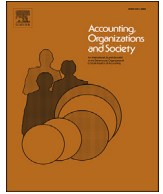




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Margin of safety: Life history strategies and the effects of socioeconomic status on self-selection into accounting[☆]

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ABSTRACT

We use experimental and archival evidence to show that people who had low socioeconomic status (SES) as children participate in the U.S. accounting labor market in distinctive and consequential ways. Drawing on *life history theory*, we predict and show that low SES individuals select into accounting at disproportionately high rates relative to other fields, an effect driven by accounting's relatively high job security. Supplemental tests are consistent with these low SES individuals being a source of high quality human capital for the accounting profession, as low SES individuals selecting into accounting possess desirable attributes at relatively high rates. From a social perspective, we provide theory and evidence consistent with accounting being an important and secure source of upward social mobility in comparison to other fields. However, recessions cause selection into accounting by low SES individuals to *decrease* at a higher rate than in other fields, compromising these professional and social benefits. For example, our evidence is consistent with the “low SES effect” improving gender diversity among entrants into the accounting labor market during good economic times. However, lower self-selection rates during recessions are particularly pronounced among low SES females, who may thus bear the brunt of lost professional and social benefits.

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1. Introduction

In this study, we predict and show that people who had low childhood socioeconomic status (SES)¹ participate in the U.S. accounting labor market in distinctive and consequential ways. Accounting careers are relatively secure in that they reward relatively high human capital investment with stable demand and returns (Bureau of Labor Statistics, 2015; Madsen, 2015). We draw on *life history theory*, which concerns the relationship between childhood poverty and adulthood preferences for security and

deferred rewards (Chisholm, 1993; Griskevicius et al., 2013), to predict that low SES individuals 1) disproportionately select into accounting relative to other fields, 2) possess attributes desired by the accounting profession, and 3) select into accounting at disproportionately lower rates than other fields during times of macroeconomic uncertainty. Using experimental and archival evidence, we find support for all three of these expectations.

Our theory and findings have important implications for society and for the accounting profession. The United States has low socioeconomic mobility relative to other OECD countries (Blanden, 2013; Mitnik, Bryant, Weber, & Grusky, 2015; OECD, 2010, chap. 5). Even public universities, which graduate many entry-level accountants, are marred by inequality (Chetty, Friedman, Saez, Turner, & Yagan, 2017). From a social perspective, our evidence suggests that selecting into accounting is an effective “ladder” out of poverty. Relative to other fields, accounting delivers high wages, low wage variability, and high job security, regardless of SES background, which facilitates upward mobility.

Our evidence further suggests that the accounting profession faces unique risks and opportunities in the intensifying competition for talent (ACAP 2008; AICPA 2013). Despite extensive research

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¹ Low SES is poor relative access to financial, educational, and social capital resources (Coleman, 1988). Our examination focuses on the effects of *childhood* SES, not a person's current SES as an adult. Throughout the paper, “SES” refers to childhood SES unless otherwise noted.

about accounting's outputs (e.g., reported earnings), little theory or data exists about accounting's human capital inputs. Understanding entry-level labor supply is critical for accounting due to its heavy reliance on young employees and early recruitment strategies (The Economist, 2014). Our theory and evidence suggest that this requires a nuanced understanding of the preferences of low SES individuals. Driven by preferences for security and long-term human capital returns, large numbers of talented low SES individuals select into accounting, which benefits the profession. However, this effect reverses during recessions, during which desirable low SES individuals disproportionately select away from accounting. Together, these findings suggest an opportunity for the accounting profession to attract talent by emphasizing the security and equal opportunity offered by accounting careers.

We test our research questions with multiple methods. For a controlled test of the underlying cognitive mechanism, we first conduct an experiment that measures upper-division accounting students' intentions to pursue a career in accounting, as opposed to less secure alternatives such as finance. Our choice of participant group biases against observing variation in intentions to enter accounting, as most participants have nearly completed accounting degrees and have already had one or more internships with accounting firms. Prior to measuring self-selection intentions, we actively manipulate cues of uncertain macroeconomic conditions by priming half the participants with a narrative about the effects of recessions, while the other half read a neutral prime (Griskevicius, Tybur, Delton, & Robertson, 2011). Following a neutral prime, intentions to self-select into accounting are greater among low, as opposed to high SES individuals. However, the recession prime decreases intentions to self-select into accounting among low SES individuals, but increases these intentions among high SES individuals. Consistent with our theorized mechanism, the self-assessed importance of job security in a profession mediates the joint effect of SES and macroeconomic uncertainty on intentions to self-select.

We next test our research questions using large-sample archival data to demonstrate that our theorized effects are broadly generalizable. We use data from the Higher Education Research Institute's (hereafter, "HERI") surveys on the demographics, degree choices, and families of millions of college freshmen in the US conducted over several decades. In some supplemental tests, we use a subset of HERI data describing college seniors. Earning an accounting degree is a relatively reliable predictor of entering the profession, as about 70% of accounting majors take accounting jobs after graduation (Madsen, 2015, p. 1124).² Consistent with our experimental results, accounting disproportionately attracts low SES individuals relative to non-accounting business fields and to all non-accounting fields.³ This effect holds among college seniors, as well. We also test this effect in recession years, as opposed to non-recession years. Consistent with our predictions, selection into accounting by low SES individuals decreases in recession years, and decreases more in accounting than in non-accounting business fields and all non-accounting fields.

Moreover, we conduct multivariate analyses that control for attributes desirable to the profession, such as diverse

demographics. We also gather input from a panel of partners and managers at multiple public accounting firms about attributes most likely to distinguish successful accountants, such as academic ability, motivation, and self-confidence. Our findings not only are robust to controlling for these attributes, but also show that low (as opposed to high) SES individuals selecting accounting possess some of these attributes at higher rates: exhibiting similar academic ability and motivation, but greater gender diversity, self-confidence, and writing ability. This is consistent with our theorized effect channeling quality human capital into the profession. This finding is encouraging for the profession and for social mobility, as other professional fields such as finance and law systematically exclude low SES individuals (Rivera, 2015).

However, our findings also show that recessions decrease low SES self-selection into accounting more than into other fields. Thus, uncertain economic conditions undermine accounting's positive social mobility effects and its positive human capital effects. In particular, our evidence suggests that the low SES effect may be particularly effective in improving gender diversity by attracting females from disadvantaged backgrounds to accounting. However, the recession effect also disproportionately decreases selection into accounting by low SES females. If low SES individuals benefit from selecting into accounting, then low SES females disproportionately miss these benefits during uncertain macroeconomic times. While the low SES effect facilitates upward social mobility, there may be a "gender gap" in its effects.

We next compare career outcomes in accounting to those in alternative fields. This analysis can both support our theory that accounting is a secure choice and test whether accounting delivers security for low SES individuals. We examine mean wages, wage variance, and unemployment in accounting versus other substitute fields using data from the National Survey of College Graduates (NSCG). The data reveal that accounting degrees deliver high mean salaries with low variance, and unemployment lower than in other fields. That is, if people select accounting because they expect security, then accounting on average fulfills these expectations. Moreover, the benefits of accounting are more pronounced among low SES individuals, especially in comparison to finance, which is the most common alternative. This suggests that self-selection into accounting is a secure choice that can have long-term welfare benefits for low SES individuals.

In sum, our evidence shows that accounting occupies a distinctive niche in the menu of career options available to labor market entrants, in part because potential labor market entrants perceive it to be exceptionally safe. Accounting provides a relatively secure entry into a business career for talented individuals from low SES backgrounds, which is encouraging in light of evidence of persistent, implicit discrimination against low SES individuals in other professions (Rivera, 2015). Our evidence also suggests that accounting's distinctive features benefit the profession by attracting low SES people with attributes desired by the profession. Given the profession's (and accounting firms') investments in broadening accounting's appeal and personalizing recruitment to best compete for talent (Carnegie & Napier, 2010; Jeacle, 2008), it is inherently important to better understand the vector of attributes that influence a person's interest in accounting. Childhood SES is among these attributes.

We also contribute to broader theory on career selection and life history theory. We provide the first empirical evidence of which we are aware that life history strategies influence how people view their labor market options. Seminal economic thinkers such as Alchian (1950) and Becker (1976) concurred that evolutionary biology can enrich our understanding of economic choices. As Becker (1976, 818) observes, "the approach of sociobiologists is highly congenial to economists, since they rely on competition, the allocation of limited resources ... efficient adaptation to the

² Of course, 30% of graduates choose other fields, consistent with our experimental findings that some accounting students consider pursuing non-accounting careers. Our study identifies one potential reason why some accounting degree holders select into the profession and others do not.

³ In our comparisons, "non-accounting business fields" refers to business administration, finance, international business, marketing, management, and other business fields, whereas "all non-accounting fields" refers to the set of all fields other than accounting. "Other fields" encompasses both of the aforementioned groups.

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