

Unemployment and happiness

Successful policies for helping the unemployed need to confront the adverse effects of unemployment on feelings of life satisfaction

Keywords: unemployment, happiness, social capital, social norms, psychological scarcity

ELEVATOR PITCH

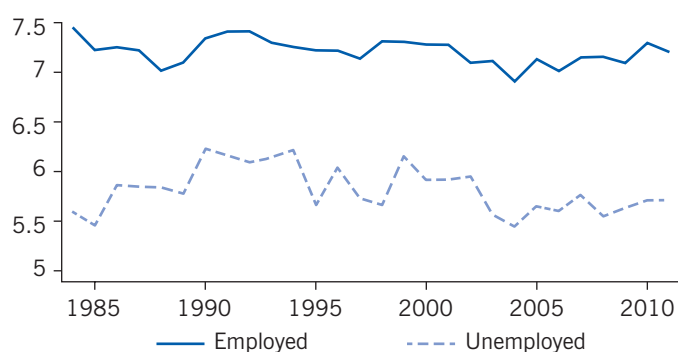
Many studies document a large negative effect of unemployment on happiness. Recent research has looked into factors related to impacts on happiness, such as adaptation, social work norms, social capital, religious beliefs, and psychological resources. Getting unemployed people back to work can do more for their happiness than compensating them for doing nothing. But not all unemployed people are equally unhappy. Understanding the differences holds the key to designing effective policies, for helping the unemployed back into work, and for more evenly distributing the burden of unemployment resulting from economic restructuring.

KEY FINDINGS

Pros

- ⊕ Getting the unemployed back to work does more for their happiness than compensating them.
- ⊕ Because not all people who are unemployed are equally unhappy, good policies should identify and target those who are most unhappy.
- ⊕ Unemployment can deplete mental resources, leading to bad decision making.
- ⊕ Often, the most unhappy unemployed are the least effective in their job search strategies; properly designed support programs can help.
- ⊕ There is no evidence that unemployed workers become less unhappy over time, so support policies should target unemployed persons regardless of the duration of their unemployment.

Life satisfaction in West Germany 1984–2011



Source: German Socio-Economic Panel (GSOEP). Online at: <http://www.diw.de/en/soep>

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Cons

- ⊖ A more generous unemployment insurance system does not really improve the situation of the unemployed, as the income replacement has only a minor effect on happiness.
- ⊖ Re-employment policies may fail if onerous application procedures or undue emphasis on discipline exceeds the psychological resources of people already burdened by their unemployment.
- ⊖ There is little scope for affecting social norms, a key determinant of the nonpecuniary cost of unemployment: Unemployment hurts more where work norms are strong, for example due to low aggregate unemployment rates or strong Protestant values.

AUTHOR'S MAIN MESSAGE

There is overwhelming evidence that unemployment takes a heavy toll on life satisfaction. The nonpecuniary cost of unemployment exceeds the pecuniary cost, and not conforming to the social work norm is one of the main drivers of loss of life satisfaction. Cost-benefit analyses of employment policies need to account for the intrinsic value of employment in generating happiness. Moreover, recent work on psychological feelings of scarcity can explain why people who are unemployed may engage in ineffective job search behaviors even though their nonpecuniary incentives for finding a job are very high. This mechanism underlines the need for more flexible active employment programs.