

Individualism, Human Capital, and Labor Market Outcomes

Katharina Hartinger
KU Eichstätt-Ingolstadt

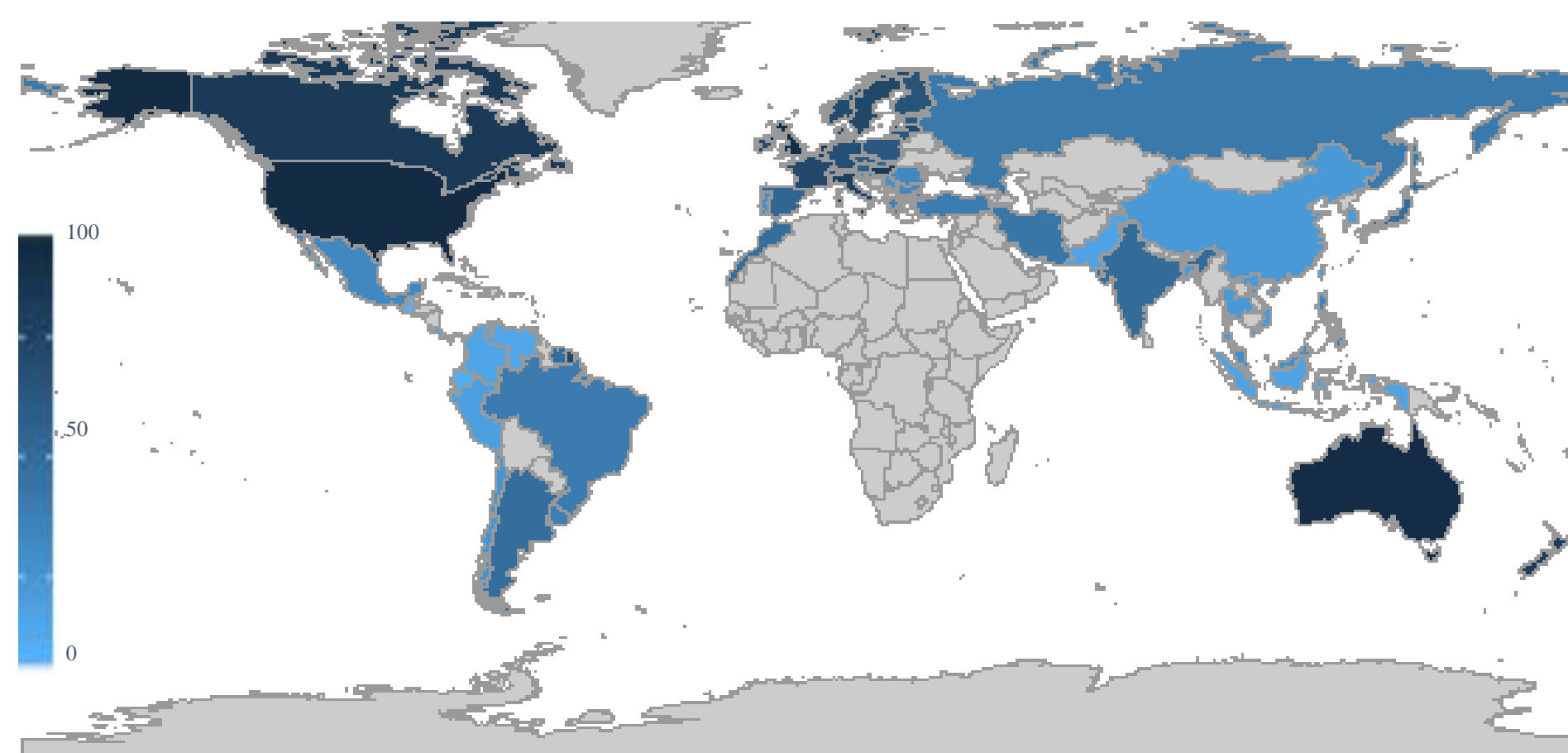
Sven Resnjanskij
ifo Institute at the University of Munich

Jens Ruhose
Kiel University

Simon Wiederhold
KU Eichstätt-Ingolstadt

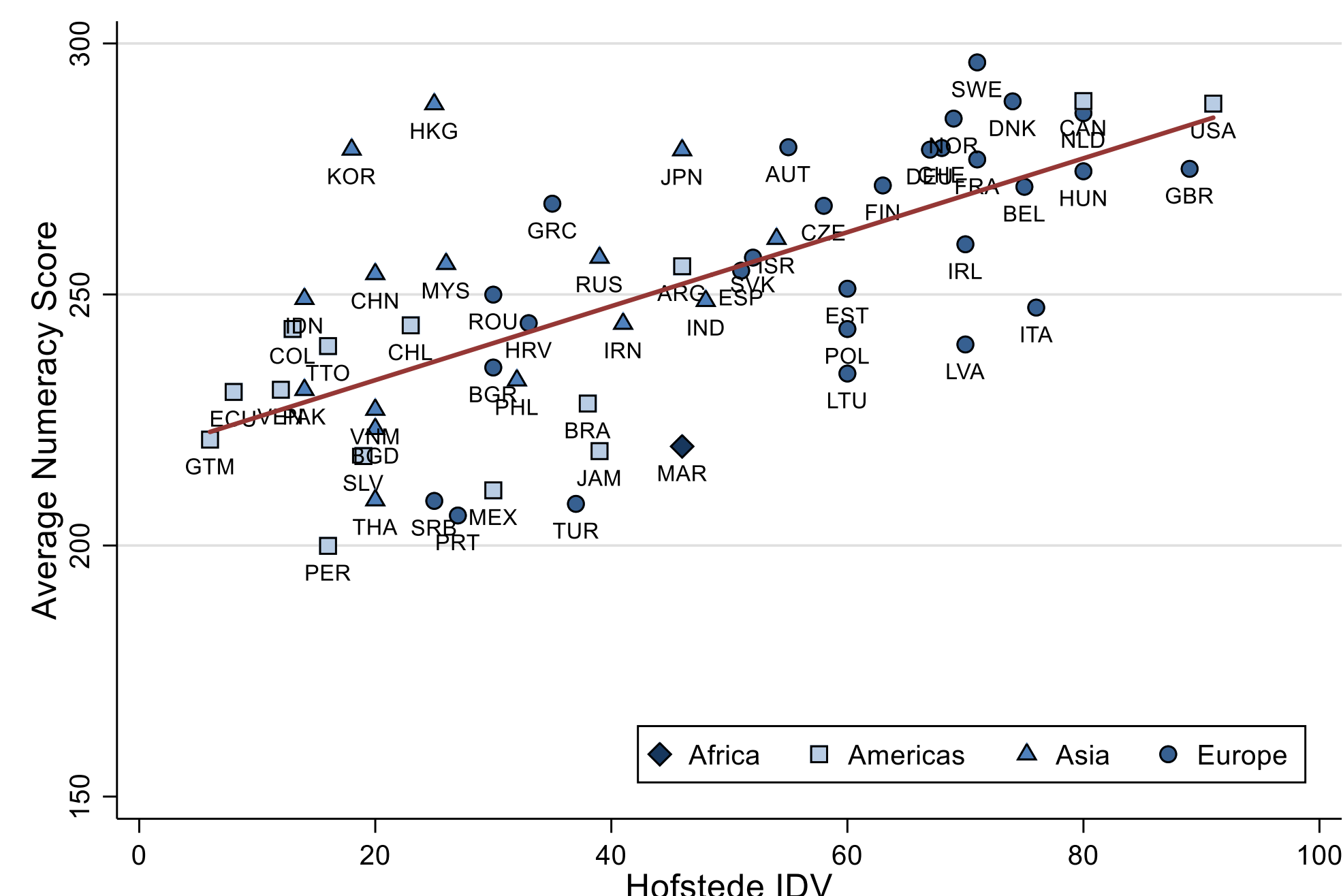
Overview

- The importance of family background for explaining the persistence in economic and educational inequality is undisputed.
- There is little evidence on the role of cultural values passed on from parents to their children for educational and labor-market outcomes.
- We investigate the relationship between individualism (IDV) - a cultural trait that values personal achievement and self-fulfillment - and human capital formation as well as labor-market success.
- Using multiple complementary estimation strategies to disentangle the role of culture from other factors in the institutional and economic environment, we find a statistically and economically significant positive effect of individualism on educational and labor-market outcomes.



Individualism – as measured by Hofstede (2001) – around the world.

Results from the Epidemiological Approach



b. Individualism and Numeracy (First-Gen Migrants)

- A descriptive analysis of the raw data suggests that higher IDV is associated with higher average numeracy skills at the country level. IDV explains 40% of the international variation in numeracy skills for first-generation migrants.
- The relationship looks very similar for natives as well as second-generation migrants, for whom we infer the IDV score from their first language learnt in childhood (work in progress).

The Economic Argument

- Individualistic societies reward independence, challenge, personal success, uniqueness and innovation rather than conformity and embeddedness (Hofstede 2001, Gorodnichenko & Roland 2017).
- Individualists strive for self-fulfillment and freedom (Oyserman et al. 2002). Their desire for continuing personal and professional development should lead to higher investments in education and career outcomes.

Empirical Approaches

Challenge: Disentangle culture from institutional and economic environment.
→ While it is not possible to change culture experimentally, we can use complementary approaches that rely on different identifying assumptions.

Epidemiological Approach (Main Approach)

- Migrants take their original cultural toolkit to the destination country → compare migrants from different origin countries within the same destination country assigning each migrant the origin-country IDV level.

$$NUM_{iydo} = \beta_0 + \beta_1 \overline{IDV}_o + X'_{iydo} \gamma + X'_{yo} \omega + \mu_d \times \mu_y + c_o + u_{iydo}$$

Exploiting Individual-Level Variation in Individualism

- Using an IDV measure that varies at the person level allows us to exploit variation between migrants from the same origin country.
- Using the personal IDV measure, we can also focus on natives, which are free of any migration-related concerns.

Value-Added Approach

- To account for unobserved person-level factors that are constant over time, we exploit skill panel data from Germany to estimate the effect of IDV on skill growth.

Data

- PIAAC - Programme for the International Assessment of Adult Competencies, administered by the OECD in 2011/2012:
 - Cognitive skills are measured in a standardized and culturally neutral ways across countries.
 - Rich information on labor-market outcomes for adults – we cover the whole lifecycle and are not limited to formal education.
 - IDV effects could be country-specific – the international analysis allows us to analyze many destination countries on different continents.
- Main IDV measures used in our analyses (all z-standardized):
 - Country-level measure from Hofstede (2001), based on international firm surveys from the 1970s
 - Newly constructed person-level IDV measure based on PIAAC's background questionnaire

Human Capital

- We find a substantial impact of IDV on educational attainment, worker training, and cognitive skills. For instance, a one-standard-deviation increase in IDV increases numeracy skills by almost 30% of a standard deviation.

	(1)	(2)	(3)	(4)	(5)	(6)
	Years of education	University degree	Training on-the-job	Any other training	Training to increase knowledge	Numeracy Skills
Hofstede IDV	0.627*** (0.140)	0.073*** (0.013)	0.034*** (0.007)	0.047*** (0.006)	0.025** (0.010)	0.295*** (0.048)
Covariates	Yes	Yes	Yes	Yes	Yes	Yes
Fixed effects						
Migration-year-specific destination country	Yes	Yes	Yes	Yes	Yes	Yes
Continental	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.37	0.28	0.16	0.17	0.25	0.25
Observations	15,396	15,558	15,151	15,151	5,480	15,594
Origin countries	68	68	68	68	68	68

- Results are strikingly similar across all empirical approaches.
- Results of the epidemiological approach also hold for second-generation migrants.
- IDV-induced post-education behavior – such as reading or participating in training – explains a meaningful share of the skill effect of IDV.

Labor-Market Outcomes

- The positive IDV impact on human capital formation carries over to the labor market. For instance, a one-standard-deviation increase in IDV increases wages by 8.7%.
- In line with theoretical predictions, challenge-seeking individualists are more likely to choose research-oriented occupations and jobs with a high level of abstract tasks.

	(1)	(2)	(3)	(4)
	Log hourly wage	Unemployed	Research occupation	Abstract task
Hofstede IDV	0.087*** (0.012)	-0.018*** (0.004)	0.023*** (0.006)	0.160*** (0.028)
Covariates	Yes	Yes	Yes	Yes
Fixed effects				
Migration-year-specific destination country	Yes	Yes	Yes	Yes
Continental	Yes	Yes	Yes	Yes
R-squared	0.90	0.17	0.17	0.26
Observations	8603	11953	10601	10577
Origin countries	67	68	68	68

Robustness

- Effect of IDV is robust to controlling for other cultural concepts (e.g., long-term orientation, patience, trust, and risk-taking).
- Results are also robust when we use alternative IDV measures (e.g., Globe, Kashima & Kashima).
- Accounting for migration costs by controlling for geographical, genetic, and linguistic distance between origin and destination country as well as origin country characteristics does not change the results.
- Results are also robust when we isolate the time-stable component of individualism by using a gene-based instrumental variable approach.