

Moving to an Interdisciplinary Perspective on the Causes and Consequences of Unemployment

This section provides questions and prototype answers that can be used to guide educators in providing students with an interdisciplinary exploration of the causes and consequences of unemployment that integrates insights from sociology and psychology into the conventional economic framework used to examine this topic.

Q. Is it possible that the unemployed suffer non-economic costs associated with their bouts of joblessness? If so, what forms might they take?

A. Yes, they may be angry, disappointed, fearful of the future, worried about finding another job, and begin to doubt themselves in terms of talent. All of this may cause them to be depressed, and less motivated. Moreover, they may withdraw from others and be hostile. In short there are likely to be adverse psychological consequences associated with joblessness.

Q. Do you think that sociologists and psychologists have studied the impact on thoughts and behavior of unemployment?

A. Yes, here is what they have learned.

A sociological perspective that is a commonly cited explanation for the deleterious effects of unemployment called the functional approach was offered by Jahoda (1979). This framework suggests that employment provides income and many valuable latent by-products, including a structured day, shared experiences, status, and opportunities for creativity and mastery. The contention is that unemployment is destructive primarily because it deprives an individual of these by-products of employment; in short joblessness interrupts common patterns or functions that characterize professional life. Moreover, forced leisure due to joblessness is unable to effectively provide such by-products.

The self-esteem framework advanced by psychologists asserts that opinions about "self" are among the most treasured of our opinions - are a key aspect of personality - and they can be harmed by joblessness. Psychologists treat self-esteem as multidimensional, allowing deficits in one area can be overcome by strengths in another, and envision self-esteem to be a stable and enduring property of the individual, shaped during childhood. However, self-esteem can be altered by major life changes or traumatic events such as job loss could constitute such a traumatic event. According to Erikson (1959), founder of the life span developmental theory, healthy development of an individual's ego and self-esteem

depends on successful completion of successive life stages including the transition to adulthood which for many entails professional success. Thus, he contends that bouts of unemployment diminish an individual's sense of worth and hence emotional well-being.

Attribution theory offers another way, also steeped in psychological processes, in which joblessness can have far-reaching effects on one's emotional well-being. The theory postulates that people feel a need to seek out causes for what happens to them and that individuals can assign cause to either self or situation. Psychologists classify individuals either as 'internalizers,' who believe they are masters of their own fates and thus responsible for what happens to them, or as 'externalizers,' who generally believe that their life is controlled by outside forces and that they bear little or no responsibility for what happens to them. Seligman (1975) postulated that experiences perceived as uncontrollable leave an individual with a sense of 'helplessness.' He argued that one of the primary causes of depression is the realization that valued experiences such as meaningful work may be independent of efforts to obtain them. Of course, an individual's initial response to unemployment may be one of "reactance" – intense effort to re-establish control - rather than helplessness. However, helplessness is expected to emerge as the period of exposure to unemployment lengthens.

Eisenberg and Lazarsfeld (1938) first offered evidence of a phased emotional response - a progression through stages - to unemployment exposure that has been confirmed by other studies. First, there is shock, during which the individual is still optimistic and unbroken. Second, when all efforts to obtain work fail, the individual becomes pessimistic and suffers active distress. In the third stage, the individual becomes fatalistic and adapts pessimistically to their new state. In this latter stage, features of personality established earlier in life such as self-esteem alter and the jobless exhibit poorer mental health due to greater depression, anxiety, alienation.

Q. Is there convincing empirical evidence that unemployment damages self-esteem and harms other elements of emotional well-being?

A. Yes, Goldsmith Darity and Veum (1997a) find that persons exposed to bouts of joblessness exhibit lower levels of self-esteem and that the decline is greater for those who experience longer period of unemployment. They also report (1996a) that one of the primary channels through which joblessness harms self-esteem is by fostering feelings of depression. Winkelmann and Winkelmann (1998) report that life satisfaction is reduced by unemployment and offer a superb review of the empirical evidence connecting joblessness to diminished emotional well-being.

Q. Are the adverse consequences of a recession on the emotional well being of persons in the labor force pervasive enough – spread across enough people and substantial enough in size – to have an observable impact on aggregate workplace performance?

A. Yes. First, if the unemployment rate reaches say 7 % during a recession that does not mean that the same 7% of the workforce is unemployed all of the time – nor does it mean that 100 % of the work force spends 7% of their time jobless. However, a substantial portion of the workforce transition into unemployment each year. Second, many individual leave the labor force as a result of being jobless. Although these persons are no longer classified as unemployed researchers (Goldsmith Darity and Veum (1995) have found that their emotional well-being being is equivalent to that of the unemployed and well below that of similar persons who differ only in that they are employed. Third, there is also evidence (Goldsmith Darity and Veum; 1996b) that joblessness tends to scar - has a lasting affect - rather than blemish the emotional health. Forth, there are spillover effects; friends, family, coworkers and acquaintances of the unemployed worry that they will soon suffer the same fate which promotes stress, and anxiety. Thus, the psychological foot-print of joblessness spreads out to a much larger segment of society than simply the unemployed.

Q. Is it possible that the psychological well-being of an individual influence their workplace productivity? If so, how?

A. Worker productivity is a reflection of the efficiency with which an individual problem solves. Anything that alters concentration and focus or that harms decision making skills can be expected to reduce productivity; and emotional well-being is related to concentration. Moreover, researchers (Lefcourt 1982) have found that that persons who are less confident, those with lower self-esteem and a more external locus of control, process information less effectively and are thus less competent decision makers. Hence, there is good reason to expect emotional well-being is related to worker productivity, and we know a link exists between joblessness and emotional well-being. It is difficult to directly determine if worker productivity depends on emotional well-being because hourly performance is hard to measure and virtually no data sets used by scholars contain information worker productivity. However, economists expect workers to be paid a wage equal to their marginal productivity. Controlling for the standard set of factors expected to influence worker productivity economist provide evidence that persons with greater self-esteem (Goldsmith Darity and Veum; 1997b) those with a more internal locus of control (Goldsmith Darity and Veum; 2000) – factors damaged by joblessness – lead to higher wages; they interpret this as evidence that measures of emotional well-being influence worker productivity.

Q. Integration of ideas from multiple disciplines into a comprehensive framework of analysis is the hallmark of interdisciplinary thinking. Given there is good reason to

believe that the productivity of a nation's workforce depends on its emotional state, can you extend the model of short-run aggregate supply to account for this phenomena? Moreover, once you have done this, can you explain - and then demonstrate on Figure 2-A and Figure 2-B - how the deleterious effect of a recession on the psychological well-being of a nation's workforce influences the level of aggregate output and prices, and the level of employment and unemployment given that wages are held constant?

A. Yes. The quantity of aggregate supply rises when firms are more profitable. Thus, if worker productivity falls (i.e., the workforce is producing less) making firms less profitable they have an impulse to cut output which shifts the short-run aggregate supply curve to the left. Thus, once a deep recession sets in, and the emotional state of the workforce declines – holding constant all of the other factors that influence worker productivity (i.e., stock of physical capital, state of technology) - aggregate supply will decline to $AS_1^{SR}(w_0, PWB_{10})$ as depicted in Figure 2-A. This development worsens the recession since $Y_D < Y_B$ and raises prices. The associated decline in employment to $L_D < L_B$ is depicted in Figure 2-B as a result of the decline in workforce psychological well-being to $PWB_1 < PWB_0$. Ultimately, wages will fall and restore full employment at Point E = Point C = Point A, however wages must fall further (i.e., to $w_2 < w_1$) than if there were no decline in psychological well-being (i.e., w_1). Moreover, the decline in real wages, and hence the standard of living for those workers who remain employed, as the recession becomes larger since the deeper recession led to a greater rise in the price level. In addition, as a result of the decline in psychological well-being of the workforce brought on by the recession leading to a decline in short-run aggregate supply, if policy makers decide to step in and promote an increase in spending to eliminate the recession rather than wait for a decline in wages to restore full employment they will need to push aggregate demand up further; to generate a short-run equilibrium at Point F rather than Point A.

Q. Does the psychological state of the workforce influence the economies capacity to produce goods - given full utilization of all resources and hence potential output or long-run aggregate supply?

A. Yes. Thus, when the psychological well-being of the workforce declines and worker productivity falls, long-run aggregate supply declines. If this is a permanent state of affairs, then the size of the economy will decline and prices will increase. It can be argued that ultimately potential output will return to its original level as will long-run aggregate supply because workers heal or become whole again and workforce productivity returns to its pre-recession level. However, the healing might be very slow and incomplete in which case there is a permanent impact. Darity and Goldsmith (1996c) explore this situation in detail and contend that as a result some fundamental assertions of modern macroeconomics such as the Natural Rate Hypotheses may be suspect.

Q. Are their gains to be realized, in terms of richness of understanding, from analyzing the consequences of unemployment in an interdisciplinary fashion rather than a discipline specific (i.e., economics) manner?

A. Yes.