

The labor market consequences of impatience

Some people would be happier if they were required to stay in school longer or search harder for a job while unemployed

Keywords: impatience, dynamic inconsistency, educational investment, job search, lifetime earnings

ELEVATOR PITCH

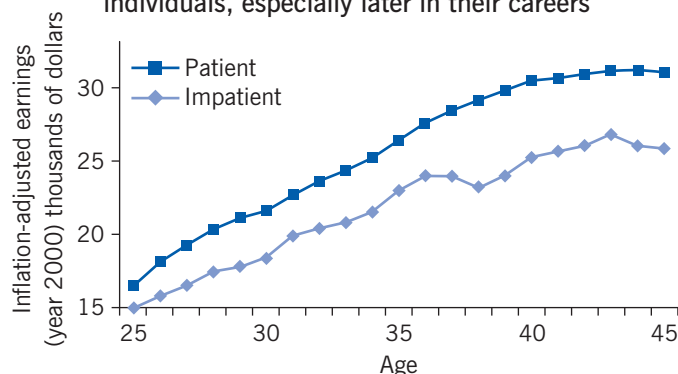
Standard economic theory suggests that individuals know best how to make themselves happy. Thus, policies designed to encourage more forward-looking behaviors will only reduce people's happiness. Recently, however, economists have explored the role of impatience, especially difficulties with delaying gratification, in several important economic choices. There is strong evidence that some people have trouble following through on investments that best serve their long-term interests. These findings open the door to policies encouraging or requiring more patient behaviors, which would allow people to enjoy the eventual payoff from higher initial investment.

KEY FINDINGS

Pros

- + Impatient people behave differently from patient people when making choices with implications for the labor market, including educational investment and job search.
- + Post-schooling, impatient people earn substantially less than their patient counterparts, and the earnings gap grows throughout their careers.
- + Much of this behavior reflects "time-inconsistent" preferences, when preferred investment choices depend on how soon investment costs are paid.
- + Time-inconsistency can justify policy interventions designed to increase individuals' investment.

Patient individuals earn more over time than impatient individuals, especially later in their careers



Source: Supplemental analysis of results reported in [1].

Cons

- Policies designed to increase investment are hard to justify if people's choices are rational.
- Time-inconsistency is difficult to measure directly, so policies are difficult to target appropriately.
- The relationship between what economists call "preferences" and what psychologists call "personality" is still incompletely understood.
- It can be hard to separate the direct effects of ongoing time-inconsistent choices from the effects of lower investment in cognitive skills earlier in life.

AUTHOR'S MAIN MESSAGE

Economists tend to think that individuals know best how to spend their own resources. As a result, they view policies that are designed to change people's investment choices as paternalistic and are reluctant to propose them. Yet policies designed to encourage additional schooling or more job search effort can actually make people happier when the policies' targets have difficulties with commitment. The empirical evidence suggests that patience can be learned and that a minority of individuals would be happier if they were incentivized or required to invest more for the future.