

Labour Market Analysis from a Behavioral Economics Perspective: From the Perspective of Unemployment Insurance and Employment Discrimination

Jiawen Yang^{1,a,*}

¹School of Slavonic and East European Studies (SSEES), University College London, London, United Kingdom, WC1E 6BT

a. YJMSJYA@ucl.ac.uk

**corresponding author*

Abstract: This article analyzes labor market problems through the lens of behavioral economics. This article seeks to identify methods in which behavioral economics can provide policy recommendations for addressing issues related to unemployment and employment. While traditional economics fails to explain how unemployment insurance discourages job search and leads to long-term unemployment, behavioral economics finds that cognitive biases like loss aversion and present bias prolong unemployment. It suggests that policies must be designed by considering these cognitive biases to increase the motivation of the unemployed to accept work. One policy that can supplement unemployment insurance is wage-loss insurance. Wage-loss insurance is a short or long-term monetary subsidy when the wages in the new job are lower than in the old job. This paper uses qualitative analysis and a literature review to gather insights into labor market problems and the role of behavioral economics in addressing them.

Keywords: behavioural economics, labour markets, unemployment insurances, cognitive bias, discrimination

1. Introduction

The labor market refers to the interaction between employers who are seeking to hire workers and individuals who are looking for employment opportunities. However, as economics has evolved, many difficult labor market problems have been gradually discovered. For example, unemployment insurance that discourages the unemployed from seeking work and becoming long-term unemployed or discrimination in the job search process that leads to a less efficient labor market. And the birth of behavioral economics has brought many new insights and analyses that can effectively address these issues. Behavioral economics focuses on the impact on markets and individuals by analyzing the cognitive biases that humans possess. Therefore, this article will take a primary literature review and qualitative analysis to find out how to analyze the causes of labor market problems through behavioral economics, and the discussion in this paper mainly revolves around two aspects of unemployment and employment. The analysis in the article hopes to provide policy recommendations for governments to solve related problems.

2. Unemployment

2.1. Background

Unemployment insurance is a relief that the government provides that can be of great help to the unemployed. Unemployment insurance is a type of social welfare program designed to provide financial assistance to individuals who have lost their jobs for reasons beyond their control, such as layoffs, business closures, or downsizing. Unemployment insurance is an important policy and economic tool for governments and markets. It can effectively reduce social unrest as well as consumer spending power and basic livelihood security during periods of unemployment. In traditional economics, unemployment insurance benefits the economy while at the same time leading to a reluctance on the part of the unemployed to seek new employment. This means that unemployment insurance may instead increase the duration of unemployment [1]. But traditional economics does not give a detailed explanation. Behavioral economics, on the other hand, has carried out more ideas and research in this area.

Traditional economists also want to reduce this impact through policy changes. The US government has also provided job search assistance by implementing re-employment bonuses, reducing the level of benefits over time for those who still have not found work [2]. However, in terms of results, the negative impact of unemployment insurance has not been fully ameliorated.

2.2. Behavioral Economics' View

Behavioral economics gives additional insights and perspectives on unemployment insurance. It explains that cognitive bias (like loss aversion and present bias) affects people to prolong the duration of unemployment. Economists can only solve this problem if they fully understand what the unemployed think and why. Behavioral economics suggests that people make systematic errors when they make decisions, which can lead to prejudice or false expectations [3]. For example, the unemployed are subject to cognitive biases such as loss aversion and present bias, which lead them to make the wrong decision to hold on to unemployment insurance for a long time rather than seek a new job.

Loss aversion. Loss aversion is a key factor that can influence job search behavior, which refers to the tendency for individuals to experience greater emotional pain from losing something than pleasure from gaining something of equal value [4]. So when the unemployed benefit from good unemployment insurance, they are more reluctant to look for a new job. They don't want to go to a new city and deal with the stress that comes with finding a job, so they choose to stay with their current unemployment insurance. These effects can lead to the unemployed choosing to remain on their current unemployment insurance [5].

Present bias. The present bias is another key factor that affects unemployed behavior. The present bias refers to the tendency of people to give stronger weight to payoffs that are closer to the present time when considering trade-offs between two future moments [6-7]. People may therefore choose to postpone their job search even though they know they need to look for a new job as soon as possible in the long term.

These new understandings have increased economists' knowledge of the impact of unemployment insurance on the unemployed, and, at the same time, made policy-making more difficult. They need to critically consider the role played by these cognitive biases in order to design policies on unemployment insurance [8].

2.3. Policy Advice

The effect of the above-mentioned cognitive biases leads to the possibility that the unemployed may turn down new jobs even when they are faced with better wages for their work than the last ones. But it is still more often the case that the unemployed are not willing to accept new jobs with low wages (loss aversion). In this regard, behavioral economists have pointed out that policies can supplement wage-loss insurance through unemployment insurance. This insurance is a short or long-term monetary subsidy when the wages in the new job are lower than those in the old one [5]. Babcock shows that such proposals open up new ideas for economists and governments that governments can change the employment situation in the market and make jobs more attractive by manipulating the real wage value of wages [5]. This method effectively reduces the impact of loss aversion and also increases the motivation of the unemployed to accept work. In addition, it also helps the unemployed to be willing to travel to different cities to obtain different employment opportunities because of wage-loss insurance.

Another issue that needs to be addressed is the subjective reluctance of the unemployed to look for new jobs due to present bias. The government could encourage the unemployed to look for new jobs by linking unemployment insurance incentives to the length of time spent looking for a new job. The government can also provide employment agencies to help the unemployed find new jobs so that others can help improve the efforts of the unemployed and thus reduce the impact of present bias [5].

3. Employment

3.1. Background

Employment is an important aspect of modern society and a key component of the economy. The higher the employment rate, the higher the income level and the level of consumption, which can substantially promote economic development. Moreover, taxes provide the government with substantial revenue to maintain fiscal health and provide better welfare programs, such as unemployment insurance.

The traditional economic view of the labor market is based on the principles of supply and demand, so employment is seen as the result of the interaction between labor supply and employers' demand for labor. The market will naturally reach an equilibrium point, that is, when the quantity of labor supplied equals the quantity of labor demanded at a certain wage rate. However, the limitations of traditional economics in showing its use are still too great. It is difficult to explain the fact that employment is not at the desired level at some point when wage demand is supplied at equilibrium.

3.2. Behavioral Economics' View

Behavioral economics provides more information in this area. Behavioral economics recognizes that individuals are not always rational, and that cognitive biases, social norms, and cultural values can impact decision-making.

In this case, discrimination has the greatest impact on labor market employment. Employment can also provide opportunities for social interaction and networking, which can be important for personal and professional growth. Bertrand and Mullainathan stated that individuals with African-American-sounding names are less likely to be called back for job interviews than those with European-sounding names [9]. This is a typical one about the impact of racial discrimination in employment. The consequence of such discrimination is that the person discriminated against has a much smaller chance of getting a job than others of the same ability, sometimes even people who are not as good at their job. This leads to serious labor market failures.

In addition to racial discrimination, there are many other aspects of discrimination in induction training, such as age and gender. Carlsson and Eriksson found that the closer job seekers are to retirement age, the lower the call-back rates, while the call-back rates begin to decrease significantly for job seekers over the age of 40 [10]. In addition to this, women generally have a lower call-back rate than men. These discriminations are based on stereotypes that some people share with others, leading to mistakes in their hiring decisions, which is essentially a framing effect [11]. Hirers tend to look for candidates who share social values and perceptions. So many different forms of discrimination have an extremely serious impact on the employment environment in the labor market. This has created a huge problem for the government.

3.3. Policy Advice is Given by Behavioral Economics

Bertrand et al. have shown that people can discriminate unconsciously [12]. By developing the Implicit Association Test (IAT), they found that people still discriminate internally (preferring some people over others). The states contend that implicit discrimination is a pervasive and powerful force in society. Behavioral economics, therefore, suggests that the government needs to start with "how to eliminate implicit discrimination" in order to solve the employment problem. Bertrand et al. stated job seekers can give as little information as possible about associations such as race, and putting information about abilities as a focus in the resume can be effective in reducing the implicit discrimination [12]. At the same time, the government can require that when a company is recruiting, it has multiple recruiters with different backgrounds recruiting at the same time. This will minimize the incidence of implicit discrimination. This is because recruiters from different backgrounds may favor different candidates, or they may interact with each other to recruit from as objective a perspective as possible.

Wallace indicated that the government needs to improve the anti-discrimination laws and the equal rights acts to limit the behavior of recruiters [13]. In addition, recruiters should also be aware that they may be potential targets for discrimination, and avoid it in time when conducting recruitment. He also suggested that education and training programs should be improved so that the concept of anti-discrimination can be widely disseminated. To make people aware of this and reduce this behaviour. This is an effective way to reduce the incidence of discrimination, and it can improve employment levels.

4. Conclusion

The labor market is a complex and multifaceted issue that cannot be fully understood by traditional economic theories. However, behavioral economics offers valuable insights into the problems of unemployment and employment, particularly in terms of cognitive biases that prolong the duration of unemployment and the problem of discrimination during employment. To address these issues, this paper proposes implementing wage-loss insurance as a supplement to unemployment insurance. This policy measure can reduce the impact of loss aversion and make jobs more attractive, thereby increasing the enthusiasm of the unemployed to accept jobs. Furthermore, the government must take action to eliminate implicit discrimination and improve anti-discrimination laws to limit the behavior of recruiters. To do this, the government could require companies to use multiple recruiters with diverse backgrounds during recruitment processes. Additionally, education and training programs must be improved and anti-discrimination concept widely disseminated. The combination of these policy measures can effectively reduce the incidence of discrimination, improve employment levels, and ultimately contribute to the overall economic development of the society.

However, this article does not explore much about the kinds of cognitive biases that act on the unemployed versus the employed, nor does it delve into the problem. There are still some gaps in

knowledge coverage. Also, the literature data used are all from several years ago, resulting in insufficient validity. The author would read more literature and conduct some degree of quantitative analysis, such as experiments, to identify more cognitive biases affecting the issue and the accuracy and timeliness of the data. The policy recommendations mentioned in this paper would then need to be tested and evaluated to determine their effectiveness and feasibility. And this will be studied in future research.

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