Applied Economics Letters ›
Volume 22, 2015 - Issue 3

Original Articles

Financial distress and happiness of employees in times of economic crisis

E. Arampatzi, M. J. Burger & R. Veenhoven

Pages 173-179 | Published online: 24 Jul 2014

Cite this article https://doi.org/10.1080/13504851.2014.931916 Check for updates

Abstract

Using data for 28 European countries for the period 2008 to 2012, we examine whether employed individuals are affected by the economic crisis. We provide robust evidence that unfavourable macroeconomic conditions are negatively associated with the life satisfaction of employees. In addition, we find that higher levels of regional unemployment and inflation are predominantly associated with lower levels of life satisfaction for employees who are in a bad financial situation or who expect that their future financial situation will be worse. By contrast, employed people who do well financially and who have good prospects are not affected by the crisis.

Keywords:

life satisfaction financial distress economic crisis Europe

JEL Classification:

I00 D60

Notes

[1] The Nomenclature of Territorial Units for Statistics (NUTS) classification is a geocode standard to subdivide the economic territory of the European Union. NUTS-2 regions are basic regions for application of regional policies and normally have a population of 800 000 to 3 million.

[2] The dummy controls for 205 European regions for which coefficients were found to be significant.

[3] Type of occupation distinguishes between blue-collar versus white-collar labour and low-skilled versus high-skilled occupations according to 'Eurostat's Adult Education Survey.

[4] Unfortunately, there were no recent GDP per capita and inflation data available at the regional level.

[5] A challenge here is that unhappiness and financial distress often go hand in hand and may, in fact, aggravate each other. Moreover, there is a possibility of reverse causality, with increasing unhappiness exacerbating financial distress. One solution to this problem would be to instrument financial distress, but finding credible instruments is difficult. Instead, we recognize this problem and caution that our results should be interpreted as conditional associations rather than reflecting causal relationships.

[6] The negative and significant correlation for GDP per capita in the regression for employees who expect that the financial situation of their household will worsen may be explained by social comparison effects and requires further examination.