Well-being and in-work benefits: a field experiment

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Labour market programmes

Policies to encourage employment are commonplace...

...and a huge literature assesses how well they achieve this
Labour market programmes and well-being

But such policies may also affect subjective well-being...

...and we know very little about this
The UK’s biggest social experiment

The “Employment Retention and Advancement” demonstration

First large-scale social experiment to record life-satisfaction and other psychological scores

More than 6,000 out of work lone parents randomised
What it tested

On entering work, those in the treatment group received:

- financial bonuses for sustained full-time work
- guidance and advice to remain and advance in work

Eligibility lasted for 2 years
Outcomes considered

Surveys were carried out 2 and 5 years after randomisation

- 2 years – eligibility ongoing
- 5 years – eligibility ended

Respondents were asked about conventional outcomes:

- earnings
- employment
- hours worked
Well-being outcomes

They were also asked about life satisfaction...

...and about their financial situation: “How difficult would you say your financial situation is at the moment. Is it:

(1) very difficult,
(2) quite difficult,
(3) neither easy nor difficult,
(4) quite easy,
(5) very easy”
Results 1 – the randomisation

Randomisation worked well!

Baseline characteristics similar among treatment and control groups
Year 2 earnings increased by £13.50/wk (s.e. = 5.93)

Year 2 full-time employment increased by 6 % -points (s.e. = 2 % -points)

By year 5 – when support was not available – there were no significant effects on pay
Results III – life satisfaction impacts

No effect on life satisfaction in year 2 or year 5

Change in life satisfaction between years 2 and 5 was significantly lower in the treatment group by 0.135 (s.e. = 0.06).
Results IV – financial situation impacts

No effect on year 2 financial situation but year 5 situation reduced by 0.077 (s.e. = 0.05 - significant at 10% level)

Change in financial situation between years 2 and 5 was significantly worse for the treatment group by 0.11 (s.e. = 0.05)
Tying it together

The in-work support had only short-term impacts on earnings and employment.

Withdrawal of support reduced life satisfaction and worsened financial situation.
Why does this happen?

One intriguing possibility is that the results are (potentially) consistent with loss aversion.

Practically, perhaps individuals became reliant on the bonuses and had difficulty adjusting when they were no longer available.
What does this tell us?

The results raise questions about the design of time-limited support.
They also suggest attempts to factor well-being into cost-benefit analyses may be appropriate.
This is a neglected aspect of labour market policy - more evidence is needed!