



# Can having internal locus of control insure against negative shocks? Psychological evidence from panel data



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## ABSTRACT

We investigate whether the intensity of emotional pain following a negative shock is different across the distribution of a person's locus of control – the extent to which individuals believe that their actions can influence future outcomes. Using panel data from Australia, we show that individuals with strong internal locus of control are psychologically insured against own and others' serious illness or injury, close family member detained in jail, becoming a victim of property crime and death of a close friend, but not against the majority of other life events. The buffering effects vary across gender. Our findings thus add to the existing literature on the benefits of internal locus of control.

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## 1. Introduction

A rapidly growing literature in economics is highlighting the importance of non-cognitive skills in determining economic choices and behaviors. The overall consensus among these studies is clear: Measures of non-cognitive skills such as the Big Five personality traits (conscientiousness, extraversion, openness to experience, emotional stability, and agreeableness), creativity, and self-esteem are important predictors of many successful educational and labor market outcomes, including highest completed education level, productivity in the labor market, retention rates, and wages (see, e.g., [Barrick and Mount, 1991](#); [Salgado, 1997](#); [Bowles et al., 2001](#); [Heckman et al., 2006](#); [Heineck, 2011](#)).

In this paper, we focus our attention on one specific non-cognitive skill: locus of control. Locus of control represents a person's generalized attitude, belief, or expectancy regarding the nature of the causal relationship between his/her behavior and its consequences ([Rotter, 1966](#); [Lefcourt, 1976](#)). The distinction is typically made between “internal” locus of control – that is, the belief that much of what happens in life stems from one's own actions – and “external” locus of control – that is, the belief that events in one's life are outcomes of external factors (e.g., fate, luck, other people) and are therefore beyond one's control.

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Empirical evidence that documents the benefits of internal locus of control is now becoming well established in the labor market literature (for a review, see [Cobb-Clark, 2015](#)). Studies in this area have shown that people who have internal locus of control tend to invest more in human capital accumulation than people with an external locus of control, because the former's expected return to human capital investment is higher ([Coleman and DeLeire, 2003](#)).<sup>1</sup> People with internal locus of control also tend to live a healthier lifestyle through healthier diets and exercise ([Cobb-Clark et al., 2014](#)), save more money for “rainy days” ([Cobb-Clark et al., 2013](#)), invest more time to stimulate cognitively their children ([Lekfuangfu et al., 2014](#)), and hold riskier assets ([Salamanca et al., 2013](#)). Another interesting and important property of internal locus of control is grit or perseverance in the face of adversity. For example, evidence is emerging that people who have internal locus of control tend to continue employment following a health shock ([Schurer, 2014](#)) and search for a job more intensively when unemployed ([Caliendo et al., 2015](#); [McGee, 2015](#)).

The current study contributes to the literature on locus of control by investigating whether an individual's belief about the ability to control future outcomes has important implications for the individual's psychological resilience against negative shocks. According to the world-leading scholar on resilience George [Bonanno \(2004\)](#), psychological resilience can be defined as the ability of individuals

in otherwise normal circumstances who are exposed to an isolated and potentially highly disruptive event such as the death of a close relation or a violent or a life-threatening situation to maintain relatively stable, healthy levels of psychological and physical functioning . . . as well as the capacity for generative experiences and positive emotions. (pp. 20–21)

The potentials for humans' psychological resilience are important not only to psychologists but also to economists and judges. Knowledge of the extent to which people are psychologically insured against various adverse life events can, for example, improve the way that compensatory damages (or the level of compensation for a bad life event due to negligence) are calculated in the courts of law ([Oswald and Powdthavee, 2008](#)). It can also help improve the accuracy of many existing cost-benefit models that take into account people's subjective experiences (see, e.g., [Kahneman and Sugden, 2005](#); [Dolan and Kahneman, 2008](#)).

However, although Bonanno and colleagues have been able to show that an average person is remarkably resilient across various adverse life events, including bereavement ([Bonanno et al., 2002](#)), sexual assault ([Bonanno, 2013](#)), and surviving a terror attack ([Bonanno et al., 2005](#)), more remains to be understood about the heterogeneity and the determinants of the heterogeneity that forms the average ([Bonanno, 2005](#)).

We hypothesize that people who hold a generalized belief that they are in control of their own future suffer less psychologically from a negative life shock than people who believe that they are unable to influence events affecting them. In other words, we believe that internal locus of control acts as a psychological buffer against many negative events that take place in our lives, including the death of a loved one and job loss. Using a unique longitudinal dataset from Australia, we are able to show that many life events are detrimental to our life satisfaction and mental health. However, for some life events – for example, becoming seriously injured/ill or becoming a victim of physical violence – the negative effects associated with these life events are significantly smaller for individuals with a strong internal locus of control.

## 2. Background literature

### 2.1. Psychological resilience and hedonic capital

Over the last two decades, George Bonanno and his colleagues at the Loss, Trauma, and Emotion Lab have almost single-handedly dominated the field of research of people's propensity for psychological resilience (for a recent review of progress, see [Southwick et al., 2014](#)). One of their long-standing research agendas is to empirically establish factors – which may be genetic, epigenetic, developmental, demographic, cultural, economic, or social – that determine psychological resilience and explain why some groups of people may be more resilient than others.

The econometric evidence of individual differences among emotional responses to negative life events is well established. For example, using a latent growth mixture model as an empirical strategy to identify heterogeneity in long-term stress responses, [Mancini et al. \(2011\)](#) report that approximately 59% of the people in their German sample scarcely experienced any emotional loss to the death of a loved one (i.e., their life satisfaction remained relatively high pre- and post-loss), whereas approximately 21% experienced a significant drop in their life satisfaction and then a gradual improvement toward the pre-loss level. In Mancini et al.'s study, 71% of the sample did not report any significant changes in their life satisfaction at the year of divorce, and only 19% experienced a moderate decrease in their subjective well-being. [Zhu et al. \(2014\)](#), using the Health and Retirement Study survey, report that 72% of people experienced zero or minimal depression symptoms prior to, and following, chronic pain onset.<sup>2</sup>

<sup>1</sup> One exception is a study by [Cebi \(2007\)](#), who does not find internal locus of control to be a significant predictor of educational attainment after cognitive ability is controlled for; however, she finds internal locus of control to be an important predictor of future wages.

<sup>2</sup> For more evidence, see [Galatzer-Levy and Bonanno \(2013\)](#), [Lotterman et al. \(2014\)](#), and [Orcutt et al. \(2014\)](#).

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