



Parental unemployment and children's happiness: A longitudinal study of young people's well-being in unemployed households[☆]



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HIGHLIGHTS

- We estimate the psychological effect of parental unemployment on children.
- Parental job loss has a positive influence on young children's overall happiness.
- Parental unemployment has a negative or non-significant effect on older children.
- Boys and girls react differently to paternal and maternal unemployment.
- Past happiness strongly predicts educational attainments at age 16.

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ABSTRACT

Using a unique longitudinal data of British youths we estimate how adolescents' overall happiness is related to parents' exposure to unemployment. Our within-child estimates suggest that parental job loss when the child was relatively young has a positive influence on children's overall happiness. However, this positive association became either strongly negative or statistically insignificant as the child grew older. The estimated effects of parental job loss on children's happiness also appear to be unrelated to its effect on family income, parent–child interaction, and children's school experience. Together these findings offer new psychological evidence of unemployment effects on children's livelihood.

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1. Introduction

It is well-established from cross-section and longitudinal studies that joblessness depresses mental well-being and lowers life satisfaction for the unemployed persons more than any other single characteristic, including important negative ones such as divorce and separation

(Clark and Oswald, 1994; Darity and Goldsmith, 1996; Winkelmann and Winkelmann, 1998; Clark, 2003; Powdthavee, 2011). Yet there has been surprisingly little research on the effects of job loss on the psychological well-being of the children of the unemployed. While previous research has shown that unemployment hurts less psychologically for people whose spouse is also unemployed (Clark, 2003),¹ much less is known about the association between parental unemployment and children's subjective outcomes such as happiness and self-esteem; whether the timing of parental unemployment matters to children's happiness while they were growing up; and whether there is a scarring effect of

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¹ For more evidence of others' unemployment as a positive externality on the unemployed's psychological well-being, see Powdthavee (2007), Shields et al. (2009), Clark et al. (2009).

long-term parental unemployment on their children's subjective well-being. These are difficult questions to address empirically, in part because there are only a few available nationally representative longitudinal data sets that repeatedly asked children to self-rate their happiness levels over time. Yet knowing whether a parent's experience of job loss contributes negatively or positively to children's overall happiness seems important for policy makers to be able to fully assess the total psychic cost of unemployment that had been incurred by the individuals and the family members of the unemployed.

Our paper attempts empirically to explore this issue by estimating the longitudinal relationship between parental unemployment and children's self-reported happiness with life scores over time. Using a unique sample of nationally representative British youths (age 11–15 years old), this paper initially demonstrates that the association between an onset of parental unemployment and children's happiness is non-significant on average. Further investigations, however, suggest that the timing of parental unemployment matters and that younger children may have even benefited psychologically from parents being temporarily out of work. By contrast, we find the estimated relationship between parental unemployment and children's overall happiness is either non-significant or strongly negative for older children in the sample, and that the implied effect of a long-term paternal unemployment on child's happiness is often negative, sizeable, and statistically significant. We also uncover some evidence of boys and girls reacting differently to paternal and maternal unemployment when they were asked to report their overall happiness in the year of unemployment. Finally, we are able to show that changes in children's happiness are not merely noises and that they do indeed predict something important in the form of future educational attainments at the age of 16.

2. Background

Previous studies in this area have focused primarily on formulating and estimating the effects of maternal employment on children's educational outcomes (Bernal, 2008; Bernal and Keane, 2010; Ermisch and Francesconi, 2013). Based on Gary Becker's model of household production function of human capital (Becker, 1981; see also, Becker and Tomes, 1986), the basic idea employed by these studies is that parents maximize their utilities subject to constraints by choosing between time spent working in the market, which has a positive effect on their current standard of living, and time input into human capital production of their children, which has a positive effect on their future standard of living through their children's incomes.² Holding income effect constant, one hypothesis is that maternal labour supply will have a negative influence on children's cognitive development as it reduces the time spent in enriching home environments.

The empirical evidence is mixed. Findings range from the effects of maternal employment in the first few years of the child's life on later cognitive outcomes being negative (Desai et al., 1989; Baydar and Brooks-Gunn, 1991; Belsky and Eggebeen, 1991; Gregg and Washbrook, 2003; Baker et al., 2008; Bernal, 2008; Herbst and Tekin, 2010) to its being statistically insignificant (Blau and Grossberg, 1992; Harvey, 1999; Kalil and Ziol-Guest, 2008) to its being positive and quantitatively important (Vandell and Ramanan, 1992; Moore and Driscoll, 1997).

One explanation for these differences in the results is that the timing of mother's time input matters. For example, Han et al. (2001), Waldfogel et al. (2002), Baum (2003), and James-Burdumy (2005) have reported evidence of an adverse effect on the child's educational attainments of maternal employment that begun in the first year of the child's life, whereas employment after first year appears to have more mixed effects. Others have found the negative effect on child's cognitive outcomes to be associated with maternal employment over

the first five years of the child's life (Joshi and Verropoulou, 2000; Bernal, 2008; Bernal and Keane, 2010; Liu et al., 2010). Furthermore, Ruhm (2008) reports evidence that maternal labour supply is only harmful to children from "advantaged" families, while "disadvantaged" children typically benefit from mothers working limited number of hours in the market. More recently, Ermisch and Francesconi (2013) use instrumental variables within-family estimators to show that maternal labour supply when the child was aged 0–5 has a negative effect on the probability of achieving an A-level qualification or higher, and that the adverse effect is much stronger on children of less-educated mothers.

One question of interest about the roles of parental employment on child's development is whether the effects of losing one's job are the same as the effects of parents choosing to spend more time at home with the child. Since job loss reduces both future family income and the likelihood of future employment, it is possible that the negative income effect will outweigh the positive substitution effect of parental time input in the case of involuntary unemployment (Becker and Tomes, 1986; Duncan and Brooks-Gunn, 1997). Another hypothesis is that job loss imposes mental distress on the parent (Clark and Oswald, 1994; Clark, 2003), which could have a negative spillover effect on the child (Powdthavee and Vignoles, 2008). Job loss could also trigger other disruptions to home environments that can impede child's cognitive development, such as parental divorce or relocation (Gruber, 2004). For more mature children, parental unemployment can also increase anxiety and embarrassment, and reduce aspirations and expectations for the children of the unemployed (McLoyd, 1989; Christoffersen, 1994). They may also get teased and bullied more often than those whose parents are in full-time employment, which could in turn affect their happiness with life overall (Brown and Taylor, 2008; Powdthavee, 2012).

Focusing more specifically on parental unemployment rather than employment, Rege et al. (2011) examine the effects of parental unemployment on children's educational performance in Norway. Using plant closures as the identification strategy, the authors find a detrimental and sizeable effect of paternal unemployment on graduation-year grade point average (GPA) for more mature children (aged 15–16). By contrast, maternal job loss has been found to have a positive albeit statistically insignificant effect on children's school performance. In a similar study, Coelli (2011) uses Canadian data to show that parental job loss from layoffs and business failures that occur when youth complete high school has a negative effect on children's enrollment at university and community college.

In contrast, econometric evidence on the effect of parental unemployment on children's emotional development is scarce. One of the few papers to study the psychological effect of parental unemployment on children's subjective well-being is by Kind and Haisken-DeNew. (2012). Using a panel data of German adults, the authors estimate the short-run effect of parental unemployment on the life satisfaction of their children. Focusing only on young adults (aged 17–25) who still lived at home with at least one parent, they initially find a statistically insignificant association between current parental unemployment and children's life satisfaction. But after spitting the sample by gender, they are able to show paternal job loss from company closures to be associated negatively and statistically significantly with son's life satisfaction but with not daughter's. While interesting, the paper however does not consider the possibility that the psychological effect of parental unemployment may differ across different stages of child development, nor whether there is a scarring effect of long-term parental unemployment on child's well-being.

We would like to add to this small literature by using a unique longitudinal data set of British youths to address three relatively unexplored questions about the potential psychological effects of parental unemployment. First, are adolescents living with an unemployed parent less happy with life on average, and whether the association is robust to controlling for family income and other socio-economic backgrounds? Second, is the association between parental job loss and children's overall happiness

² For other related studies that rely on the same theory of household production function, see, e.g., Todd and Wolpin (2003, 2007), queryCunha and Heckman (2008), and Cunha et al. (2010).

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