



Effects of positive attitude on happiness and wage: Evidence from the US data

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ABSTRACT

Using samples from the National Longitudinal Survey of Youth (1979), a longitudinal data set from the United States, this study demonstrates that the worker's positive attitude affects his/her wage not only directly, but also indirectly through its effects on happiness. Assuming endogeneity of the positive attitude variable and estimating happiness and attitude equations simultaneously by a two-step procedure, the study further finds the evidence that happiness also affects the worker's earnings both directly and indirectly. These findings suggest that any attempt to raise workers' earnings potentials should focus not only on the development of their human capital endowments, but also on improvement of their attitudes.

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1. Introduction

A long line of research on the effects of psychological capital on individual economic performance during the last two decades suggests that several psychological capital variables, such as self esteem, motivation, positive attitude, emotional stability etc. affect the worker's earnings positively (Goldsmith, Veum, & Darity, 1997; Groves, 2005; Heckman, Stixrud, & Urzua, 2006; Mohanty, 2009; Mueller & Plug, 2006; Nollen & Gaertner, 1991; Nyhus & Pons, 2005; Salgado, 1997; Waddell, 2006). Interestingly, these psychological variables in most studies not only assume statistically significant positive coefficients, but also have predictive powers higher than those of the standard human capital variables (Goldsmith et al., 1997; Mohanty, 2009; Nyhus & Pons, 2005), indicating the importance of these variables in the estimation of wage equations. Recently, another important line of research by economists and psychologists examining the relationship between happiness and income finds the evidence that the worker's happiness indicated by the satisfaction with current life affects his/her earnings positively (Graham, Eggers, & Sukhtankar, 2004; Hermalin & Isen, 1999; Iaffaldano & Muchinsky, 1985; Mohanty

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& Ullah, 2009; Warr, 2003).¹ While recognizing the role of traditional human capital variables, these studies claim that happier workers by being more productive earn more than those who are unhappy.

It is important to note that the two major lines of research just mentioned in the above paragraph may, in fact, be related because some of the psychological capital variables, such as positive attitude, self esteem etc., are likely to affect the worker's happiness positively. Consequently, these variables may affect the worker's wage not only directly, but also indirectly through their effects on happiness. The current study focuses primarily on one such unique psychological capital variable, positive attitude, and demonstrates that positive attitude by enhancing happiness affects the worker's wage positively. The reason for focusing exclusively on this variable is its unique nature that distinguishes it from a host of other such psychological variables used extensively in the literature by different researchers. In fact, Mohanty (2009) considers "positive attitude" as a psychological *value* capital variable as distinguished from the general class of psychological capital variables because it represents a human value.²

Positive attitude is generally defined as a personal characteristic that enables an individual to approach different situations of life from a positive angle. It helps to cope more easily with the daily affairs of life, and makes it easier to avoid worry and negative thinking. A person with a positive attitude always sees the brighter side of every situation. Such a person concentrates on good aspects only with the conviction that whatever is going to happen will work out well. Developing and manifesting a positive attitude thus brings optimism into life and makes life happier. It is important, however, to note that true optimism, which is one of the visible indications of happiness in life, is simply an external manifestation of one's internal positive attitude,³ and consequently happiness of an individual expressed externally may be attributed to a large extent to his/her inner positive attitude. This argument has an interesting implication on the determination of the worker's wage rate. In the presence of the evidence that happiness has a positive effect on the worker's wage (Graham et al., 2004), it suggests that positive attitude may, in fact, affect wage not only directly as demonstrated by past researchers, but also indirectly through its positive effect on happiness. The current study tests exactly this hypothesis.

To test the hypothesis just mentioned, the current study uses data from the National Longitudinal Survey of Youth, 1979 (NLSY79), a longitudinal data set from the United States, that reports a unique variable on the worker's attitude in two different surveys: 1980 and 1987. Respondents in these surveys were asked to choose one from the four available options – "strongly agree," "agree," "disagree," and "strongly disagree" – in response to the statement, "I take a positive attitude toward myself." It is important to note that the self-reported psychological variables of this type, although unique, may be subject to measurement errors and therefore may be unreliable. Several researchers in the past, however, have already demonstrated that, although not perfect, these subjective variables do reflect to a large extent the respondent's true inner feeling (Diener, 1984; Veenhoven, 1993; Easterlin, 2001; Mohanty, 2009). In fact, Diener (1984, p. 551) claims that the "measures seem to contain substantial amounts of valid variance." The self-reported variable "positive attitude" may therefore be considered as a close proxy for the worker's true inner positive attitude. In the absence of information on any other reliable alternative measure of attitude that is completely free from measurement error (see the next paragraph), we consider the self-reported attitude variable as a useful instrument of the worker's positive attitude. Using a binary "positive attitude" variable obtained from the categorical attitude data reported in NLSY79 (see Section 3 for more on creation of this variable), the current study estimates wage and happiness equations under different econometric specifications and confirms that positive attitude affects the worker's earnings not only directly but also indirectly through its direct effects on happiness.

While testing the hypothesis mentioned in the above paragraph, the current study differs from the earlier research in several different ways. First, unlike most of the earlier studies which used continuous psychological capital variables generated from an arbitrary number of related variables (Goldsmith et al., 1997), the current study uses self-reported binary psychological variables obtained directly from the data set, and thus it avoids the arbitrariness associated with the number of variables used in creating such variables and their weights.⁴

Second, several studies in the past have examined the direct effects of attitude variables on the worker's wage (Goldsmith et al., 1997; Groves, 2005; Waddell, 2006). None of them to the knowledge of this author, however, has estimated their indirect effects on earnings. As examined in the above paragraphs, a psychological capital variable like positive attitude is very likely to influence the worker's wage indirectly through other variables that affect wage directly. In fact, Mohanty (2009) in a different context has already shown that positive attitude affects the worker's wage indirectly through its effects on his/her years of schooling. The current study focuses on a different channel, happiness, through which positive attitude can affect the worker's wage indirectly. This study thus extends the recent research on the effects of attitude variables on wage to a new direction.

¹ Although several other researchers claim the presence of a reverse causation between wage and happiness, this relationship is found to be weak, especially over the life cycle of an individual (Easterlin, 2001; Frey & Stutzer, 2002; Oswald, 1997).

² A human value is a personal characteristic that is valued by the society as a desirable quality of an ideal human being. The social desirability of this quality distinguishes it from other desirable personality traits that may be beneficial to the individual but not necessarily to the society (Mohanty, 2009). For example, self-esteem based on one's physical beauty may benefit the individual but not necessarily the society. Such a psychological characteristic cannot therefore be considered as a human value.

³ It is important to note that temporary optimism as distinguished from true optimism is not necessarily a product of positive attitude. Optimism of this type is based on wishful thinking, unreasonable expectation and lack of proper knowledge. It disappears as soon as the ignorance is dispelled, and cannot therefore be considered as true optimism that originates from one's internal positive attitude.

⁴ Although there are some advantages of using continuous psychological variables, they suffer from the arbitrariness associated with generating them from a number of other variables and assignment of their weights. Such variables cannot therefore be free from measurement errors completely.

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