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**Good Jobs and Bad Jobs**

**Richard Layard**

## **Abstract**

1. Human happiness is more affected by whether or not one has a job than by what kind of job it is.
2. Thus, when jobs are to hand, we should insist that unemployed people take them. This involves a much more pro-active placement service and clearer conditionality than applies in many countries.
3. But we should also guarantee unemployed people work within a year of becoming unemployed. In this way we put a reciprocal obligation on the state (to produce work) and on the individual (to take it). Such a guarantee requires a well-judged mix of subsidies, supported work, and training.
4. Where there is low pay, the correct response is in-work benefits, together with a long-term strategy to reduce low skill.

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## **Acknowledgements**

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# Good Jobs and Bad Jobs

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## **Introduction**

If unemployment is Europe's greatest problem, does it follow that almost any job is better than no job? And, if it does, what are the policy implications? In what follows I shall offer four propositions.

1. Human happiness is more affected by whether or not one has a job than by what kind of job it is.
2. Thus, when jobs are to hand, we should insist that unemployed people take them. This involves a much more pro-active placement service and clearer conditionality than applies in many countries.
3. But we should also guarantee unemployed people work within a year of becoming unemployed. In this way we put a reciprocal obligation on the state (to produce work) and on the individual (to take it). Such a guarantee requires a well-judged mix of subsidies, supported work, and training.
4. Where there is low pay, the correct response is in-work benefits, together with a long-term strategy to reduce low skill.

### **1. Happiness and Jobs**

The aim of public policy is to increase human happiness. From the new science of happiness we now know enough of the causes of human happiness to make some quite firm statements (see Annex A). When a person becomes unemployed his welfare falls for two reasons – first the loss of income, and second the loss of self-respect and sense of significance (the psychic loss). The pain caused by the loss of self-respect is (we find) at least as great as the pain which a person would feel if he lost half his income. So unemployment hits with a double whammy – the loss of income hurts, but so does the loss of self-respect. That is why it is so devastating and we would much prefer it if people were in work.

But people also have strong feelings about what kind of work they do. Their job satisfaction depends on their income from work but also on the other qualities of the work: the amount of autonomy, job security, human contact, quiet, and stress. Research on job satisfaction tells us how much this matters.

So does a bad job bring more happiness than being unemployed? The evidence supports the answer Yes.<sup>1</sup> Moreover, when a person works there are also gains to the taxpayer (lower benefits and more taxes) and higher profits to employers.

This is a powerful case for getting the unemployed into work, even if the work is not ideal. It is also important to get some inactive people into work. The case is well put in Chapter 2 of this year's Employment Outlook (2003). It is primarily fiscal. Many of the inactive are receiving transfers which encourage their inactivity. In addition our ability to finance adequate future pensions depends on expanding the workforce. So long as work would not make these individuals less happy, it should clearly be promoted. The evidence here suggests that on average each group of inactive people (housewives, retired, and 'others') are neither more nor less happy than those in work.<sup>2</sup> So there is a clear case for reducing inactivity, as well as unemployment.

But, since unemployment brings the additional psychic loss, the case for reducing unemployment is much more urgent than the case for decreasing inactivity. It should have the higher priority. Even in countries like Britain unemployment is still high compared with the 50s and 60s.

But how can we get the unemployed into work? The approach must be two-pronged:

- Mobilise the unemployed for whatever jobs there are
- Stimulate work in a cost-effective manner

I begin with mobilising the unemployed.

## **2. Mobilising the Unemployed**

Figures 1 and 2 (at the end) tell a sorry tale. They show that in every country unemployment was much higher in 1989 than in 1975, even though there were more vacancies in 1989. This implies that during the 1980s there was a progressive failure to mobilise the unemployed. In effect a welfare system which had been designed for a smallish number of clients had been subjected to an unprecedented strain, and had in many cases abandoned its former belief in the work ethic in favour of a lump-of-labour view of the world – that how unemployed people were treated could not affect the number of jobs but only recycle a given total.

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<sup>1</sup> See Annex A.

<sup>2</sup> There are no separate figures for discouraged workers, but their behaviour certainly suggests that they are less dissatisfied with their lot than unemployed people are (see Employment Outlook, Table 22).

Yet in fact by the end of the 80s there was a major world boom. Employment rose rapidly. But so did vacancies, although unemployment was typically twice its former level. These vacancies in turn led to rising wage inflation, which led central banks to increase interest rates and bring the boom to a halt. So the recovery was aborted at double the former level of unemployment – due to the failure to mobilise the unemployed and thus to stop the vacancies from rising.

At the end of the 1980s our group at LSE identified this failure as one of the main factors affecting unemployment.<sup>3</sup> The 1990s provided a controlled experiment of whether we were right. Some countries radically changed their treatment of unemployed people, while others did not. Among those that did so, I will focus on Denmark, the Netherlands and Britain, only because I know them best.<sup>4</sup> These countries imposed ever greater conditionality on their unemployed people, requiring them to accept jobs very different from those they had before, at lower pay and often at a distance from home. They also developed activities to offer to unemployed people, so that it was impossible for an unemployed person to remain inactive for more than a certain period. In Denmark the maximum period of inactivity was cut progressively from 5 to 1 year. Most of the people faced with the prospect of enforced activity found jobs for themselves. The result was that in nearly every year unemployment in Denmark was reduced without any rise in vacancies. Employers experienced a rising supply of labour, and they therefore created more jobs.

But success depends on having a simple means to challenge the unemployed to supply their labour, and good job search assistance. All three countries in Figure 1 have spent years developing these methods and they now have unemployment back to where it was in 1975. They have shifted back the level of unemployment associated with any given level of vacancies. The countries in Figure 2 have not yet done this, and the relationship of unemployment to vacancies is still as bad as at the end of the 1980s. But important changes are now afoot, especially the Hartz Plan in Germany.

The astonishing variety of practice across countries in the treatment of unemployed people has been admirably documented in the proceedings of the OECD Prague Conference

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<sup>3</sup> Layard et al (1991).

<sup>4</sup> See de Koning et al (forthcoming). See also Employment Outlook Table 4.3, which also covers Ireland. For data on u/v curves in other countries, see Employment Outlook Chart 1.5.

of 2000 and in Chapter 4 of this Employment Outlook.<sup>5</sup> This tale of varying incentives plays a central role in explaining the variation of OECD unemployment across countries.<sup>6</sup>

In 1997 the EU Heads of Government were sufficiently influenced by these arguments to adopt as their first Employment Guideline:

Every employed adult is offered a new start – in the form of a job, training, retraining, work practice or other employability measure – before reaching twelve months of unemployment.

Very few countries have yet implemented this guideline in full. Yet the preceding argument shows that the guidelines need to go further – as do the OECD's Jobs Study proposals. They need to add the firm corollary:

An unemployed person cannot refuse to accept any of a set of reasonable offers and continue to draw benefit.

Britain has so far implemented such a joint strategy for young people only, but this has eliminated long-term unemployment among young people, without increasing short-term unemployment (see Annex A).

One thing is sure. We can no longer maintain the former OECD adage that active labour market policy has a useful supportive role, whose value is subject to diminishing marginal returns. On the contrary, it must have an integral role in establishing the conditionality of benefits.<sup>7</sup> This applies not only to specific unemployment benefits but to benefits for disabled people and for single mothers with children of school age. It also means a radical re-look at benefits paid for early retirement.

### 3. Generating Work

The new OECD philosophy is based on two principles. The first is the rejection of the **lump-of-labour** concept. We now have overwhelming evidence that the number of jobs responds quite quickly to the effective supply of labour. The second principle, which follows from the first, is a new attitude to **displacement**. It used to be believed that if the

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<sup>5</sup> OECD (2001).

<sup>6</sup> See Danish Ministry of Finance (1999) which compiles an index of conditionality and shows how this helps to explain country differences in unemployment.

<sup>7</sup> On the rationale for this new emphasis see Martin and Grubb (2001) and Economic Focus in the Economist of 20 October 2003. Using normal choice theory, it may seem inconsistent to maintain that (i) unemployment makes people unhappy and (ii) some unemployed people need a push to get them into work. The answer is that long-term unemployment reduces a person's will to improve his lot.

Employment Service secured work for 10 disadvantaged workers, this automatically displaced about 8 other workers. But, in fact, if a worker is employed who would otherwise have been un-mobilised, the ‘desirable’ worker whom he displaces is available to other employers and is likely to get employed also, as the economy adjusts.

In this context it is crucial to remember that in the typical European economy some 25% of jobs are re-filled or created each year. This is a lot of job opportunities, when compared with the roughly 10% of workers who become unemployed each year.

The employment service thus needs to actively ‘sell’ the hard-to-place into jobs as they become available and, where necessary, to use subsidies to induce employers to take on workers who reach the point where work is guaranteed. There is also a strong case for exempting low-paid workers from employers’ social security contributions in order to increase the relative demand for such workers – and reduce the mismatch in the labour market. Contributions have been cut for example in France, Belgium and the Netherlands.<sup>8</sup>

In considering the mix of active labour market policy, there is a longstanding debate about the role of education and training. Should the priority be to push workers into whatever jobs are available or to enhance their skills so as to increase their chances of work and/or their rate of pay? Fortunately, we have considerable evidence on this for both Europe and America.<sup>9</sup> In general, the evidence favours ‘work first’ over ‘training-first’, with the mix depending on the particular client. In general, training is most likely to succeed if linked to a job that someone has already secured.

Let me illustrate with the most comprehensive study which has been done in the US, covering roughly 20 different programmes for welfare mothers, each programme using its own mixture of strategies. Each programme was mandatory but a randomly-selected control group of clients was exempt. (In three areas those not exempt were randomly assigned to two different strategies.) The results are shown in Figure 3. Programmes are assessed in terms of their impact on earnings over the 5 years from when the participant entered the programme. Clearly the programmes which focused on education did worse, even though they cost 40-90 per cent more per participant.<sup>10</sup> They produced no more earnings and took longer to get people into work.

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<sup>8</sup> See Employment Outlook, Table 3.2.

<sup>9</sup> Heckman et al, 1999.

<sup>10</sup> A regression-based analysis across 59 local programmes is even less favourable to education-first (Bloom et al, 2001). But it looks at only two years’ earnings.



These findings are in line with findings in other countries, including studies of unemployed people.<sup>11</sup> Some training programmes have even reduced cumulative earnings, through delaying entry to work. So the best thing for an unemployed person is to get them into work fast.<sup>12</sup>

But a notorious fact is that so many of the unemployed who find work return to unemployment within a year. We should clearly consider steps to reduce the return flow that is not connected with particular occupations like building or acting. For hard-to-place workers we could continue to provide advisory support and employer subsidies to reward retention.

Unfortunately we know little about how different types of unemployed people **progress** in work subsequently after taking bad jobs. Clearly some do progress upwards, particularly those who had a prior skill. McDonalds is a striking example of a bad job from which there is clear scope for progression into supervisory and management positions. But this still leaves open two crucial issues: people in bad jobs are usually poor, and many do not have the skills to progress.

#### **4. Income, Skills and Stress**

In many bad jobs the earnings will be unsatisfactory, especially if the person has dependents. The remedy is to **supplement the earnings** by in-work benefits or tax relief. This is far better than attempting to raise a person's pay above his productivity.

Such in-work benefits are often described as policies to 'make work pay', as though their main justification was the incentive they provide to find work. For this purpose, however, they are an expensive weapon and less cost-effective than active labour market policy. Moreover, the language of 'making work pay' implies that people are entitled to make a choice between work and unemployment benefits. The main justification for in-work benefits is quite different – to relieve poverty and thus to make 'bad' jobs better.

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<sup>11</sup> See Martin and Grubb (2001).

<sup>12</sup> For each type of unemployed person we would ideally be able to compare the earnings path if they accept a lower-paid job or hold out for a higher-paid one. Unfortunately, no such data exist. Some relevant data on post-unemployment wages compared with pre-unemployment wages is in Nickell et al (2002), Table 3, and Kuhn (2002) Table 1.19. Analyses by Simon Burgess show the valuable role which temporary work agencies can play in facilitating upwards mobility.

In the longer run, however, we must give people sufficient **skills** to justify a decent level of pay. Skills are of course the single main determinant of a person's, and a nation's, productivity. Ideally, people will get their main skill when young and then supplement it. In many countries the rate of return to vocational courses is quite high, even for adults.<sup>13</sup> But these courses are better taken at a time of the person's choosing than through mandatory enrolment while unemployed.

It is crucial that a country provide educational opportunities independent of age. In addition the state's financial contribution should not be lower for older people. The argument that 'they can pay' ignores the main argument for public finance for education which is the external benefits generated. One obvious area of discrimination is the shortage of apprenticeships for adults as against youths. This should be changed.

One final issue. In many countries stress at work has increased as well as job insecurity. It is difficult for an employee to tell an employer his preferences on these matters, without casting his own commitment in doubt. They are therefore appropriate areas for collective action. We should support public action to raise issues of the work-life balance and issues of job insecurity. In particular we should reject the idea that a market solution based on individual contracts will produce an efficient solution, without a concern from employers for the welfare of their workers that reaches beyond the maximisation of shareholder value.<sup>14</sup>

There is no need to re-state my overall conclusions, which are in paragraph 1.

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<sup>13</sup> Layard et al (2002).

<sup>14</sup> Layard (2003).

## **Annex A: Evidence on Happiness**

Happiness research has confirmed that happiness is a single dimension of all experience, measurable by psychometric or neurological measures (both highly correlated). Psychometric evidence is now included in many social surveys like Eurobarometer, the US General Social Survey and the World Values Survey. We can use these surveys to estimate how happiness is affected by income, unemployment and other variables. The surveys all show that being unemployed reduces happiness by at least as much as a halving of income.<sup>15</sup>

Job satisfaction is one of many dimensions of satisfaction which affects overall happiness.<sup>16</sup> And studies of job satisfaction tells us how job satisfaction is affected by earnings and job characteristics.<sup>17</sup> We can thus see how job satisfaction is affected if we move from an average job to a bad job.

The overall conclusion is that a move from an average job to a bad job would reduce happiness by less than the move from an average job to unemployment. It follows that a bad job feels better than unemployment.

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<sup>15</sup> This result is found in cross-sectional data from Eurobarometer (di Tella et al, 2002, Table A.1), the US General Social Survey (Blanchflower and Oswald, 2000), and the World Values Survey (Helliwell, 2003). For panel data see Winkelmann and Winkelmann (1998), Table 4 who find an even stronger effect of unemployment relative to income.

<sup>16</sup> My own estimate using the US General Social Survey gives it a Beta-coefficient of 0.15.

<sup>17</sup> See, for example, Blanchflower and Oswald, 2000, Table 7.

## **Annex B: The UK's New Deal**

The New Deal for Young People under 25 works as follows. Once a person has become unemployed for 6 months he enters a “gateway” of 4 months during which he receives intensive help with job search from a personal adviser. If by the end of the 10<sup>th</sup> month he has not found a job, he must choose one of four 6-month options: a subsidised job (if one can be found), work with a voluntary organisation, work on an environmental project, and full-time vocational education. There is no “5<sup>th</sup> option” of continuing to draw benefit while being inactive. If after 6 months on the option he has still not found a job, he continues in intensive job search (which counts as a new spell of unemployment).

Since the New Deal began there has been no increase in short-term unemployment (under 6 months) and a virtual elimination of unemployment over a year. There have been a number of broadly similar evaluations by the National Institute of Economic and Social Research, by Blundell et al (2003) and by myself (Layard, 2000). They estimate significant reductions in unemployment of which roughly half is due to net job-creation by employers and half is due to people in supported work or full-time education. They also estimate that the social benefits were roughly double the social costs, so that the programme is justified. At least half the cost to the Treasury was recovered through savings on unemployment benefit and higher taxes.

## Sources of Graphs

### Figure 1

OECD Employment Outlook, various issues

European Economy 73, 2001, pages 274, 275

**Britain** – Labour Shortage Index

**Definition:**  $\frac{1}{2}$  (% firms reporting shortage of skilled labour + % firms reporting shortage of other labour)

**Source:** CBI Industrial Trends Survey

**Netherlands** – Vacancies

**Definition:** Data refer to those vacancies for which someone is required within a short time

**Source:** Statistics Netherlands (CBS)

**Denmark** – Vacancies reported to public employment offices

**Definition:** Number of vacancies at the end of the month which have remained vacant for more than one week

**Source:** Data were kindly provided by the Danish Ministry of Labour

### Figure 2

OECD Employment Outlook, various issues

European Economy 73, 2001, pages 274, 275

**France** – Labour shortage index

**Definition:** Proportion of manufacturing companies that face difficulties in hiring

**Source:** Survey data provided by INSEE, France

**West Germany** – Registered vacancies

**Definition:** Data refer to vacancies for jobs of 7 days' duration or more reported by employers to employment agencies to be filled within 3 months and remaining unfilled at the end of the month.

**Source:** Federal Institute of Labour, Germany

**Note:** From 1991 onwards, vacancies data include also East Germany, but given the small number of vacancies in East Germany we believe that this is not going to be a problem in our analysis.

**Belgium** – Registered vacancies

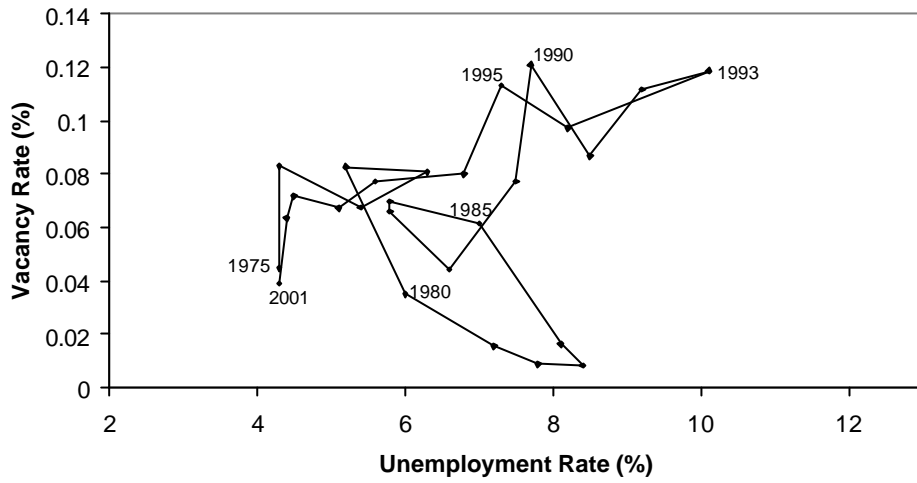
**Definition:** Data refer to vacancies notified to the ONEM remaining unfilled at the end of the month. They include vacancies within the framework of “special temporary work” (Cadre special temporaire), youth apprenticeships and special vacancies (Troisième circuit du travail)

**Source:** Statistical Office of Belgium

### Figure 3 Gueron and Hamilton (2002), Figure 1.

**Figure 1: Some Low Unemployment countries – during the 1990s unemployment at given vacancies fell**

**Denmark**



**Britain**

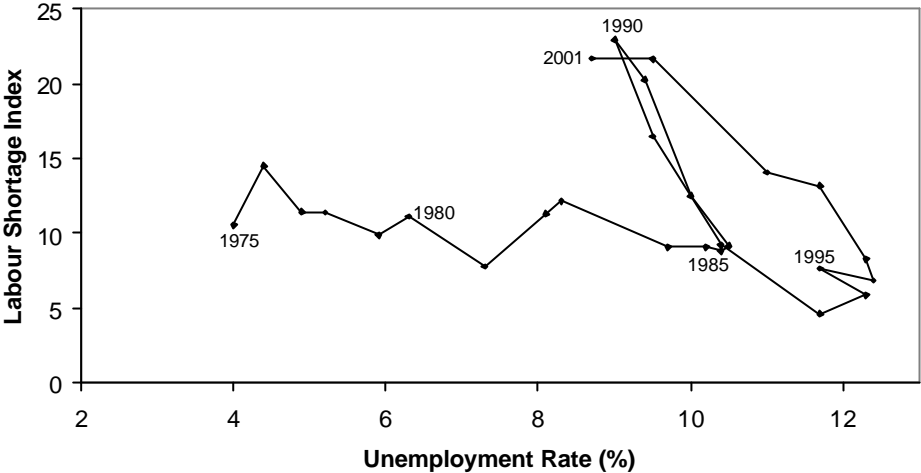


**Netherlands**

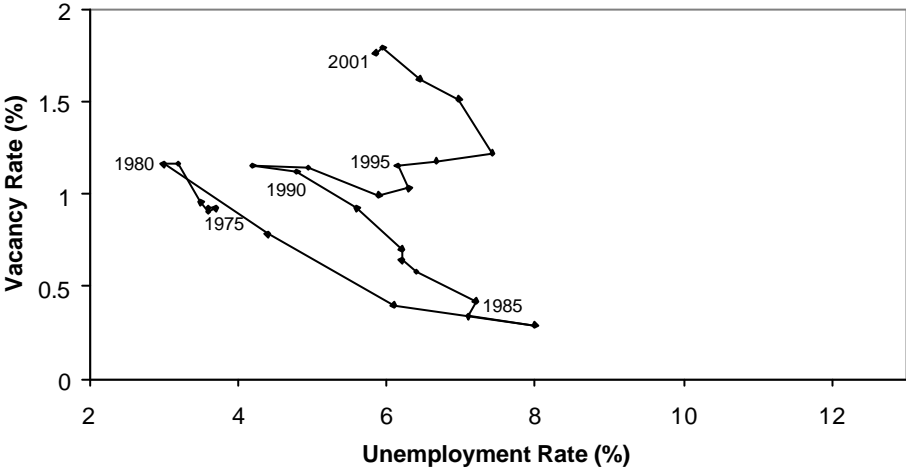


**Figure 2: Some High Unemployment countries – during the 1990s unemployment at given vacancies did not fall**

**France**



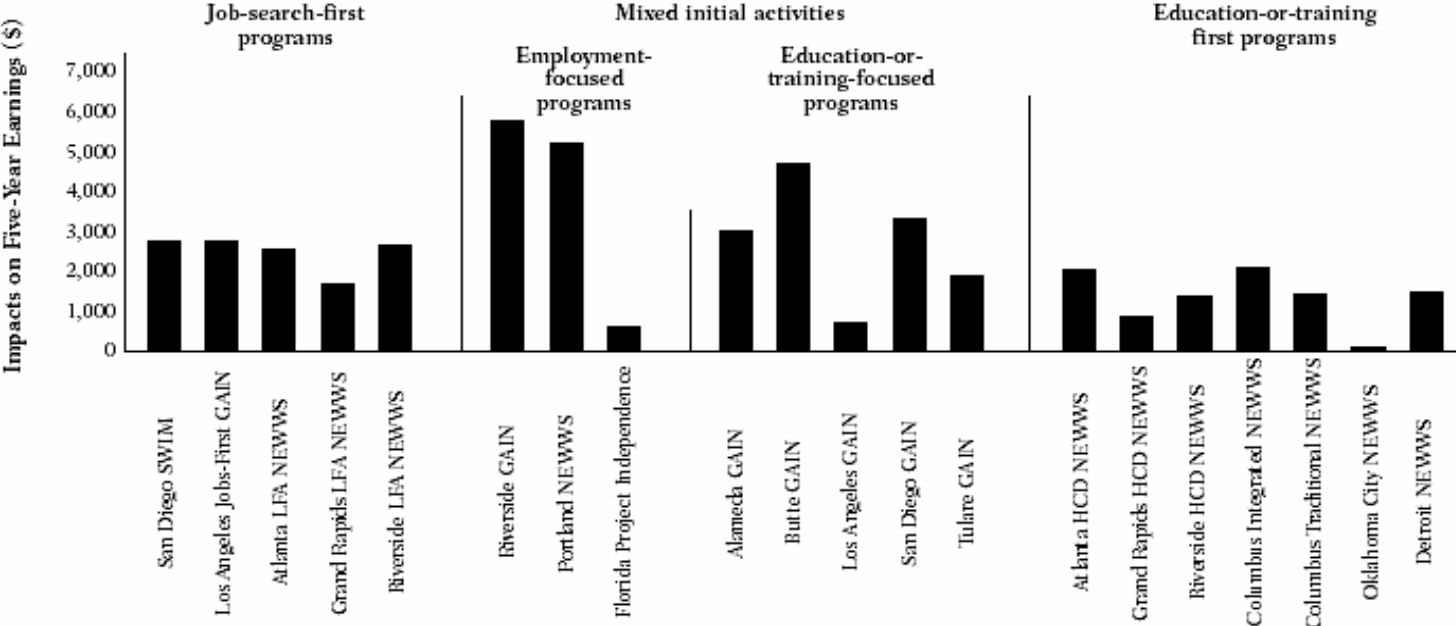
**West Germany**



**Belgium**



Figure 3: Impact of different programmes on earnings of participants over next 5 years





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