Thinking about It: A Note on Attention and Well-Being Losses from Unemployment

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Abstract

This note investigates Schkade and Kahneman's (1998) maxim that "Nothing in life is quite as important as you think it is while you are thinking about it". The paper shows that whilst becoming unemployed hurts psychologically, unemployment has a greater impact on happiness if the person also regards it as an important event that took place in the last year. This finding, particularly if it is replicated for other domains, such as health and income, will have important implications for how we think about the impact of objective circumstances on well-being and about well-being more generally.

Key words: happiness; well-being; attention; focusing illusion; unemployment

Introduction

Economists are showing increasing interest in measures of "happiness" or subjective well-being, reflected by the number of articles that are appearing in economics journals that consider happiness and its determinants (see Dolan, et al. (2008) for a recent review). Some of this interest stems from recognition of the fact that our choices are often a poor guide to how we will subsequently feel once our preferences are satisfied (Dolan and Kahneman, 2008). As a result, some economists have turned to more direct ways of thinking about and measuring utility based on happiness ratings.

Part of the problem with preferences, or any judgment requiring the comparison of two or more alternatives, is that they suffer from an inherent focusing illusion, best captured by Schkade and Kahneman (1998) in the maxim "Nothing in life is quite as important as you think it is while you are thinking about it". When asked to predict whether Californians or Mid-Westerners would be happiest, respondents in California and the Mid-West both forecast that the former would be happiest when, in fact, there was no difference (Schkade and Kahneman, 1998). The reason for this discrepancy appears obvious: California and the Mid-West differ mostly in terms of their weather, which is salient in a joint evaluation of both places but not salient in a separate evaluation of living in one place.

Kahneman and Thaler (2006) draw economists' attention to the tendency of people to exaggerate important events when they focus attention on them. This phenomenon helps

to explain why we adapt much more quickly to events (such as a pay rise or a health loss) than our preferences would suggest: put simply, we withdraw attention from something when it ceases to be novel but we forecast that event being much more of an 'attention-grabber' than it really is (Dolan and Kahneman, 2008). Of course, we must focus attention on something in the experience of our lives and, depending on how happiness is measured, in our assessments of happiness too. So far as we are aware, there have been few attempts to show whether what we report focusing on in a separate evaluation (e.g. when we are asked about what is important in our lives) can explain assessments of happiness. This is the purpose of this note.

We take advantage of an open-ended question in the British Household Panel Survey (BHPS) that asks about any important events in the last year that have stood out as being important. We consider whether unemployment (which is also 'objectively' recorded in elsewhere the survey) and fear of unemployment have more of an effect on those who report it as an important life event as compared to those who do not report it, and our results support both of these hypotheses. In the next two sections, we discuss the methods and results in a little more detail and in the final section we discuss some of the implications of the results for the ways in which economists interpret the results from happiness surveys and how they think about utility more generally.

Following the work of Daniel Kahneman and his collaborators, we suggest that the psychological construct of 'attention' will become an increasingly important part of the economist's lexicon (it already has a place in the management of information in the

business environment (see Davenport and Beck, 2001) but not yet in mainstream economics). In the very least, it could be used as an explanatory variable in "happiness economics" along with more objective indicators, like income and employment.

Methods

The data used in this paper come from the British Household Panel Survey (BHPS), which has been widely used in the happiness economics literature (Dolan, et al. 2008). The BHPS is a nationally representative survey of over 10,000 individuals, interviewed each year since 1991. This paper uses all adult individuals of working age (16-65) from waves 2-5, 9, and 14. In these survey waves, the BHPS asks an open-ended question about any important events in the last year that have stood out as being important. A total of 1688 respondents indicated that "loss of job or risk of losing a job" was an important event. Of those, 340 were actually unemployed at the time of the interview. The total number of unemployed in the sample was 2973. Many of the 2633 unemployed who did not report losing a job did report another important event that appears to them to be more salient than their unemployment (e.g. studying for new course, a vacation, a death in the family, a wedding in the family). Around 690 unemployed people did not say that anything important had happened to them in last 12 months. We use responses to a question in the BHPS that asks "Have you been feeling reasonably happy, all things considered?" with responses on a four point scale: "much less than usual"; "less than usual"; "same as usual" and "more than usual" (see also Oswald and Powdthavee, 2007 for use of this measure).

Results

Figure 1 shows that those currently unemployed who do not report it as a major event report have similar levels of happiness to those who are not currently unemployed but who report it as an important event. This suggests that attending to the fear of losing the current job can have as much of an effect on happiness for the employed as currently being unemployed. Both these groups report significantly lower happiness scores than the group who are in full-time employment and who do not report 'risk of losing a job' as an important event, and we can reject the null hypothesis that the average happiness are the same across the two groups at the 1% level. The group that reports the lowest levels of happiness is those who are currently unemployed and who report it as a major event: when something happens to us and we think of it as being important, it will have the most effect on how we feel.

Table 1 presents regressions with happiness scores as the dependent variable and interactions between unemployment and reporting unemployment as a major life event in the last 12 months as the independent variables, controlling for individual fixed effects. Details on the control variables and the coefficients are available from the authors on request but note that we include dummies for the socio-economic group of the previous job, the reasons for leaving the previous job, and whether the first person on the household roster reported unemployment as a major life event, as well as average

household unemployment rate, the number of unemployment spell last year, and the number of weeks spent in unemployment last year.

Table 1 presents the results. Becoming unemployed but not reporting unemployment as a major life event is associated negatively and statistically significantly with self-rated happiness. Those in full-time employment but reporting fear of losing one's job as a major life event also report a significantly lower happiness score. The interaction between becoming unemployed and reporting unemployment as a major life event is negative, statistically significant, and sizeable.

The overall effect of becoming unemployed and reporting unemployment as one of the major events on happiness is -0.070 - 0.063 – 0.108 = -0.241, with a statistically well-determined standard error of 0.046. This is almost four times larger than the coefficient on the main effect of unemployment, and twice as large as the coefficient on reporting unemployment as a major life event. Thus, there is evidence that becoming unemployed hurts, but hurts more if the person also regards it as a major life event. Note that the results are robust to controls for the individual's 'objective' unemployment characteristics such as the number of unemployment spell, the socio-economic group of the previous job, number of weeks spent in unemployment in the past year, and the reasons for leaving the previous job.

Discussion

After about 100 years of conceptualizing and measuring utility in terms of the satisfaction of preferences, economists are increasingly turning to happiness ratings as an alternative way to tap into utility. Part of the problem with preferences, or any joint evaluation that involves the comparison of one state of the world to another, is that they are subject to a focusing effect, whereby attention is drawn to attributes that may not be the most important to subsequent experiences. The psychological construct of attention has been around for some time (see, for example, Kahneman, 1973) but it is only now making its way into the mainstream economics literature (Dolan and Kahneman, 2008; Kahneman and Thaler, 2006).

As happiness ratings become more widely used by economists, the need to understand where attention is directed in the context of a separate evaluation will increase. In this short paper, we have considered whether the decrease in happiness associated with unemployment is greatest for those who pay attention to being unemployed, as represented by the reporting of unemployment (or the fear of unemployment) as an important life event. The results from analysis of a large panel survey suggest that unemployment hurts all those who experience it but especially those who report it as an important event. This is independent from the objective measures of unemployment characteristics such as the number of unemployment spell and the reasons for leaving the previous post.

We need to be cautious about over-interpreting this result. Whilst we may have been able to control for a variety of unemployment characteristics such as the number of unemployment spells, as well as the unobserved heterogeneity in our fixed-effects estimation, the difference in happiness may still be due to differences in other unobserved time-varying effects between the two unemployed groups. As a result, we cannot treat our results as causal. There may well be reverse causality in that unhappiness causes more attention being paid to unemployment as well as attention to unemployment affecting happiness.

Notwithstanding this caveat, the results bear out our intuition: that the impact of an event will be greatest when we attend to that event. This finding, particularly if replicated for other domains, such as health and income, will have important implications for how we think about the impact of objective circumstances on well-being. It may also have important implications for our understanding of how economic agents respond to incentives and the impact those incentives might have on behavior. For example, policies and programs designed to get people off welfare and into employment may work best when coupled with interventions that draw attention to the negative consequences of unemployment.

We clearly need to find out much more in these regards and a key research question will be to isolate the effect of attention on behavior and happiness. We should therefore consider the use of natural experiments and possibly even random controlled trials to show what happens when the type and degree of attention is manipulated in clearly

defined ways. Whatever the precise details of future research endeavors, we are convinced that attention will become an important part of how economists – and policy-makers – explain and predict how economic agents behave and how happy those agents are as a result.

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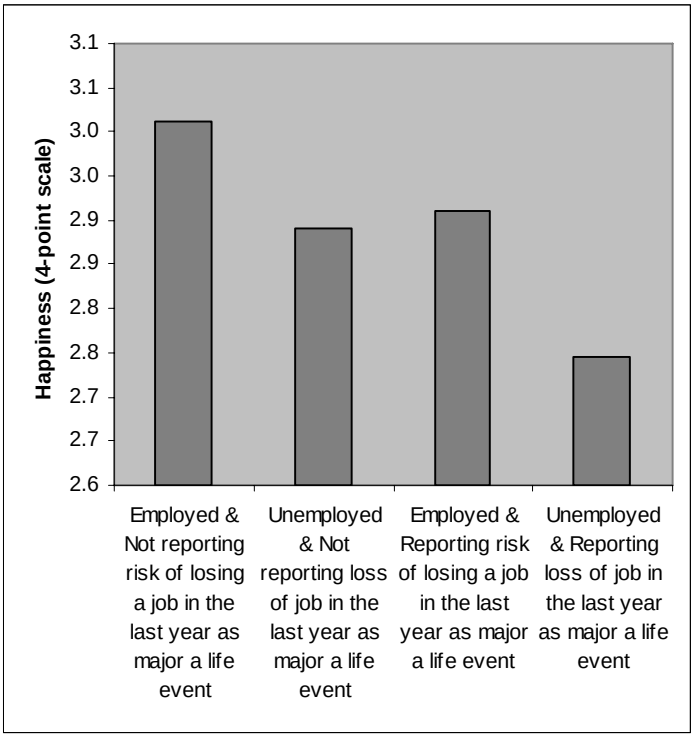
Figure 1: Happiness, Unemployment, and Life Event

in the BHPS between 1992-2005



Note: Happiness responses range from 1 = much less happiness being experienced than usual, and 4 = more happiness being experienced than usual. N of observations: 31,004 (employed and not reporting), 900 (unemployed and not reporting), 2,454 (employed and reporting) and 335 (unemployed and reporting). T-statistics for equality tests: (null hypotheses) employed & not reporting = unemployed & not reporting (t = 7.378 [p=0.000]); employed & not reporting = employed & reporting (t = 5.116 [p=0.000]); unemployed & not reporting = employed & reporting (t = 0.540 [0.589]); employed & not reporting = unemployed & reporting (t = 6.143 [0.000]); unemployed & not reporting = unemployed & reporting (t = 3.844 [0.000]); employed & reporting = unemployed & reporting (t = 7.386 [0.000]).

Table 1: Happiness Fixed Effects Regression Equations with Interactions Between Unemployment and Reporting Unemployment as a Major Life Event

Dependent variable: Happiness (4-point scale)	
Unemployed	-0.070
	[0.031]*
Reporting loss of job or fear of losing job as a major life event	-0.063
	[0.019]**
Unemployed × Reporting loss of job or fear of losing job as a major life event	-0.108
	[0.046]*
Regional dummies	Yes
Wave dummies	Yes
Observations	46488
Number of individuals	16680
R-squared (within)	0.0171

Note: * 5%, ** 1%. Standard errors are in parentheses. Reference variable is the full-time employed. Mean happiness score = 2.986, with a standard error of 0.594.

Other than socioeconomic group, regional, and wave dummies, we also control for marital status, education, whether the respondent owns home outright, as well as log of real household income per capita, household size, and number of children at different ages. In addition, we control other unemployment characteristics that may influence attention on unemployment, including dummy variables representing the socio-economic group of the previous job, the reasons for leaving the previous job (e.g. promoted, left for a better job, made redundant, dismissed or sacked, temporary job ended, took retirement, stopped because of health reason, left to have baby, left to care for other person, other reason), whether the respondent was a family breadwinner at t-1 (i.e. had the highest individual income in the household), whether the first person on the household roster was unemployed, whether the first person on the household roster reported unemployment as a major life event, as well as average household unemployment rate, the number of unemployment spell last year, and the number of weeks spent in unemployment last year.