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Title: Job Loss and Changes in Personality – Evidence from Germany

Abstract:

Non-cognitive skills, for example personality traits, have long been considered to be quite stable over adulthood. Economic studies on non-cognitive skills as determinants or outcomes therefore assumed their stability over time to rule out reverse causality. However, recent evidence from psychology suggests that the stability assumption may not always hold. Personality traits may be related to certain life events, but from an econometric point of view, these studies do not identify causal effects.

Our paper aims at identifying causal effects of job loss on changes in personality and thereby at complementing recent studies in economics and psychology on the stability of personality traits. We use data from the German Socio-Economic Panel Study (SOEP) for the years 2004 to 2014 which include three measurements of the Big 5 personality inventory. We exploit detailed employment information, particularly on reasons of job termination and unemployment spells. We use plant closures and dismissals as an operationalization of job loss that has been widely used as an exogenous event in the literature.

Our results based on linear regression models suggest that job loss leads to a drop in emotional stability. The other dimensions of the Big 5 personality inventory remain (nearly) unchanged. Moreover, our findings suggest that especially individuals who are not reemployed at the time of the second skill measurement experience the largest drop in emotional stability. Apart from the above-mentioned theoretical considerations, these findings are highly interesting as changes in non-cognitive skills due to job loss may help to explain duration dependence of unemployment. We find evidence that persons who lose their job face changes in their non-cognitive skills and may thus find it more difficult to reenter employment.