Abstract

Over the last decade, the study of noncognitive skills has been brought to the fore to shed new light on the explanation of human behavior, choices, and more broadly on economic and social success in life. This paper investigates the impact of an individual's level of locus of control, a concept commonly used in social psychology (Rotter 1966), on educational choices and wages. We show that more internal individuals, i.e. who believe that reinforcement in life comes from their own actions instead of being determined by luck or destiny, earn higher wages. However, the positive effect of a more internal locus of control only translates into labor income via the channel of education: once schooling is controlled for, the impact of locus of control on wages vanishes.

Many technical problems at stake in the study of noncognitive skills are commonly overlooked. Usual least squares approaches do not deal with problems of measurement error, endogeneity and reverse causality. In the wake of recent research led by Heckman and co-authors, we rely on factor structure models to tackle these shortcomings. We combine a sample of young adults who have not yet entered the labor market with a sample of working-age individuals. Producing identification of different parts of the likelihood using different samples, we are able to correct for potential biases which arise due to reverse causality and spurious correlation, and to investigate the impact of premarket noncognitive skills on later outcomes.

The data used for our analysis is retrieved from the GSOEP, a representative longitudinal micro-dataset providing a wide range of socio-economic information on individuals in Germany. The GSOEP is particularly well-suited for our analysis in that it allows us to exploit information on noncognitive skills and outcomes for various cross-sections of people of different ages.

JEL Classification: C31, J24, J31.
PsycINFO Classification: 2223, 3120.

Keywords: locus of control, wages, factor models, data set combination.