

BLAMING YOURSELF OR LOSING (LOCUS OF) CONTROL?

AN ECONOMIC PERSPECTIVE ON PSYCHOLOGICAL REACTIONS TO UNEMPLOYMENT SHOCKS

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MISERY OF UNEMPLOYMENT

- **Negative effect** of unemployment on individuals' subjective well-being (Clark & Oswald, 1994)
 - **Income effect:** Reduction in consumption
 - **Identity effect:** Deviation from prescriptions for individual identity (Akerlof and Kranton, 2000)
- **Permanent effect:** no full adaptation to unemployment (Lucas et al., 2004)

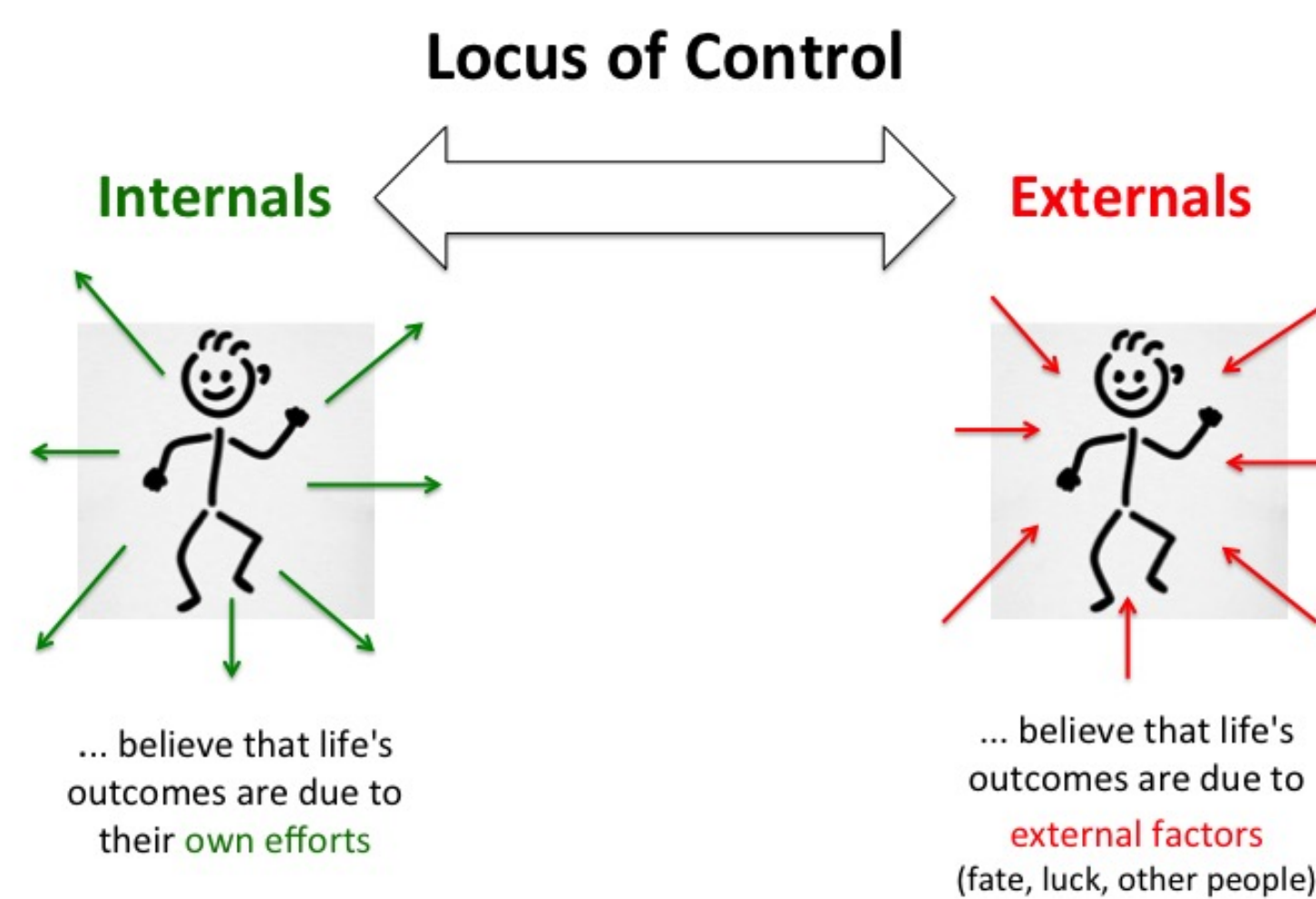
RESEARCH QUESTION AND IDEA

- Can **LOCUS OF CONTROL (LOC)** contribute to the explanation of psychological responses to unemployment?
 - Is LOC affected by a displacement and can it explain the reaction of subjective well-being to unemployment?
 - * **Simultaneous evaluation** of change of LOC through unemployment (**feedback effect**) and heterogeneity of effect of unemployment on SWB with respect to LOC (**moderation effect**)
 - Do those effects vary with respect to baseline LOC and employment status after the shock?
 - * Analysis of effect **heterogeneity** based on post-shock labor force status and pre-shock LOC

LOCUS OF CONTROL

ROTTER (1966)

"...a generalized attitude, belief, or expectancy regarding the nature of the causal relationship between one's own behavior and its consequences"



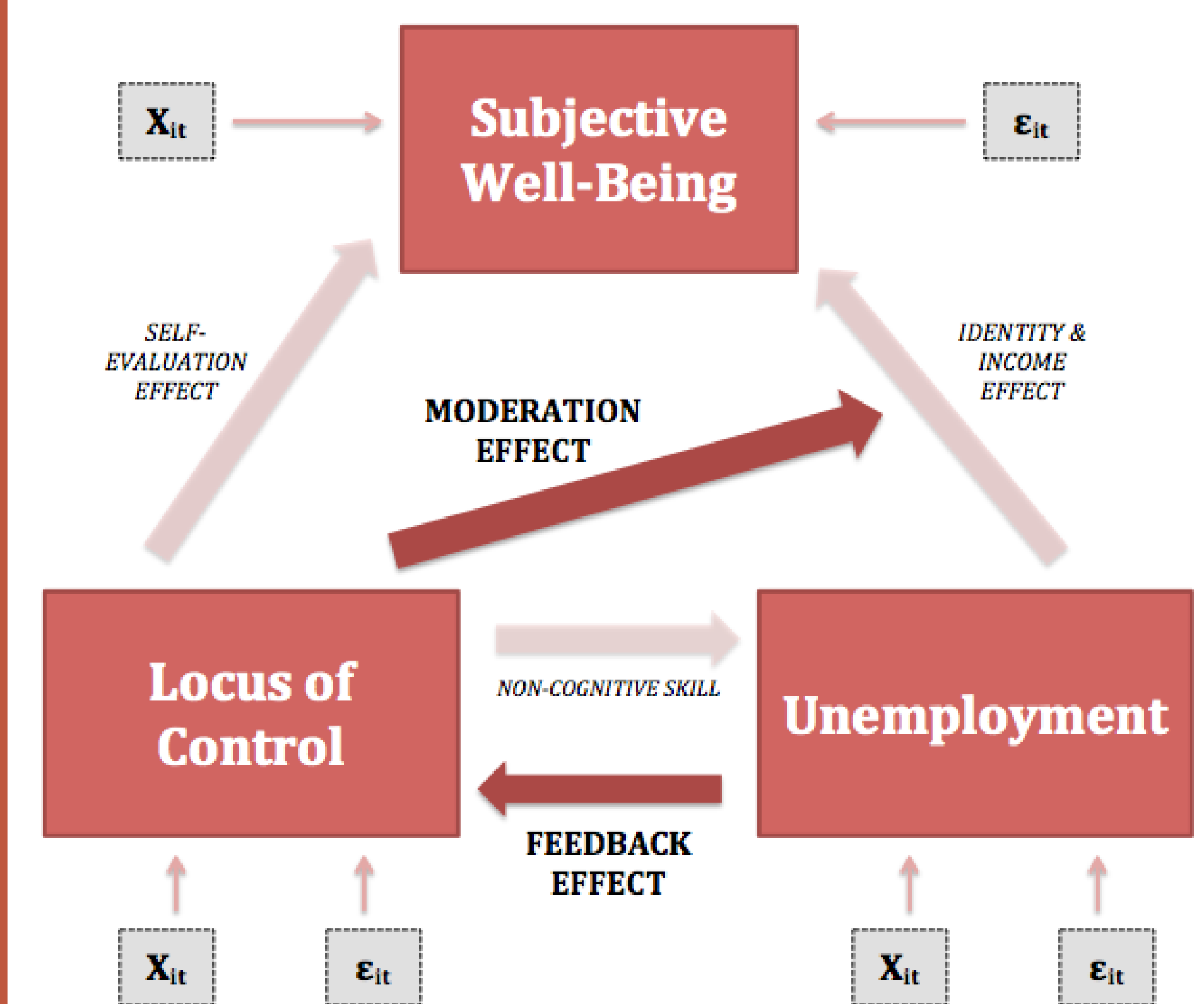
ECONOMIC RELEVANCE

- **Non-cognitive skill:** high impact on economic behavior (HC investment, self-employment, regional mobility) and economic outcomes (wages, re-employment probability) (Cobb-Clark, 2015)
- **Self-evaluation effect:** high explanatory power for life satisfaction (Becker et al., 2012)
- **Psychological insurance effect:** LOC can insure against a number of negative events by reducing the decline in subjective well-being and mental health (Buddenmeyer & Powdthavee, 2015)

EXOGENEITY PUZZLE

- Ongoing debate on **stability of personality traits** over the life-course in psychology and economics (McCrae & Costa, 2007, Specht et al., 2011, Cobb-Clark & Schurer 2011, 2013)

THEORETICAL FRAMEWORK



DATA

- **SOEP Socio-Economic Panel 1999 - 2011**
- **Sample:** working-age individuals between the age of 25 and 60 who were employed at time t-1
 - **Treatment:** displacement betw. t-1 and t
 - **Controls:** permanently employed during the whole period t-1 to t
- **Locus of Control:** Unidimensional factor based on factor analysis using eight items

127. The following statements apply to different attitudes towards life and the future. To what degree do you personally agree with the following statements?

Please answer according to the following scale:
1 means: "disagree completely",
7 means: "agree completely".

How my life goes depends on me..... [1] [2] [3] [4] [5] [6] [7]

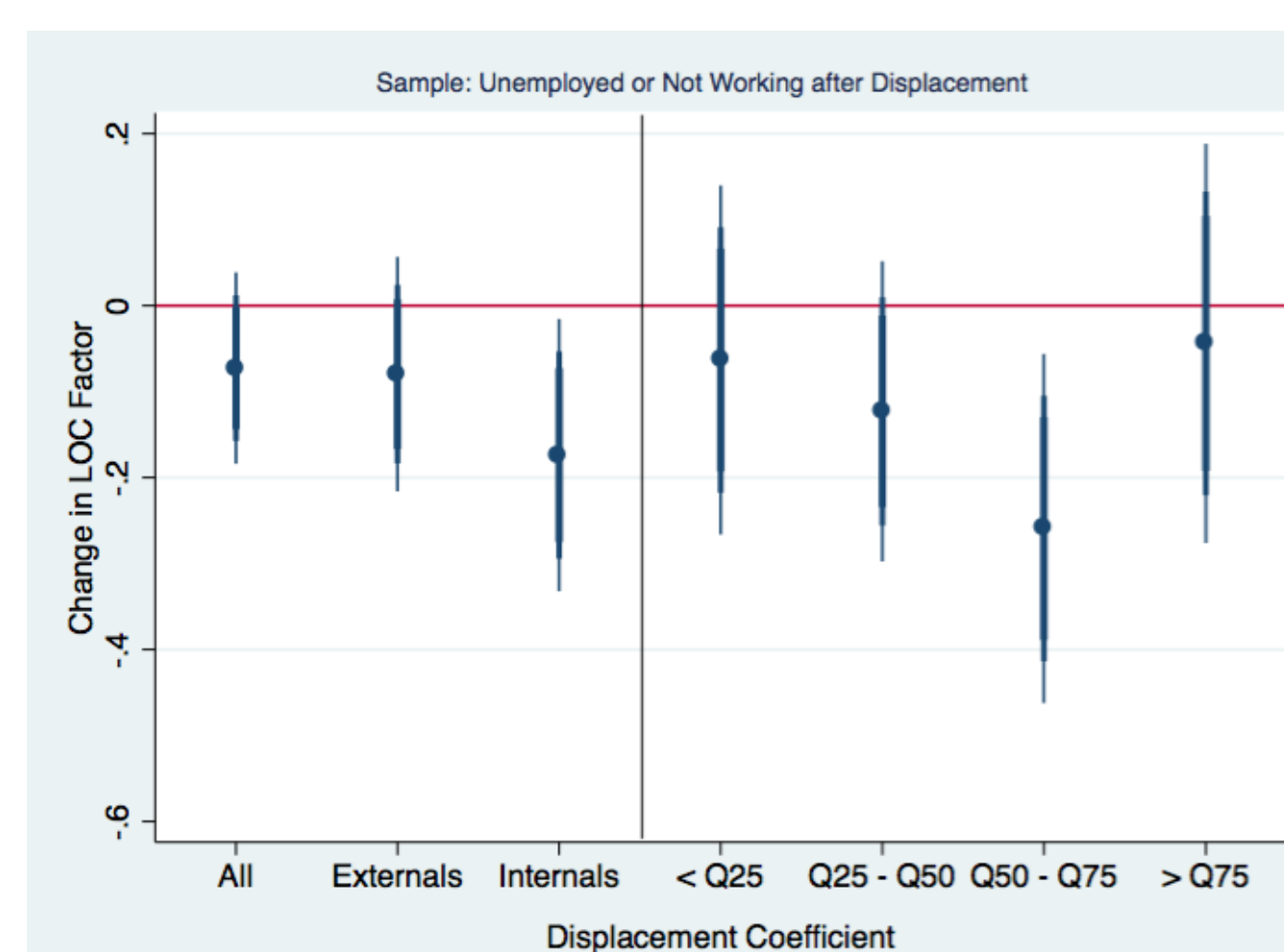
Compared to other people, I have not achieved what I deserve..... [1] [2] [3] [4] [5] [6] [7]

OUTLOOK

- Development of an economic model describing the theoretical framework
- Expansion of the dataset in order to increase the number of observations
- Improvement of identification strategy and estimation approach in order to allow for clearer and more causal statements

PRELIMINARY DESCRIPTIVE EVIDENCE

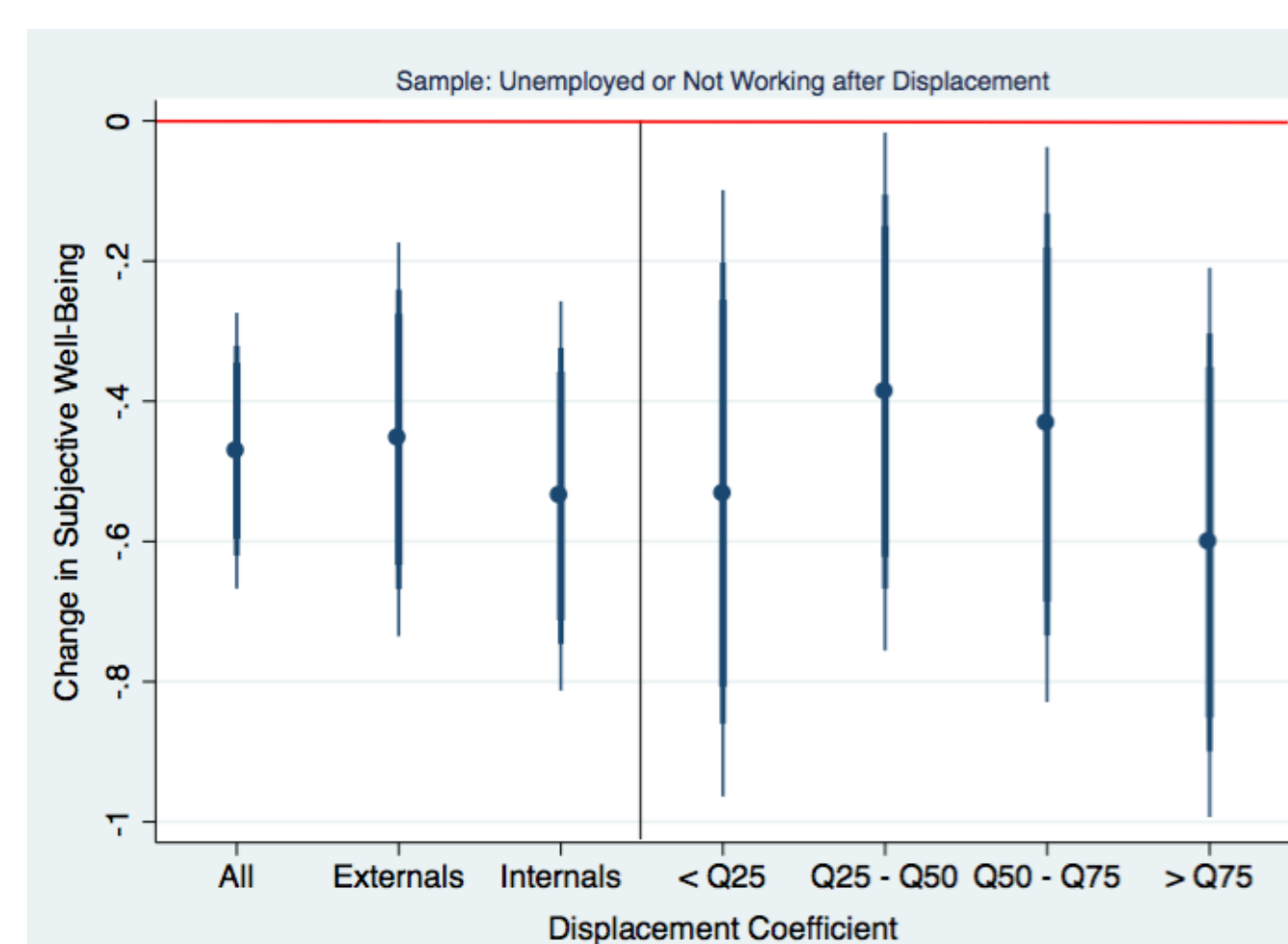
FEEDBACK EFFECT



Δ LOC	LOC in t - 1			
	<Q25	Q25 - Q50	Q50 - Q75	≥Q75
Sample: Employed or Self-Employed				
Displacement	0.041	-0.023	0.077	-0.069
Observations	1342	1624	1651	1671
Sample: Unemployed or Not Working				
Displacement	-0.054	-0.113*	-0.257***	-0.030
Equiv. Δ in SWB (%) ¹	-2.84	-5.93	-13.49	-1.58
Observations	1398	1691	1651	1664

¹ Based on marginal effects of LOC on Ln(SWB) of 0.525***.

MODERATION EFFECT



Δ SWB	LOC in t - 1			
	<Q25	Q25 - Q50	Q50 - Q75	≥Q75
Sample: Employed or Self-Employed				
Displacement	-0.189	-0.049	-0.188	0.204
Observations	1280	1565	1603	1605
Sample: Unemployed or Not Working				
Displacement	-0.531***	-0.386***	-0.433***	-0.601***
Observations	1336	1631	1603	1598

MAIN FINDINGS

- Evidence for a significant negative association between displacement and changes in LOC
- Relationship is only observed for individuals who are unemployed for at least one year and mainly for individuals with medium LOC
- Effect of displacement on SWB only observed for individuals who are unemployed for at least one year and more pronounced for individuals with extreme LOC