

# UNEMPLOYMENT AND HAPPINESS

Anna Visens Torres

ADE en Anglès, Facultat d’Economia i Empresa, Universitat Autònoma de Barcelona (UAB), 2016

## 1. INTRODUCTION

In the last few years the unemployment rate in Spain has increased significantly and one of the things that worry most Spanish people is the lack of work. On the other hand, the main articles related to this issue are focused on Britain, Germany, United States or Europe in general.

The aim of this dissertation is to provide empirical evidence of the impact of own unemployment on individual well-being and of the impact of social norms on own well-being.

## 2. MODELS AND HYPOTHESES

Impact of own unemployment

$$LS_{it} = \alpha_i + \beta_1 unemployed_{it} + year_t + \mu_{it} \quad (1)$$

where  $LS_{it}$  is a measure of well-being reported by individual  $i$  at time  $t$ ,  $\alpha_i$  is an individual fixed effect,  $year_t$  is a set of time dummy variables and  $\mu_{it}$  is a random error term.

(H1) The unemployed are less happy than the employed ( $\beta_1 < 0$ )

Impact of regional unemployment rate

$$LS_{it} = \alpha_i + \beta_1 unemployed_{it} + \beta_2 ur_{it} + \beta_3 (unemployed_{it} * ur_{it}) + year_t + \mu_{it} \quad (2)$$

where  $ur_{it}$  is regional unemployment rate.

(H2) Regional unemployment rate decreases life satisfaction ( $\beta_2 < 0$ ) and regional unemployment affects more negatively the life satisfaction of the employed than the life satisfaction of the unemployed ( $\beta_3 > 0$ )

Impact of partner's unemployment

$$LS_{it} = \alpha_i + \beta_1 unemployed_{it} + \beta_{21} pnotlaborforce_{it} + \beta_{22} punemployed_{it} + \beta_{31} (unemployed_{it} * pnotlaborforce_{it}) + \beta_{32} (unemployed_{it} * punemployed_{it}) + year_t + \mu_{it} \quad (3)$$

where  $pnotlaborforce_{it}$  captures when the partner is not in the labor force and  $punemployed_{it}$  indicates when the partner is unemployed.

(H3) The respondents with the partner inactive or unemployed are less happy than the ones with the partner employed ( $\beta_{21}, \beta_{22} < 0$ ) and the unemployed with the partner inactive or unemployed are better-off than the employed with the partner inactive or unemployed ( $\beta_{31}, \beta_{32} > 0$ )

Impact of past unemployment

$$LS_{it} = \alpha_i + \beta_1 unemployed_{it} + \beta_2 uemp3m_{it} + \beta_3 uemp12m_{it} + \beta_4 uemp5yr_{it} + \beta_5 (unemployed_{it} * uemp3m_{it}) + \beta_6 (unemployed_{it} * uemp12m_{it}) + \beta_7 (unemployed_{it} * uemp5yr_{it}) + year_t + \mu_{it} \quad (4)$$

where  $uemp3m_{it}$  is a dummy variable for any period of unemployment and seeking work more than 3 months,  $uemp12m_{it}$  is a dummy variable for any period of unemployment and work seeking lasted 12 months or more,  $uemp5yr_{it}$  is a dummy variable for any period of unemployment and work seeking within last 5 years.

(H4) Past unemployment reduces the life satisfaction of the employed and the unemployed ( $\beta_2, \beta_3, \beta_4 < 0$ ) and the negative impact of past unemployment on current life satisfaction is higher for those who do not experience many periods of unemployment ( $\beta_5, \beta_6, \beta_7 < 0$ )

Impact of the work contract

$$LS_{it} = \alpha_i + \beta_1 unemployed_{it} + \beta_{21} temporary_{it} + \beta_{22} nocontract_{it} + \beta_{31} (unemployed_{it} * temporary_{it}) + \beta_{32} (unemployed_{it} * nocontract_{it}) + year_t + \mu_{it} \quad (5)$$

where  $temporary_{it}$  captures when the respondent has/had a temporary work contract and  $nocontract_{it}$  indicates when the respondent has/had no contract.

(H5) Employed persons that have a temporary contract and unemployed persons that had a temporary contract are less happy ( $\beta_{21} < 0$ ) and a temporary contract reduces the well-being of the unemployed ( $\beta_{31} < 0$ )

## 3. SAMPLE

Six rounds from 2002 to 2012 of the European Social Survey (ESS)

6,358 observations

## 4. RESULTS

Life satisfaction	Labor force status
Employed	
Unemployed	-1.196***

Life satisfaction	Regional unemployment rate	The interaction term
Employed		
Unemployed	-1.1223***	-1.406***
Regional unemployment rate	.020***	.022***
Employed x regional unemployment rate		
Unemployed x regional unemployment		-.01

Life satisfaction	Partner's labor force status	The interaction term
Employed		
Unemployed	-1.185***	-1.15
Partner employed		
Partner not in labor force	-.545**	-.47*
Partner unemployed	-1.1*	-.853*
Partner employed and respondent employed		
Partner not in labor force and respondent unemployed		-.654
Partner unemployed and respondent unemployed		-2.606

Life satisfaction	Past unemployment	Interaction terms
Employed		
Unemployed	-.885***	-.814***
Ever unemployed for a period more than 3 months		
No ever unemployed for a period more than 3 months	.625***	-.149
Period of unemployment lasted 12 months or more		
No period of unemployment lasted 12 months or more	.280***	.27***
Period of unemployment within last 5 years		
No period of unemployment within last 5 years	.261***	.315***
Employed x ever unemployed for a period more than 3 months		
Unemployed x no ever unemployed for a period more than 3 months		-.013
Employed x period of unemployment lasted 12 months or more		
Unemployed x no period of unemployment lasted 12 months or more		.059
Employed x period of unemployment within last 5 years		
Unemployed x no period of unemployment within last 5 years		-.737***

Life satisfaction	Type of work contract	The interaction term
Employed		
Unemployed	-1.129***	-.869***
Unlimited work contract		
Limited work contract	-.372***	-.303***
No contract	-.476***	-.503***
Employed x unlimited work contract		
Unemployed x limited work contract		-.542***
Unemployed x no contract		.108

## 5. CONCLUSIONS

Empirical evidence suggests:

- Unemployment reduces the life satisfaction of the unemployed
- The social norm of unemployment does not exist. The unemployed are worse off than the employed when the unemployment rate increases
- Partner's inactivity or unemployment decreases more the well-being of the unemployed than the well-being of the employed
- The unemployed that have been unemployed more than 3 months or within last 5 years are better off than the employed that have not experienced these periods of unemployment
- The impact of past unemployment that lasted 12 months or more is higher for those who have been unemployed 12 months or more
- A temporary contract reduces the well-being of the unemployed