
**Good for the Soul:
The Relationship between Work,
Wellbeing, and Psychological Capital**

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Abstract

Both economic and psychological research provides strong evidence that unemployment adversely affects a person's mental, emotional, and physical wellbeing, which in turn may impair his/her ability to regain employment. Studies also suggest a person's 'psychological capital' (personality traits that influence the productivity of labour) may mediate¹ the impact of unemployment on wellbeing and facilitate re-employment. While the effects of unemployment have been well documented, the simultaneous relationship between wellbeing and labour market status and the influencing role of psychological capital have received much less attention, requiring further investigation. There is still concern in the literature that "the exact nature of the interrelationships between labour market experience and mental health remains unclear and complicated by questions over the direction of causality and heterogeneous impacts across individuals." (Dockery, 2006, p. 2)

The purpose of this research is to explore the interrelationship between labour market status, wellbeing, and psychological capital in more detail. The thesis combines key concepts from various economic and psychological theories, each partially describing how labour market status, wellbeing, and psychological capital interact with each other. The validity of the integrated model is then tested by estimating structural equations for labour market status and wellbeing using cross-sectional and longitudinal data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Survey is a broad social and economic survey that focuses on family and household formation, income and work. The survey contains economic, psychological, and demographic data with sound psychometric

¹ A mediator effect (or indirect effect) involves one or more 'intervening variables' transmitting some or all of the causal effects of prior variables (e.g. unemployment) onto subsequent variables (e.g. wellbeing). See: Byrne, 2001).

qualities for a large sample of working aged Australians that makes it well suited to this type of analysis.

As well as the regression analyses, the results of a case study conducted with a group of job-seekers at an employment agency are also reported. The study sought to evaluate the effectiveness of personal development training for the unemployed (designed to improve psychological capital), and its subsequent influence on their ability to regain employment. While the research was halted before completion, some valuable insights were gleaned from the study, and these warrant discussion.

Findings of the research indicate a simultaneous relationship exists between labour market status and wellbeing. Individuals with healthier wellbeing are more likely to be employed, and employment contributes to healthier wellbeing. The results also indicate psychological capital is an important variable influencing wellbeing, partially mediating the impact of unemployment on wellbeing. Employed individuals have significantly higher psychological capital than those who are unemployed or not in the labour force, or those who transition in and out of employment. Psychological capital appears to be a relatively stable, but somewhat malleable, personality construct that does not vary greatly for individuals experiencing changes in labour market status (LMS). People who develop poor psychological capital during youth may therefore be predisposed to a higher risk of being unemployed when they enter the labour market.

The results suggest programs/policies that foster healthier wellbeing and psychological capital during youth, or repair damaged psychological capital once in the labour market, could help lower unemployment or the duration of unemployment. Recent Australian government policy

initiatives designed to improve labour force participation and productivity by enhancing human capital are likely to be more effective if they also target psychological capital. The research also highlights shortcomings in mainstream economic theory, which are discussed along with the weaknesses of the study, and opportunities for further research.

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