Job loss, unemployment, and post-unemployment subjective well-being.

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Abstract

Social scientists have illustrated that job loss and unemployment (reemployment) have a negative (positive) effect on subjective well-being (SWB) in the short-run. However, only few studies have examined the potential long-term effects of unemployment on SWB. This article addresses the question to what extent job loss and unemployment scar workers’ SWB after they have been reemployed. Complementing previous studies on psychological scars, it makes three contributions. First, drawing on data from the German Socio-Economic Panel (SOEP) 1995-2012 it takes account of the heterogeneity of unemployment experiences. Specifically, I distinguish involuntary from voluntary job loss and short-term from long-term unemployment and also examine whether the effects vary by sex, age, and educational qualification (effect heterogeneity). Second, taking advantage of the longitudinal feature of the SOEP, I apply a difference-in-differences (DiD) propensity score matching (PSM) model that examines how job loss, unemployment, and reemployment (treatment spells) compared to continuous employment (control spells) cause changes in SWB. While the DiD-PSM model controls for observed and time-constant unobserved heterogeneity, I run a sensitivity analysis using establishment closures as an exogenous reason for job loss to take account of time-varying unobserved effects. Third, in contrast to many previous studies I follow workers for up to three years after they have been reemployed. This allows distinguishing temporary (“blemish”) from persistent (“scars”) negative effects. The results show that job loss and unemployment have no negative long-term effect on SWB on average. However, considering the heterogeneity of unemployment experiences I find that voluntary job loss even has a small positive effect on SWB in the long-run. The results also suggest that long-term unemployment is associated with practically significant scar effects.

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