

Happiness as a guide to labor market policy

Happiness is key to a productive economy, and a job is key to individual happiness

Keywords: happiness, well-being, employment, labor markets, employment protection, wage-income distribution

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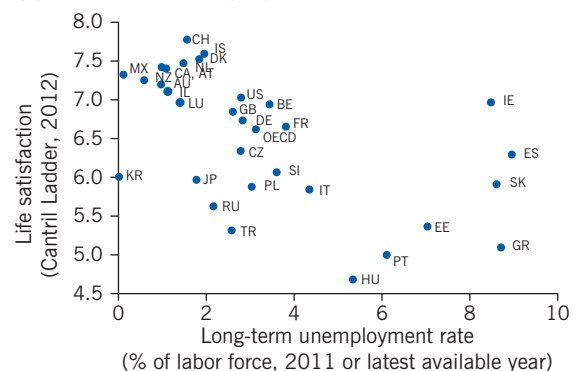
Measures of individual happiness, or well-being, can guide labor market policies. Individual unemployment, as well as the rate of unemployment in society, have a negative effect on happiness. In contrast, employment protection and unemployment benefits can contribute to happiness—though when such policies prolong unemployment, the net effect on national happiness is negative. Active labor market policies that create more job opportunities increase happiness, which in turn increases productivity. Measures of individual happiness should therefore guide labor market policy more explicitly.

KEY FINDINGS

Pros

- + Unemployment has a significant negative effect on individual happiness and is comparable to personal trauma such as divorce or a death in the family.
- + Employment protection policy for permanent jobs contributes to happiness.
- + Unemployment benefits contribute to happiness.
- + Policies designed to increase employment opportunities also increase happiness.
- + Policies aimed at reducing income inequality, such as minimum wages, will increase happiness.

Happiness and unemployment, OECD countries, 2012



Source: OECD Labour Force Statistics and Gallup World Poll.

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World of Labor

Cons

- The pain and subsequent unhappiness of losing a job is not fully compensated for by finding another job, unless this occurs seamlessly.
- Employment protection can increase unemployment for “outsiders” and hence be associated with unhappiness.
- Favorable unemployment benefits may prolong the period of unemployment and thereby reduce happiness.
- Minimum wages may reduce happiness if they lead to more unemployment.
- Happiness-increasing policies have winners and losers, so there is risk to governments in introducing happiness-increasing policies.

AUTHOR'S MAIN MESSAGE

The way a society is organized is meant to contribute to personal happiness and well-being. Employment is central to an individual's happiness, while unemployment negatively affects long-term happiness. Reducing employment protection and the duration of unemployment benefits can increase happiness as they reduce unemployment, but the timing and targeting of such policies is important. Happiness at work increases workers' productivity. So if a government wishes to ensure national well-being, as well as greater productivity, it should put full employment center-stage among the goals of its economic policy.