

Life Satisfaction and Noncognitive Skills: Effects on the Likelihood of Unemployment

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Traditional empirical models of labor market performance omit important determinants. In theory wages depend on a worker's marginal productivity, which has been modeled most frequently using human capital variables like education and experience. However, more recent theoretical and empirical work has moved beyond traditional models to incorporate psychological measures, especially noncognitive skills. Noncognitive skills affect labor market outcomes independently of traditional human capital measures, and in some cases they are more important than cognitive ability (Heckman and Kautz 2013). They are frequently measured using the Big-Five personality traits, but the Big-Five are usually unavailable in national surveys. This paper advances an alternative psychological measure, demonstrating that greater subjective well-being (SWB) causally reduces the likelihood of future unemployment, and that SWB measures, like happiness, are closely related to noncognitive skills using the German Socio-Economic Panel (GSOEP) during the period 1996-2013. Motivated by the labor literature and using insights from the SWB literature, this paper aims to further integrate the two.