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Factors Shaping Labour Market Participation

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Abstract: Like other postmodern structures, post-industrial labour markets display more frequent and rapid changes and higher unpredictability. In these conditions, the world of work is less capable in providing individuals stable signals for the construction of their behaviours. This paper aims to examine both macro and micro factors that shape labour market participation and expectations related to employment outcomes. We explore statistical data from the World Values Survey Wave 7 (2017-2020) collected from almost seventy thousands individuals around the world. Focusing on subjective evaluations of expected employment outcomes, our results are relevant for better understanding labour market participation from a postmodern perspective.

Keywords: *Labour market participation; employment outcomes; work-related expectations; World Values Survey.*

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1. Introduction

Like other postmodern structures, post-industrial labor markets display more frequent and rapid changes and higher unpredictability. In these conditions, the world of work is less capable in providing individuals stable signals for the construction of their behaviors. According to Weber's vision, macro phenomena should be explained by linking them with individual actions, which should be explained with reference to the subjective states that motivate the individuals. Subjective aspects are important determinants of economic and social phenomena.

This paper aims to examine factors that shape labour market participation with reference to individuals' expectations related to employment outcomes. We explore statistical data from the World Values Survey Wave 7 (2017-2020) collected from almost seventy thousand individuals around the world. The aim of this paper is to study the link between beliefs regarding the benefits of hard work and micro and macro level factors. Focusing on subjective evaluations of expected employment outcomes, our results are relevant for better understanding labour market participation from a postmodern perspective.

The link between education and labour market participation is in the center of many theories. The theory of human capital argues that people choose to invest in themselves through education, training or other activities, which increase their chances of getting a better job and higher future income (Woodhall, 1987; Becker, Murphy & Tamura, 1990). Adam Smith argues that education is a form of investment in human capital that increases the productive capacity of workers, as is the investment in physical capital that increases the production capacity of the factory by purchasing new machinery or other useful equipment (Woodhall, 1987).

Screening Theory is based on the idea that employers scan the qualities of potential employees (diplomas, previous experience, resumes etc.) and depending on how profitable their hiring is (investment), they decide to hire them or offer them a certain salary. Stiglitz (1975) emphasizes that this process of recruiting employees leads to a remuneration structure for individuals depending on the level of education and depending on how much information their credentials hold (useful qualities that the employer wants).

Signaling Theory comes as a complement to the previous theory and claims that people give certain signals about themselves at the moment of hiring such as the characteristics or skills they possess (credentials, experience, race, gender, etc.) (Bills, 2003). Both theories promote the idea

that employers capitalize accreditations because they signal certain specific skills.

Control Theory, developed by Bowles and Gintis (1976) proposes a conflictualist approach to the relationship between schooling and economic production that argues that school does not offer as much cognitive skills as it educates the individual to conform, to be docile and punctual, so as to carry out their tasks and ensure that they keep their jobs. This type of education is specific to underprivileged individuals, leading to inequalities between them and people with more resources and privileges. Credential Theory (Collins, 1979), is based on the idea that employers use qualifications/ credentials (such as degrees) as selection tools, filters in the hiring process, where educated people have a monopoly on the labor market and prevent access to less "trained" individuals. Thus, the credential theory is a critique of the functionalist view of the education system.

2. Literature review

With the evolution of the society, the number and intensity of factors that influence participation of individuals to the labor market have increased, most of the changes in the labor force participation rate in the last three decades being related to socio-demographic factors, but also to economic conditions and fiscal policies. Although socio-demographic factors play an important role in labor market participation, economic conditions and fiscal policies also influence labor force participation, given that the changes that occur in the state of the economy and those related to fiscal policies have been associated in time with fluctuations in the participation of the individuals on the labor market (Burk & Montes, 2018).

Under normal economic conditions, when the economy does not suffer too many disparities, labor market fluctuations are normal, but when the economy goes through a period of crisis and the recession sets in, visible changes appear on the labor market. During the recession can be noted a declining trend in the participation of individuals on the labor market, whereas during this period of economic weakness the lack of opportunities on this market discourages individuals seeking employment because they believe that they will not find and at the same time encourages them to devote themselves to other activities such as caring for a family member, this effect being able to be visible even a few years after the end of the crisis that caused it (Burk & Montes, 2018). Also, the unfavorable economic conditions that exist at the time of a potential entry into the labor market decrease the opportunity cost of accumulating more years of study, which leads to the

postponement of entry into the labor market of individuals who will reorient to continue education and improvement of skills, that will result in an increased level of education among the young people in the post-recession period (Stevens, 2008; Hotchkiss & Rios-Avila, 2013). This choice of young people comes against the backdrop of increasingly fierce competition on the labor market, which makes it more difficult to find a job during economic downturns (Mosisa & Hipple, 2006).

In the short run, the labor force participation rate is procyclical, increasing during economic expansion when more individuals enter on the labor market because jobs are easier to find and decreasing during recessions because individuals leave the labor market in the absence of sufficient number of opportunities (Mosisa & Hipple, 2006). Therefore, the labor force participation rate tends to decrease during economic crises and to increase again in the periods when the economy returns to its pre-crisis state (Burk & Montes, 2018).

A high level of education improves the prospects of finding a better job, but also the possibility to remain employed in times when the economy is going through a harder period, so most modern economies develop policies to stimulate further education until the highest possible level by those with a low level of education (Edzes et al., 2015). A major benefit of education on the labor market is a low risk of unemployment among those with higher education, who benefit from at least three advantages on the labor market than their less educated counterparts: higher wages, higher upward mobility of income and employment as well as greater stability on the labor market (Mincer, 1991).

Although education is important, it is not the only condition for individuals to enjoy very good results on the labor market, the existence of opportunities for highly qualified people also require a well-functioning economy with macroeconomic stability, an attractive investment climate, an efficient labor market as well as other factors that positively influence the evolution of the economy and the labor market (Aceleanu, 2012).

The human capital theory gives us the insight that high educational attainment has a positive effect on labor market participation (Becker, Murphy & Tamura, 1990). Furthermore, educational attainment has a positive influence on personal earnings and quality of life. Therefore, as research in this field suggests, higher educational attainment increases the probability of being employed (OECD, 2020). Besides educational attainment, the labor market participation may differ depending on other socio-demographic characteristics such as gender, age, race, ethnicity, marital status, children in the household, immigrant status.

Previous studies have found that the labor market participation rate is different between men and women. In OECD countries, regardless of educational attainment, the employment rate for women is lower than the rate for men (OECD, 2020). The gender difference in participation rate decreases as educational attainment increase (Ibid.). Grigoli, Koczan, and Topalova (2018) observed that tertiary education doubles the probability of being active in the labor market compared to having only upper secondary education. Their analysis indicated that the positive effect of tertiary education on participation is somewhat larger for women than for men (Grigoli, Koczan, & Topalova, 2018). Although there is a difference in participation rates between women and men, Grigoli, Koczan, and Topalova (2018) showed in their paper that over time participation rates among women have increased and among men have decreased. Regarding the part-time work, the higher a person has a level of education, the lower the probability of working part-time or part-year. However, regardless of educational attainment, women tend to be twice more likely to participate in part-time or part-year employment than men (OECD, 2020). Marital status can influence a person's participation in the labor market. Among males, marriage has a positive effect on labor market participation, and among females, it has a negative effect (Grossbard-Shechtman & Neuman, 2003). Parental status. The presence of children in a household can influence the probability of participating in the labor market. As in the case of marital status, among women, the presence of children is negatively associated with participation in the labor market, and among men, the presence of children is positively associated with participation in the labor market (Grigoli, Koczan & Topalova, 2018, Salma et al., 2008). Similarly, a higher number of children is negatively associated with labor market participation among women and positively associated with labor market participation among men (Ibid).

At different moments in the life-course, a person has a different probability of having a job, indicating that age plays a significant role in the chances of participating in the labor market. An analysis among OECD countries shows that regardless of the level of education, the employment rate is the lowest among people aged between 55-64 years old (Grigoli, Koczan, and Topalova, 2018). Concerning the evolution over time of the employment rates, Grigoli, Koczan, and Topalova (2018) observed that the elderly have started to stay longer on the labor market in recent years, while participation rates among young people have decreased dramatically in recent years.

Living in urban or rural areas can influence labor market participation. As Grigoli, Koczan and Topalova (2018) showed in their research, living in urban areas positively influences the increase in labor market participation rates. Labor market participation is higher in urban areas because they provide access to a more diverse labor market with more opportunities (Grigoli, Koczan & Topalova, 2018, 2020), but also because there is a higher diversity in the available educational programs.

3. Methodology

To evaluate the macro and micro factors that influence individuals' participation in the labor market, we used secondary data analysis to explore the data collected through the World Values Survey - Wave 7 (2017-2020). The data were gathered through a questionnaire from approximately seventy thousand individuals from a wide variety of countries.

We develop a logistic model aiming to explain the dependent variable "Expectations on the benefits obtained from labor market participation" ("Success: hard work vs luck" in the Variables Report of the World Values Survey - Wave 7). We recoded the initial variable in a binary variable (taking the value 1 for respondents who believe that "In the long run, hard work usually brings a better life" and the value 0 for individuals who believe that "Hard work doesn´t generally bring success - it´s more a matter of luck and connections").

The dependent variable of interest is a proxy indicator for the subjective state of individuals that shapes their participation on the labor market: beliefs and expectations about the potential benefits associated with work. The independent variables introduced in the model include both micro level factors captured at the individual level, as well as macro factors captured at the national level.

4. Results

Two-thirds of respondents believe that, in the long run, hard work usually brings a better life. The micro factors that influence individuals' expectations about the benefits obtained through work are the level of education, gender and age. First, higher levels of education are associated with significantly stronger beliefs in the benefits of work. Thus, both individuals with post-secondary education and those with higher education are more convinced by the link between work and quality of life, compared to those with a low level of education. Controlling for differences in sex, age, income and macro factors related to social and economic development,

holding post-secondary education (ISCED 4) increases the likelihood of having stronger beliefs in the benefit of work by 1.096 times in comparison with holding primary education. Similarly, having higher education (ISCED 5-8) increases the likelihood of having stronger beliefs in the benefits of work by 1.123 times. On the other hand, compared with the reference category of holding primary education, holding secondary education does not influence significantly beliefs about the benefits of work.

Also, women are less convinced of the possibility of having access to a better life through the work they do, compared to men. Therefore, being a man increases the likelihood of believing that hard work brings a better life by 1.054 times. On the other hand, aging is associated with a stronger belief in the benefits of work. For, every one-year increase in age, the likelihood of having stronger beliefs about the benefits of work increases by 1.002 times. The influence of these micro factors is significant when the contextual characteristics captured by the macro factors are kept constant.

Regarding the macro factors, significant influences are generated by: the level of income at the national level (income WB), the level of unemployment, social inequality (gini WB) and the share of the urban population. Thus, in more developed countries with a higher average income level, individuals expect a stronger relationship between work and quality of life, compared to low-income countries. Individuals from countries with lower middle income and high income are more likely to believe in the benefits of hard work. In the first case (lower middle income), the likelihood of having strong beliefs about the benefit of hard work is 1.363 times higher than those individuals from countries with lower income. In the second case, being from a country with high income increases the likelihood of having positive beliefs about the benefits of work by 1.221 times.

Also, the higher the level of social inequality at the national level, the more convinced individuals are that sustained work ensures a better life. Therefore, for every one unit increase in the country inequality (measured through the Gini index on a scale from 1 to 100) the likelihood of having stronger beliefs about the benefits of work increases by 1.031 times. This can be explained by relating the dependent variable to meritocratic beliefs about work and the so-called "paradox of inequality" (Mijs, 2019) where people from more unequal societies are more likely to believe in the benefits of hard work for succeeding in life because of some structural factors such as "housing segregation, school stratification and social homogamy" (Mijs, 2019, p. 6).

On the other hand, the higher the level of unemployment at the national level, the lower the expectations about the benefits of participation

in the labor market on the quality of life. As the unemployment rate increases in a country, the likelihood of having a positive attitude about the benefit of work decreases slightly (by 0.95 times). Last but not least, in countries with a higher share of the urban population, individuals have lower expectations regarding the relationship between sustained work and quality of life. So, as the percent of the urban population increases in a country, the likelihood of having a positive attitude about the benefits of work decreases slightly by 0.99 times.

Table 1. Results of the logistic regression for explaining the variable "Expectations on the benefits obtained from labor market participation"

Variable	Sig.	Exp(B)
Educ (ISCED 1=ref.)	.000	
Educ (ISCED 2-3)	.271	1.028
Educ (ISCED 4)	.004	1.096
Educ (ISCED 5-8)	.000	1.123
Sex (Male)	.004	1.054
Age	.000	1.002
incomeWB (low=ref.)	.000	
incomeWB (lower middle)	.000	1.363
incomeWB (upper middle)	.260	1.069
incomeWB (high)	.004	1.221
giniWB	.000	1.031
unemploytotal	.000	.959
urbanpop	.000	.991

Note: Nagelkerke R Square: 0.028
Source: Authors' own conception

Our work complements results of previous analysis on earlier waves of the World Values Survey showing powerful links between socioeconomic variables and belief systems across societies (Inglehart, 1997). Our contribution is related to the fact that we use secondary data analysis in order to explain variation in beliefs regarding the benefits of hard work in

relation to individual and country-level factors. Meritocratic beliefs about work are more present among those who have access to higher labour market returns: better educated and more experienced individuals, living in developed countries, with higher inequalities and urban agglomerations.

5. Conclusions

This article analyzed factors shaping labour market participation from postmodern perspective. Special attention has been given to subjective aspects that motivate individual actions that explain macro phenomena such as employment rate. We found that both micro and macro characteristics influence individuals' beliefs regarding the link between hard work and better life prospective.

Our results support previous theories stressing the influence of educational attainment on labour market participation. Along education, gender and age of individuals are important predictors of employment outcomes expectations. Along with micro factors, contextual factors influence the decisions and behaviors of individuals in relation with the labor market. Subjective aspects are relevant for explaining labor market participation.

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