The Economic Consequences of Despair

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Abstract

This paper examines despair from the perspectives of many disciplines to define despair and to characterize the despairing individual, his motivations, and his capacity for decision-making. Two models incorporating despair as a key element are then proposed. Using these models as a framework, the economics literature is examined to determine the extent to which economics has, at least implicitly, recognized despair, without necessarily confronting it either in theory or policy design, and argue why this failure has weakened both our theory and our policy. The paper concludes with the suggestions that economics can and, perhaps, should incorporate despair, narrowly, and economic agents' emotional state, generally, into its theoretical and policy analyses.

Key words: Despair, existential state, suicide, long-term unemployment

JEL category: Z1

The Economic Consequences of Despair

Despair refers to a state of mind caused by circumstances that seem too much to cope with. Despair suggests total loss of hope, which may be passive or may drive one to furious efforts.. .[1]

I Introduction

Despair does not fit well within the usual confines of economic analysis as it suggests behaviors strongly at odds with what is generally thought of as rational decision-making. Yet despair has been an all too common state of being for many throughout the ages, and remains so today, especially in conditions of sustained economic recession and decline. While neither acts of desperation nor the inaction of hopelessness can be easily aligned with constrained utility maximization, since neither suggests that what is usually thought of as a rational decision can be or has been taken, decisions are, explicitly or implicitly, made. To understand these decisions and those that make them, and to develop policies to ameliorate the economic consequences of despair, despair demands careful economic analysis.

In this paper I examine despair from the perspectives of many disciplines, from theology to literature and art to clinical psychology in an attempt to define despair and to characterize the despairing individual, his motivations, and his capacity for decision-making. Having done so, I contrast despair with hope, its behavioral opposite, and then suggest how despair can be modeled in the context of the standard discounted utility model and in the context of a model of goal/identity oriented preferences. Using these models as a framework, I return to the economics literature

[1] despair. Dictionary.com. Dictionary.com Unabridged. Random House, Inc. http://dictionary.reference.com/browse/despair (accessed: June 14, 2013).

and examine the extent to which economics has, at least implicitly, recognized despair, without necessarily confronting it either in theory or policy design, and argue why this failure has weakened both our theory and our policy. To conclude, I suggest that economics can and, perhaps, should incorporate despair, narrowly, and economic agents' emotional state, generally, into its theoretical and policy analyses.

II Characterizing Despair

From St. Paul's second letter to the Corinthians onwards, the theological definition of despair is the loss of hope of salvation. To be saved, one must repent one's sins and seek forgiveness. Since all sins can be forgiven, by God if not by man, no one is excluded from salvation a priori. Yet if the sinner despairs, he determines that his own sins are unforgivable by God and that penitence, no matter how sincere, will avail of nothing. In this it is the sinner who damns himself by rejecting God's capacity to forgive rather than God rejecting the truly penitent sinner. This perspective was given weight by Origen and other early scholars of the Church, who argued that God would have forgiven even Judas Iscariot had he repented rather than judging his sins to be unforgivable, even by God, and taking his own life in despair. Later medieval scholars, uncomfortable with the premise that all sins were forgivable, qualified this position by suggesting that the act of suicide signaled impenitence, since it was the Devil who induced he who despaired to self-harm and suicide (Altschule 1967) while still leaving open the path to salvation to the truly penitent.

The association of despair with suicide generally and Judas specifically was reflected in art which reached even the illiterate. Despair was represented by the very recognizable suicide, Judas, paired with Hope, represented by the crucified Christ, or by a suicide alone, defiantly unrepentant even in death, such as Giotto's fresco in the

Arena Chapel in Padua (Barasch 1999). Despair was personified in morality plays and other literature as a character, variously named Despaire or the Devil, who provided the means of suicide, a rusty knife, poison or a noose, to the wavering Christian weighed down by sin perceived as unforgivable and seeking release (Beecher 1987, MacDonald and Murphy 1990). The message was clear, accepted and central to medieval theology (Lederer 2006), so much so that even suicides that had a secular motive, such as crippling debt, a love affair gone wrong, or mental illness, were treated as spiritual despair in both law and custom. Specifically, it was common in the Middle Ages for the bodies of suicides to be left unburied, to be mutilated and for their property to be seized or destroyed, thereby imposing misery or ruin on their families (Murray 2000, MacDonald and Murphy 1990). The sins of the fathers were visited on their sons.

Thomas Aquinas, in *Summa Theologica* (1947 [1265-74]), examines despair in the context of his exploration of the eleven passions (emotions). Aquinas characterizes these passions as either concupiscible or irascible. Each of the concupiscible passions is directed to the understanding of good or evil absolutely. Each of the irascible passions is also directed to good or evil, but these passions reflect what is arduous to obtain or to avoid (Miller 2012). Thus, the object of despair is an unattainable good, well worth attaining but perceived to be beyond the despairing's grasp no matter how hard he tries, leaving him to do without the good (King 1999). When hope (of one's own salvation through the grace of God) is given up, that is, when one despairs, one is drawn away from the good, from God and from one's fellow man, and into sin. Despair, which destroys hope, does not require that one is without faith and consequently does not believe in God's grace, but only that God's grace does not

extend to oneself. This can lead, eventually, to loss of faith and to hatred of God, the worst of all sins (Snyder 1965).

Luther suggests that, contra Thomas, despair leads to rather than away from salvation (Snyder 1965). For Luther, there are two sources of knowledge: God's law and the Gospel. Through God's law, man learns that he is born in sin and is, thereby, damned. Man, through the Gospel, which he can only access via God's law, discovers God's mercy, the only means of man's salvation. God's law forces man to recognize that he is damned, and this recognition leads to despair: he is nothing without God's grace. This realization opens to him the knowledge of the Gospel and the prospect of salvation. Despair, the descent into and journey through hell, for Luther, was a prerequisite for salvation. So, too, for Calvin, yet for Calvin despair afflicts only the pre-conversion elect or those who have not truly converted and are thus not of the elect. For Luther, life is a continual struggle against despair since the spirit always is beset by doubt. For Calvin, not so, except for those who were not members of the elect who were forever barred from God's mercy. The journey to salvation, in the Protestant tradition, was through hell (despair) where many remained. The Protestant and Thomist portrayals of despair permeate Western culture. Spenser's Redcrosse Knight in *The Faerie Queene* (1978 [1590-1609]) journeyed through hell to emerge strengthened and saved (Snyder 1965), while the lives and deaths of Graham Greene's protagonists in his novels *Brighton Rock* (1938) and *The Heart of the Matter* (1948) exemplify Thomistic despair (Sinclair 2011).

For Kierkegaard, like Luther, life, the process of discovering one's true self, a self only defined in relation to God, is a battle with despair (McDonald 2012). Kierkegaard defines three levels of despair: ignorant despair, in which the individual

is ignorant of having a self, despair in weakness, in which the individual does not try to be himself, and defiant despair, in which the individual recognizes the eternal aspect of himself, that which makes him himself, determines to become himself, but rejects God's essential role in the process (Banks 2004). Thus, despair comes from trying to know oneself without God, although it is only in relation to God that the self, the true self, can be realized (McDonald 2012). That is, in despair one despairs of one's own sins and despairs of the forgiveness of those sins: the sinner, and everyone is a sinner, rejects God's forgiveness, a sin against the Holy Spirit, and thus is unforgivable. In winning the battle with God to become oneself by oneself, one loses oneself: the self is not defined in the absence of God. To defeat despair one must go beyond the finite and humanly attainable, have faith in God, have faith in the infinite possibility of God's forgiveness to effect what is humanly impossible, accept God's judgment and thereby find one's true self in relation to God (Podmore 2009). Kierkegaard's philosophy mirrors his own spiritual struggle. It is also the struggle faced in Ibsen's play *Brand* (1912), where the protagonist, Brand, unlike Kierkegaard, rejects God, and in his defiant despair not only loses his own life but the lives of his family and his parishioners (Banks 2004).

While Kierkegaard examines despair in the context of man's relationship with himself and with God, Gabriel Marcel examines man in the context of the world in which he lives (Treanor 2010). Man is defined by his ontological exigencies, his sense of being, and his need for experience that transcends the material world. This need is accompanied by a sense that something is amiss, that the world is broken, a dissatisfaction that cannot be assuaged, as the transcendence of the material world cannot be achieved on one's own. But, if man does not feel that something is amiss, does not feel dissatisfied, and cannot reflect on the need for transcendence, his

transcendent exigency will atrophy to the point of absence. He will not view the world as being broken yet it is its brokenness that killed his transcendent exigency leaving him as only a functional entity. He will be reduced to a machine-like existence living a life in despair unable to participate meaningfully in his own reality. Having will replace being. He will neither be available to himself nor to others (Pamplume 1953). He will be without hope so that the current situation, despair, is final and irrevocable. He will be alienated from being.

Steinbock (2007) defines despair, from the perspective of phenomenology, as the impossibility of the ground for hope. This impossibility is not attached to a particular situation or event, for were this the case, while the particular situation would be hopeless (a particular goal could not be achieved), this hopelessness would be confined to this situation. With despair the impossibility of the ground for hope encompasses everything. Everything is hopeless (no goals can be achieved no matter how much effort is expended). While hope is oriented positively toward meaning, despair is oriented toward lack of meaning. He who despairs perceives himself to be completely abandoned (by society, by God), now and forever. He has no control over his life, and so gives up on everything since nothing is possible. Because despair affects him at the spiritual level, suicide can be contemplated since life has no meaning, no value, neither now nor in the future. In despair he has no future, since nothing is possible, and he cannot retreat to the past since it cannot redeem the present. He is imprisoned in the present in a life totally devoid of meaning and to which meaning will not affix.

The evolutionary biologist, Rudolph Nesse (1999) examines despair as an emotion, which must be (have been) beneficial since it has survived the evolutionary selection

process. Despair is aroused as a result of the perception that a goal one has sought to achieve is unobtainable despite one's best efforts. It is an emotion that arises along the path toward a goal, and since the goal is socially construed as important, recognizing that there is nothing one can do to achieve the goal can cause one to despair. The goal could be a happy marriage, supporting one's family, having a successful career, or salvation. The point is that despair is an emotion common across cultures. The question is, can despair, while painful, have a salutary effect by enabling a reassessment of ones goals? From this perspective, the pain and suffering caused by despair provides a signal that something is wrong and to which a response is required. If emotions aid fitness, in a Darwinian sense, then these emotions, part of the body's management and resource allocation system, would be positively selected for, thereby improving our species ability to survive.

From Nesse's perspective there are gradations of despair, despair that sends the signal that a new path needs to be taken or a goal revised downward, a signal that may only be interpretable after a period of stasis in which action cannot be taken, and despair from which there is no exit. In the former the period of stasis is characterized by low self-esteem, lack of initiative, impaired imagination. The despairing individual is rendered incapable of action and must wait until the situation clarifies itself so the decision to give up or to persevere, but with lowered expectations, can be made. In the latter, the signal is effective, but the period of stasis endures, as there is neither a new path nor possible goal revision. All is lost.

Connor and Walton (2011) examine the psychological literature on despair, in which despair is referred to as existential distress or demoralization. Despair/ demoralization has been found to be comorbid with clinical depression, but it is not

clinical depression (Clarke and Kissane 2002). Although it is often not effectively distinguished from depression, the symptoms have been found to be distinct (Jacobsen, et al. 2006). Demoralization, as first characterized by Frank (1974) "results from *persistent failure to cope* with internally or externally induced stresses that the person and those close to him expect him to handle…. The person's self-esteem is damaged, and he feels rejected by others because of his failure to meet their expectations. Insofar as the meaning and significance of life derives from the individual's ties with persons whose values he shares, alienation may contribute to a sense of the meaninglessness of life" (Frank 1974, p.271). "They feel *powerless to change* the situation or themselves and *cannot extricate themselves* from their predicament" (Frank and Frank 1993, p.35). This may lead to recklessness, violence and nihilism (Hillbrand and Young 2008). Thus, demoralization is an existential state (a state of being) that affects how individuals view their world, their place in it, and their experiences of it. Its causes are individual, such as loss or grief, and societal, such as cultural dislocation or welfare dependency. It robs individuals of their self-esteem, their ability to act, to cope, to control their own feelings and behaviors, to respond in some/all difficult situations and leaves them feeling isolated. It is as much a challenge to recognize/diagnose, as it is to ameliorate, since each individual's despair is different. However, the demoralized can be reached and helped, if not cured (Connor and Walton 2012, Hillbrand and Young 2008). Just as Spenser's Redcrosse Knight needed Úna to save him from Despaire and return him to the path to salvation in *The Faerie Queene*, the despairing individual may need a therapist's helping hand.

Common themes run throughout these characterizations of despair. First, despair is a social malady. Despair excludes the individual from society, a society he has or perceives himself to have abandoned through his actions or one that has abandoned

him. Second, re-entry into that society is or is perceived to be exceedingly difficult, perhaps impossible. Third, because the despairing sit outside society they are not necessarily or do not perceive themselves to be bound by its conventions. Fourth, social relationships become difficult or impossible. Fifth, the ability to act, to cope even with the quotidian, atrophies or is lost. Apathy, lethargy, recklessness and suicide are common responses to despair. Sixth, life is without value or meaning. This state of may be temporary or permanent. If temporary, life after emerging from despair has less value. If permanent, a future, any future, cannot be imagined.

III Hope: the Antithesis of Despair

Pecchenino (2011) examines hope, despairs opposite, from the perspective of many disciplines to establish its place in economic thought. From her review of the literature she finds the following. First, that most of the theories of hope have a strong future goal orientation where the future looms large in an individual's decision making process. The present, rather than the future, is discounted. Second, goal attainment depends on an individual's desire and ability to transform what is into what should be or to move toward what should be or what will be even if that goal is known to be unattainable through human effort: nothing is impossible. Third, theories of hope address the process of living, the journey one is taking, which suggests that one's preferences and one's hopes are redefined by the constraints one faces, such as age or disability. These theories provide a means of understanding or accepting fortune and misfortune with equanimity. All is never lost. Fourth, hope is not irrational but may rely on an individual's ability to filter, sort and selectively use information. Fifth, the hopeful are in and of society.

In comparing hope and despair we find that hope is about possibility, despair is about impossibility; hope is about defining and achieving goals, despair is about loss of goals and the means of achieving them; hope is about the future, despair is about the loss of that future. Hope is the antithesis of despair. Thus, to model despair we draw upon models of hope.

IV Modelling Despair[2]

IV.1 The standard model

In its most basic formulation, the discounted utility model, the standard model of intertemporal decision making by a rational, utility maximising individual, defines an individual's intertemporal preferences over consumption profiles from an initial date t to a terminal date T, where the utility function is assumed to be time separable and the rate at which the future is discounted is assumed to be constant. That is

$$U(c_t,...,c_T) = \sum_{k=0}^{T-1} D(k)u(c_{t+k}) \tag{1}$$

where $u(c_{t+k})$ is the individual's instantaneous cardinal utility function, which measures her personal welfare in period $t+k$, and

$$D(k) = \left(\frac{1}{1+\rho}\right)^k \tag{2}$$

is her discount function, which is the weight the individual in period t places on her well being in period $t + k$, and ρ is her pure rate of time preference: her discount rate.

Under the assumption of perfect capital markets whereby individuals can borrow against future income or lend at a fixed, known interest rate, individuals choose their

[2] The analysis in this section is drawn from my earlier work on hope. See Pecchenino (2011).

optimal lifetime consumption profile subject to their lifetime budget constraint. If there is an unanticipated change to the individual's budget set in period $t + j$, she just re-optimizes as of the period when the change becomes known. If the change is voluntary, then one simply compares consumption profiles under the original budget set to consumption profiles under the revised budget set (or, more succinctly, compares budget sets). It is straightforward to add uncertainty. What is essential is that agents optimize as of the initial date, follow their optimal plan, and reoptimize if there is an unanticipated change to their budget/choice sets.

IV.2 When there is no tomorrow

In the standard discounted utility model outlined above, individuals' discount the future at a constant rate via a discount function defined by equation 2. This formulation implies that an individual's preferences are time consistent: the decision he takes today to be carried out ten days, months, years hence is precisely the decision he will take once those ten days, months, years have elapsed. However, empirical analyses have suggested that individuals do not exhibit time consistent behavior. To model this, an alternative discount function was posited

$$D(k) = \begin{matrix} 1 \text{ if } k = 0 \\ \beta\delta^k \text{ if } k > 0 \end{matrix} \qquad (3)$$

where β and δ are constants less than unity, yielding a declining discount rate between the current period and the next and a constant discount rate between any two periods thereafter. This formulation, (pseudo) hyperbolic discounting, yields strongly present biased, time inconsistent (if a constant discount rate represents true, underlying preferences), decision making. Further, when the future arrives, again the present looms large relative to the new future, and present biased decisions continue to be made instead of those planned to be made from the perspective of the previous

period looking into the yet unattained future. Behaviors, such as over-eating, under-saving, procrastination, and addiction can be explained by the present bias.

By slightly adjusting the discount function so that $\beta\delta > 1$, then instead of a declining discount rate between the current period and the next, one has an increasing discount rate between the current period and the next, yielding future biased, time inconsistent (the same caveat applies), decision making. This could be the discount function of the hopeful (Pecchenino, 2011). For the despairing individual, as distinct from the time consistent, the hyperbolic present-biased or the hyperbolic future-biased, the future, any future proximate or distant, is difficult to imagine and, thus, to plan. This can be modeled by β approaching zero, causing the future to shrink to insignificance in the agent's utility calculus, and the agent's budget set contracting, leaving the individual with few resources to pursue any plans. Unable to conceptualize and effect a future, any future, the agent's world collapses.

IV.3 Goal-oriented preferences and individual identity

In standard economic analysis an individual has preferences defined over goods, services, and leisure. More of each is always better, although subject to diminishing marginal utility, and the goods, services, and leisure may be complementary or substitutable. Preferences are not defined relatively but rather absolutely. However, preferences can also be defined over individual identities (Akerlof and Kranton 2000), or socially referenced, so that how one's consumption of goods, services or leisure or how one's wealth, income or employment status, or how one's support of one's family compares to others' determines how satisfied one is. This preference structure can be adapted so social references, such as comparisons of income with one's neighbors, are replaced by personal or social goals one hopes to attain or which society deems important to obtain, such as a personal or social identity, as in Brekke,

et al. (2003), or aspirations as in Dalton, Ghosal and Mani (forthcoming). Thus how close one is able to come to achieving one's overall goal or set of goals, both now and in the future, can determine one's satisfaction or dissatisfaction/despair when goals are perceived to be unachievable. These goals can be very specific – to be gainfully employed or to support one's family – or more general and existential – being forgiven and receiving salvation, but all require that actions be taken and resources dedicated to achieve or move toward one's goals.

Using the model proposed by Jeitschko, O'Connell and Pecchenino (2008), changing the notation to reflect the current application, suppose agents' plan to achieve a goal or set of goals, which can be thought of as an identity or a set of identities which define who the person would hope to be or would despair of not being able to become. Following standard theory, the individual agent has a single preference ordering defined over N distinct goals. Some goals may be dominated and therefore not undertaken. The agent invests effort to achieve his personal ideal goal set (which depends on his preference ordering and actual and perceived constraints). The individual goals, however, can be in conflict and may not be mutually compatible. That is, achieving one goal may move one further away from another goal. The utility maximizing agent seeks to balance these forces.

Let

$$U(g^1 - g^{1*}, \ldots, g^N - g^{N*}) \tag{4}$$

represent an individual's utility defined over goals, his preference ordering over goals which defines his overall or composite utility or personal self-image/identity. Utility is a function of his n=1, …, N goals, g^n, relative to its ideal, g^{n*}, that is, $g^n - g^{n*}$, for all n. Assume $U_n(\ldots, g^n - g^{n*}, \ldots) > 0$ (<0) for $g^n - g^{n*} < 0$ (>0), for all n = 1,… ,N and

that $U_{nn} \leq 0$ for all $n = 1,\ldots,N$. The sign of U_{nm} $n \neq m$ is positive if his n and m goals are complements, negative if they are substitutes, and zero if they are independent.

Assume one's goals and the effort, resources – emotional, psychological, spiritual, intellectual, and economic – expended, required to attain them are related as follows

$$g^n - g^{n*} = \hat{e}^n - e^{n*}(\nu^n) \tag{5}$$

where

$$\hat{e}^n = e^n + \sum_{m \neq n} \beta^{mn} e^m \tag{6}$$

where $\hat{e}^n$ is the effort the individual puts into his n^{th} goal, which is the sum of his effort dedicated to his n^{th} goal, e^n, and any spillover from effort dedicated to his other goals, $\beta^{mn}e^m$, for all m, where $\beta^{mn} < 1$. $e^{n*}(\nu^n)$ represents the individual's belief of the collective (social) belief (Orléan 2004) of the effort required to attain the hoped for ideal, a construct that depends on the society in which the individual lives both narrowly and broadly defined, or the individual's self-assessment of the effort required to attain his personal goal, where ν^n is a vector of conditioning variables – focal points or probabilities of achievement, upon which beliefs about goal n are conditioned. Among these conditioning variables could be the individual's emotional/existential state (Pfister and Böhm 2008), the moral strictures of the society of which the individual is part (Kaplow and Shavell 2007), the individual's circumstances that are determined in part by the individual's (relative) wealth or poverty (Dalton, Ghosal and Mani, forthcoming), the neighborhood in which he lives (Ellen and Turner 1997; Atkinson and Kintrea 2004)), or the acute (Buckert, et al. 2014) or chronic stress the individual is under. Thus, how hopeful or despairing (hopeless) an individual is determines, in part, the perceived cost of effort required to reach a goal. The more hopeful/despairing an individual, the higher/lower is the

perceived return to effort. Conditioning variables and the collective or individual beliefs implied can depend on context.

Substituting the relationship of effort to goal achievement into the individual's utility function, the individual's task is to allocate his resources

$$e = \sum_n e^n , \quad e^n \geq 0 \tag{7}$$

optimally; that is, to devise a plan to achieve his desired goals. Since an individual's total resources are a function of his emotional, psychological, spiritual, intellectual and economic resources, they are not fixed but, instead, are increasing (decreasing) in hopefulness (hopelessness/despair).

The agent thus optimizes

$$U\left(e^1 + \sum_{m \neq 1} \beta^{m1} e^m - e^{1*}(v^1), ..., e^N + \sum_{m \neq N} \beta^{mN} e^m - e^{N*}(v^N)\right) \tag{8}$$

subject to his resource and nonnegativity constraints. The first-order conditions of the agent's problem are

$$U_n + \sum_{m \neq n} U_m \beta^{mn} - \lambda + \mu^n = 0, \; n = 1, ..., N \tag{9}$$

where λ is the marginal disutility of effort, and μ^n is the multiplier on the nonnegativity constraint. $\mu^n > 0$ if the optimal choice of $e^n \leq 0$: all effort is put into the individual's other goals since the marginal disutility of effort exceeds the marginal utility of effort invested in that goal either directly or indirectly. Thus, for the low hope or despairing individual many goals will be ruled out as too onerous to achieve while the opposite will be true for the high hope individual. For those in the depth of despair, all goals, no matter how strongly desired, may be seen as unachievable.

In this model individuals' utility is defined over goals rather than the more standard consumption and leisure, although goals could contain consumption and leisure as elements. An individual's hopefulness or lack thereof affects the cost of achieving his goals and the resources he has to do so. The utility function does not conform to expected utility assumptions since probabilities, whether exogenous, affected by own actions or conditioned by hope or despair, are embedded in the effort required for attainment of one's goal ideal. Further, utility is neither separable across goals with different probabilities of achievement nor across time. By including probabilities of success as just one of many conditioning variables which determine the effort required for achievement of one's goal ideal allows, for example, other conditioning variables could reinforce a low probability of success for the despairing individual while mitigating or contradicting the same for a hopeful individual. Given this structure it is possible to analyze the interactions across goals and plans (see Jeitschko, O'Connell and Pecchenino, 2008, for derivations) to achieve those goals as a result of changes in this environment – changes in the conditioning variables or probabilities of success, whether exogenous, functions of own effort, or of one's existential state, that cause collective or individual beliefs to change, and the effects of substitutability or complementarity of goals.

Since an individual's resources are limited, goal attainment may be constrained regardless of how hopeful or despairing the individual is. Thus, an individual must allocate his resources taking into account complementaries across goals, substitutability across goals, and spillovers of effort, both positive and negative, across goals. When goals are complementary individuals try to achieve a balance between them. So, if one becomes more difficult to achieve, directly or via a change in conditioning variables, the agent will reallocate resources away from the relatively

easily attained goal to the relatively more difficultly attained goal to maintain a balance. The paths to the goals are adjusted given the new information, but not the goals themselves. But, if goals are strong substitutes the individual may find it best to concentrate on the relatively more easily achieved goal, thereby reducing the resources dedicated to the goal which is now more difficult to achieve. For goals that are strongly substitutable this could be seen simply as finding a better path to one permutation of the ultimate hoped for goal. As despair deepens, the agent's choice set shrinks: as the effort required to achieve anything rises and his resource endowment falls few, if any, goals remain achievable.

V Economic decisions when in despair

Suicide has been associated with despair since at least the first century AD. Suicide has also been seen to have economic causes, as analyzed by Hamermesh and Soss (1974), Marcotte (2003), Ludwig, Marcotte and Norberg (2009) and Campaniello, Diasakos, and Mastrobuoni (2012), among others, without reference to despair but with reference to an individual's psychological and/or mental health state. Hamermesh and Soss (1974) found that reductions in permanent income, perhaps as a result of unemployment, could cause a rational individual to value death as preferable to life and so choose to commit suicide. In their analysis, suicide is a rational choice that depends on expected income over one's remaining life, the cost of maintaining oneself and one's family at an acceptable level, and one's aversion to suicide. While their analysis does not, and is recognized not to, take all psychological pressures into account, it highlights some of the key economic variables that may impinge upon the choice. Marcotte (2003) examines attempted suicide as a cry for help which, if heard, leads to increased income, and Ludwig, et al. (2009) examines the negative

correlation between anti-depressant use and suicide. Finally, Campaniello, et al. (2012) analyze the effect of an amnesty on suicide rates in Italian prisons.

These analyses of suicidal behavior can all be captured in the goal-oriented preference model outlined above. Thus, when an individual's marginal disutility of effort exceeds the marginal benefit of effort to, for example, maintain self and family at an acceptable level, where all conditioning variables, such as his aversion to suicide, love of family as well as his existential/emotional state which makes imaging a future difficult and drains the individual of internal resources, are taken fully into account, the individual may choose to commit suicide. Attempted suicide as a cry for help loosens the individual's resource constraint making goal achievement more likely. This cry for help is consistent with Connor and Walton's (2012) and Hillbrand and Young's (2008) view that the despairing need and can benefit from external help, where this external help weakens the resource constraint, thereby making goal attainment possible. Anti-depressants may have much the same effect as they reduce clinical depression, which is comorbid with despair, and thereby increase the individual's resources by improving his psychological wellbeing without alleviating his despair. The effects of the anti-depressants may also change the conditioning variables such that goal attainment is perceived as less onerous. An amnesty provides hope to the hopeless (the incarcerated), again loosening the resource constraint while causing a change in the conditioning variables that would make goal attainment less onerous once one is released.

When suicide is chosen, either because it is the only goal generating a positive net benefit or because the future has no value, the individual may chose to leave this life quietly. However, he may also choose to leave this life in defiant display in an odd

inversion of Adam Smith's acknowledgement that fame, even after death, is a motivator (Ashraf, et al. 2005). This is because a public or dramatic suicide can bring attention to one's desperation and its causes and afford a positive, if posthumous, recognition of one's life (see Povoledo and Carvajal 2012, Waterfield 2012, and Vogt 2012), one's desperation, and the needs of one's family, who might, thereby, be cared for as a consequence of one's death. The situation of female suicide bombers is similar. In life they have no future and their continued existence can bring shame and burden to their families. In choosing suicide, martyrdom, their deaths bring honor and metaphorical riches to their families (Victor 2003). Finally, one can choose to leave this life in the company of one's family. Wilson, Daly and Daniele (1995) find that those made despondent by significantly reduced circumstances determine that not only is their life of no value, but that without them neither are the lives of their family members. Familicide is the only answer.

The behavior of the long-term unemployed, like that of the suicidal, may be better understood if considered through the lens of despair. Economists have long recognized that sustained unemployment can have severe adverse psychological as well as economic effects (see Goldsmith, et al, 1995, 1996a,b). While unemployment itself has been shown to be significantly important to an individual's wellbeing, it is not the loss of income, the narrowly economic, that accounts for its importance (Winkelmann and Winkelmann 1998, Clark and Oswald 1994, Blanchflower and Oswald 2004, Knabe and Ratzel 2011) but the nonpecuniary aspects of unemployment such as the social and psychological costs of unemployment, as first noted by Jahoda, et al. (1933). Subsequent studies show that long-term unemployment is strongly correlated with poor physical and mental health, social isolation, social exclusion, low self-esteem, low self-efficacy, low self-belief, loss of

identity, inability to act (to organize one's life, to search for a job), criminal behavior, alcohol and drug abuse, self-harm, and suicide (Cooper 2011, Stuckler, et al. 2011, Wanberg 2012, Proudfoot, et al. 1997, Goldsmith, et al. 1996a,b, Brenner 1976, Catalano, et al. 2011, Choudhry, et al. 2012).

Should some long-term unemployed individuals fall into despair, they may assess the marginal benefit of effort to achieve their heretofore sought complementary goals/identities of being gainfully employed and adequately maintaining their family and their social relationships as less than the marginal cost for any feasible level of effort. This diminution/destruction of goals/identities could be because conditioning variables, such as one's emotional/existential state (Pfister and Böhm 2008), which is affected by both endogenous and exogenous forces, and societal mores that individually apply (Kaplow and Shavell 2007), have changed. As a result the relevance of and the preference ordering over goals is altered, the cost of effort, and thus goal attainment, is increased as the ability to act atrophies, and the society of which, as a member of the long-term unemployed, one feels a part is changed from that of the mainstream to that of the marginalized. Now attainable identities could include identities completely dominated when employed or when one aspires to be or again to be employed.

For those long-term unemployed in a state of despair, active labor market policies to address long-term unemployment evaluated by Card, et al. (2010) that are designed under the assumption that the unemployed are rational, discounted utility maximizing agents may be doomed to failure. Although the now unemployed, rational agent would take the exogenous state of nature and the requirements of the labor activation policies as given, optimize his lifetime utility, and prove the labor activation policies a

success, this would not be the case for the despairing. Ignoring unemployed agents' emotional/existential and marginalized state in the design of policy can impede policy effectiveness precisely when it is most necessary that the policies succeed as in the current Great Recession or in response to technological displacement (Frey and Osborne, 2013). While not all unemployed, even Gielen and Van Ours's (2012) unhappy unemployed, despair, those who do heavily discount the future, perceive the cost of (all) effort as high and perceive the returns as negligible. For these unemployed a good job, a goal to which they aspire, may not be worth the effort to try to get or to keep simply because the marginal cost of obtaining and keeping the job overwhelms the marginal benefit, or, similarly, that their resources are insufficient to obtain the goal thus removing it from their choice sets.

Consider the following components of many labor activation programs: retraining/upskilling, a temporary job, wage insurance. Job training, upskilling, and temporary job placements are standard elements of labor activation programs designed specifically to return the long-term, generally structurally, unemployed to the labor market. Any or all of these could be evaluated as generating negative net benefit by the despairing individual (high cost/low returns of effort), and thus would not be freely chosen. However, they are often mandatory as a condition of receiving social welfare payments and can deepen despair (Mazzerole and Singh 2002) and further undermine the willingness to undertake the training (Titmuss 1970, Frey and Oberholzer-Gee 1997). Here the failure to recognize the unemployed individual's skills, perhaps now technologically obsolete but previously the foundation upon which his earnings were based, and the make-work (charity) interpretation of the temporary job can re-emphasize the individual's loss of status, signal that the individual is no longer a member "in good standing" in society, fail to recognize the

individual's previous contributions to that society and thereby weaken the ties to the mainstream society implicitly strengthening ties to other more marginal social grouping. That is, the policies can effectively change the conditioning variables upon which the costs and benefits of taking specific actions are determined. Policies can push individuals out of the labor force even though their intention is to pull them in. Providing wage insurance to ease the transition to a lower-wage job for a worker may, again, change the conditioning variables by reinforcing the despairing individual's feeling of worthlessness and reducing his strength of commitment to mainstream society (contra LaLonde 2007) rather than having the desired salutary effect in part because to be in receipt of the wage insurance one needs to have a job when the net marginal benefit of obtaining that job may be perceived to be negative.

For policies to be effective in helping those unemployed who are in despair, they need to be designed taking into account that the cost of effort to the unemployed may be much higher and the benefit much lower than one would assume if the unemployed agent were a typical rational, utility maximizing agent. Policy makers must recognize that an individual's effort requires emotional, psychological, spiritual, intellectual and economic resources, where these resources may be significantly constrained, and valuations of costs and benefits are conditioned on/by the individual's emotional/existential state, his perception of his place in (not in) society, and his hopes and aspirations. These considerations apply not only to the unemployed, but also to the homeless, whether on the street (Wolch, Dear and Akita 1988) or in institutions, such as nursing homes, that are not home (Carboni 1990), and to discouraged workers and those discriminated against as a result of race, class, family background and/or place of residence (Bjørnstad 2006, Körner, Reitzle and Silbereisen 2012, Heslin, Bell and Fletcher 2012, Atkinson and Kintrea 2004)) who

also despair. For policies to be effective the person in society, rather than the hypothesized agent, must be at the center of policy design.

VI Conclusion

By examining individuals in despair, understanding how despair affects their available resources, their valuations of the costs and benefits of effort aimed at achieving their desired identities, and their ability to plan for or conceptualize a future, it is possible to adapt our thinking, our models and our policies to account for despair. This analysis suggests, more broadly, that the individual's emotional/existential state affects nontrivially the individual's resources, valuations, rate of time preference, and, thus, decisions. Recognizing this in our analyses does not require that we abandon our assumption of rationality; rather it requires that we develop a more nuanced conception of rationality. We should, as economists, be able to model better the individual, in isolation or in society, and design better policies to improve that individual's lot. We need not despair.

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