their qualitative narratives as causal accounts for the occurrence of long-term unemployment. Moreover, our study is expected to improve our understanding of how individuals process information and update their beliefs through the lens of their narratives. Therefore, our work also contributes new perspectives to literature studying labor market interventions designed to address information frictions in the job search context (Altmann et al., 2022; Behagel et al., 2022; Belot et al., 2019; Le Barbanchon et al., 2023).

Timeline and expected output: We expect to produce one or two strong academic papers and we aim for publication in a general interest or a top field journal in economics. In previous work, we have studied the job search behavior of unemployed workers, belief formation of lay people and experts, as well as mental models and narratives about the macroeconomy. The resulting studies were published in leading journals such as the *Review of Economic Studies*, the *American Economic Journal: Economic Policy*, and the *Review of Economics and Statistics*. We believe the papers resulting from this project will have a substantial academic and policy impact and will have a very good chance of being published at the highest level.

Date	Item
February 2024 – March 2024	Collection of main survey data (samples of unemployed, general population respondents, and experts)
May 2024 – June 2024	Collection of follow-up survey data (samples of unemployed and general population respondents)
March 2024 – July 2024	Hand-coding of survey responses, analysis of survey data
August 2024 – November 2024	Linking of survey, register and click-by-click data
December 2024 – April 2025	Data analysis and write-up of paper(s)
May 2025 – December 2025	Presentation of papers at scientific workshops and conferences Incorporating feedback
January 2026	First submission to academic journal

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