

Labor market policies, unemployment, and identity

Policies to help the unemployed can affect feelings of identity and well-being, so measures need to be evaluated carefully

Keywords: unemployment, identity, well-being, wage subsidies, income support, workfare

ELEVATOR PITCH

Unemployment not only causes material hardship but can also affect an individual's sense of identity (i.e. their perception of belonging to a specific social group) and, consequently, feelings of personal happiness and subjective well-being. Labor market policies designed to help the unemployed may not overcome their misery: wage subsidies can be stigmatizing, measures that require some work or attendance for training from those receiving benefits (workfare) may not provide the intended incentives, and a combination of an unregulated labor market and policy measures that bring people who became unemployed quickly back to work (flexicurity) may increase uncertainty. Policies aimed at bringing people back to work should thus take the subjective well-being of the affected persons more into consideration.

KEY FINDINGS

Pros

- ⊕ Unemployment causes material hardship and threatens a person's sense of social identity and self-worth, but barely reduces emotional well-being derived from day-to-day experiences.
- ⊕ Wage subsidies that bring people into work increase their well-being compared to unemployment, in particular if the long-term unemployed are targeted.
- ⊕ Workfare initiatives can effectively separate the voluntarily from the involuntarily unemployed without harming those who take them up.
- ⊕ A flexicurity system that helps unemployed people back to work significantly increases subjective well-being, as it allows people who re-enter the labor market to restore their identity.

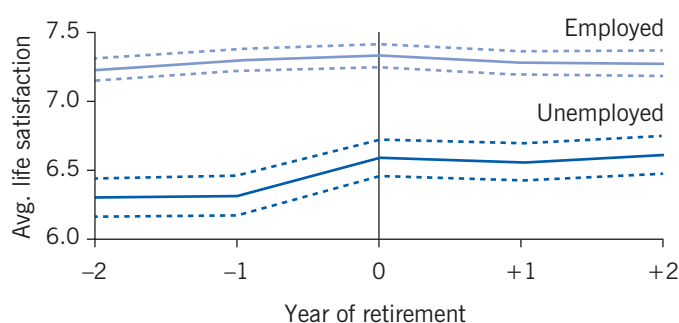
Cons

- ⊖ Active labor market policy instruments, such as wage subsidies, could diminish subjective well-being, for example, through the stigma associated with receiving welfare transfers.
- ⊖ Workfare participants may consider workfare initiatives as less detrimental than being unemployed; workfare may thus not provide the intended incentives to look more intensively for a new job.
- ⊖ Although flexicurity may improve subjective well-being, it comes at the cost of higher job insecurity, which is not completely offset by higher employability.

AUTHOR'S MAIN MESSAGE

Life satisfaction research in psychology and economics uses various measures of well-being to identify the channels through which unemployment and different types of labor market policies affect an individual's social identity and well-being. Bringing unemployed people back to work is much more beneficial than just compensating them for the income loss. A cost-benefit analysis that considers personal identity and subjective well-being provides the necessary base for designing more efficient and effective labor market policies that allow a better balance of active measures such as training schemes and other employment assistance programs for the unemployed that help people to work and passive measures such as unemployment insurance payments that only compensate the unemployed for their income loss.

Life satisfaction changes when unemployed people retire



Note: By moving from the social category "working age" to "retirement age," formerly unemployed people cease "violating" the social norm of the former category and experience an increase in their identity utility.

Source: [1].