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# Economic crises and wellbeing: Social norms and home production<sup>☆</sup>

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## ABSTRACT

Why does work appear more important to the life satisfaction of some population groups than others? Household data from Russia in 1992 allows plausible identification of the causal impact of being workless on time spent in home production and life satisfaction. We present a model of home production in which men face stigma in some non-market activities, so that their ability to substitute into work at home is circumscribed. Consistent with our model, we find that worklessness causes men's time in productive activities to decrease much more than women's. Impacts of worklessness on life satisfaction are much larger for men.

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## 1. Introduction

Perceptions of identity and social stigma are now widely recognized as being important to the work decisions of individuals (see, for example, (Akerlof and Kranton, 2000); (Akerlof and Kranton, 2005); (Akerlof and Kranton, 2008)). Real business cycle models have long considered the importance of home production to the US economy, and the countercyclicality of home production levels (see, for example, Benhabib et al., 1991; Greenwood et al., 1997). This paper investigates the hypothesis that social norms about home production moderate the impact of economic crises on wellbeing. We employ Russian data collected immediately following price and labour market liberalisation in 1992 to examine how stigma facing men in home production might arbitrate the wellbeing impact of worklessness and economic crises. If men face stigma in home

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production, a given deterioration in labour market conditions may have greater negative consequences for men's wellbeing. We identify differences between men and women in the causal effect of job loss on time spent in home production, subjective wellbeing, and perceptions of economic security. We show both theoretically and empirically the role played by social norms on the wellbeing effects of worklessness.

Our paper contributes to a literature that seeks to understand behaviour resulting from non-pecuniary motives and the pursuit of wellbeing. Becoming workless will affect wellbeing not only because of reduced incomes but also because this work status change may put an individual in conflict with a social norm. There is strong empirical evidence that employment status is an important determinant of individual wellbeing. Gerlach and Stephan (1996), Korpi (1997), Winkelmann and Winkelmann (1998), Latif (2010) and Knabe and Raetzl (2011) estimate significant negative non-pecuniary effects of unemployment on reported life satisfaction measures. Wadsworth et al. (1999) and Clark et al. (2001) show that unemployment in early life is associated with persistent psychological effects on individual wellbeing. Clark (2003) and Eggers et al. (2006) find that when 'other' individuals are also unemployed the negative effects of unemployment are mitigated.<sup>2</sup> To our knowledge the present study is the first to demonstrate the differential impact of worklessness on the wellbeing of men and women and to relate these observed differences to stigma in home production activities.

The basic labour supply model (Gronau, 1977) shows how individuals might optimally choose between home production, market work and leisure. Women might more readily substitute into home production when they become workless because of a lack of social stigma facing females in non-remunerated activities. This might occur even if their preferences regarding labour and leisure, and their productivity at home, are identical to those of men. If men face stigma in some non-remunerated activities, a given rise in worklessness would then have a more severe impact on men's wellbeing than on women's.

The literature generally concurs in suggesting that income losses are associated with reduced life satisfaction. For example, Frijters et al. (2004) find that following the reunification of Germany in 1989, increases in household income and employment accounted for much of the positive changes in the life satisfaction of East Germans in the following decade. Analyzing panel data from 12 European countries and the US, MacCulloch et al. (2001) show that individuals are more satisfied in times of low inflation and unemployment, while (DiTella et al., 2003) find that income and wellbeing are positively correlated. Using the same data, Wolfers (2003) shows that income volatility also has negative effects on wellbeing.

The potential econometric problems of employing subjective wellbeing data, discussed in Bertrand and Mullainthan (2001) and Hamermesh (2004), suggest why economists have not widely used these variables to investigate differential responses of population groups to economic crises. There is generally no plausible method of identifying the causal impact of worklessness on wellbeing. However, data collected in Russia in September 1992, the start of the most severe economic crisis in recent history, provides an opportunity to overcome these identification problems. Participation rates of urban females had been nearly universal in the late Soviet era. Those searching for jobs in mid-1992 had been sent *en masse* on long-term unpaid leaves from enterprises hit hard by the January 1992 price liberalisation and the sudden collapse of the communist (CMEA) trade area. These newly workless individuals could not have foreseen the success or failure of their workplaces when making previous employment decisions. Moreover, they were not chosen individually by managers for these indefinite unpaid leaves. Worklessness in Russia in September 1992 is thus plausibly unrelated to unobservable characteristics of individuals, and so also to systematic differences between the sexes in these unobservables. When testing our hypothesis, potential differences between men and women in productivity and in local labour market conditions can be taken into account.

The remainder of the paper proceeds as follows. In Section 2 we present a simple model, based on Gronau (1977), to demonstrate how stigma facing men in home production might lead to larger life satisfaction impacts of job loss on men than on women. Section 3 introduces the Russian Longitudinal Monitoring Survey (RLMS-HES) data, and discusses summary statistics and our identification strategy. In Section 4 we use multivariate analysis to test our model in ways which control for potential sex differences in labour market opportunities and in the economic impact of job loss on family income. We show that men do not substitute into female household tasks when workless, but women do substitute into male tasks. Consistent with our model, the life satisfaction impact of job loss is found to be much more severe for men than for women. Section 5 concludes.

## 2. Model

To fix ideas, we first show how social stigma in home production might not impact men who are employed, but have substantial impacts when they lose their jobs. We illustrate the case in which men and women earn the same wage, to emphasise that norms regarding home production activities can generate differential wellbeing impacts even in the absence of gender wage differentials.

We modify the Gronau model of time allocation in home production to include a social 'stigma' for men associated with working at home. Formally, let both men and women have identical preferences given by the utility function  $U(X, t_L)$ —where  $X$  denotes a composite consumption good that can be produced at home ( $X_H$ ) or purchased in the market ( $X_M$ ), while  $t_L$  denotes leisure time. The utility function satisfies  $U' > 0$  and  $U'' < 0$ .

<sup>2</sup> Clark et al. (2010) looks at the effects of others' unemployment and estimate that its impact on the wellbeing of men depends on their labour market prospects and opportunities, whether currently employed or unemployed.

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