



The use and impact of job search procedures by migrant workers in China[☆]



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ABSTRACT

Job search procedures are a form of human capital investment in that they involve current investments to enhance future returns, analogous to human capital investments in areas such as education, training and mobility that yield future returns. While the theoretical and empirical literature on job search is extensive, most of it involves developed countries. There is less on developing countries and very little on China involving migrant workers in spite of their growing practical and policy importance and the fact that they are constantly engaging in job search. This paper examines the use and impact of job search procedures used by migrant workers in China by taking advantage of a rich data set on migrant workers that has information on their job search procedure as well as a wide array of other personal and human capital characteristics. Our OLS estimates indicate that there is no effect on earnings of using informal versus formal job search procedures for migrant workers in China. However, our IV results suggest that the OLS estimates are subject to severe selection bias from the fact that the choice of job search procedure is endogenous, associated with unobservable factors that affect the choice of informal versus formal procedures and that affect the earnings outcome. Our three different IV estimates designed to deal with this bias indicate that informal procedures (various aspects of family and friends) are associated with earnings that are 33 to 43% below the uses of more formal procedures. The decomposition results indicate that the most important variable contributing to pay advantage of those who use formal as opposed to informal procedures is education. In sum, our results suggest that policies to encourage or facilitate migrant workers using more formal job search procedures and reducing barriers that compel them to rely on informal procedures can yield better job matches with higher earnings.

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1. Introduction

Job search procedures are a form of human capital investment in that they involve current investments (time and money) to enhance future returns. In that vein, they are analogous to human capital investments in areas such as education, training and

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mobility that yield future returns. Informal search procedures can also involve reciprocal social capital exchanges, although the quality of that information can depend upon who provides the information (Giulietti, Wahba and Zenou, 2014). Low quality networks can foster low quality job searches.

While the theoretical and empirical literature on job search is extensive, most of it involves developed countries.¹ There is less on developing countries² and very little on China involving migrant workers in spite of their growing importance and the fact that they are constantly engaging in job search.³

The issue of the job search of migrant workers in China is of practical and policy importance for a variety of reasons. From the employer's perspective, migrant workers constitute a substantial component of the labor force in China. The 2000 population Census, for example, indicated that 144.39 million rural residents or 11.6% of the total population moved into cities and towns (Lu and Song, 2006, p. 338). This has been described as “the largest domestic migration flow in human history” (Qu and Zhao, 2011, p. 1). Such migrant workers are a key component of filling labor shortages that can otherwise lead to production bottlenecks that can jeopardize competitiveness and macro-economic stability. Better job matches can also provide the flexibility to meet rapidly changing market demands and the pursuit of profits, often at the expense of more permanent workers, especially in State Owned Enterprises (Solinger, 1999; Xu, 2000, 2012).⁴

From the perspective of migrant workers themselves, an effective job search procedure increases their opportunities and reduces their vulnerability to exploitation. It can obviously enhance their earnings which in turn can be important for remittances and poverty reduction. By definition of being a migrant worker, job search is especially important since they are continuously engaging in job search. This is especially the case given the enhanced emphasis on individual responsibility for obtaining job in China's increasingly flexible labor market. As stated by Xu (2012, p. 42): “Ultimately individuals have to rely on themselves in navigating this new labor market.” Job search procedures are obviously important in such navigation.

From the perspective of the government, an effective job search procedure can reduce any social instability that may arise if migrant workers are not able to obtain jobs that match their ability and skills. Effective job matches can also enhance the productivity and competitiveness that is essential to sustaining high growth rates. Governments in China are increasingly putting pressure on the unemployed to actively seek work, so that effective job search methods become increasingly important. As aptly stated by Xu (2012, p. 3): “As reflected in the government's active employment policy, the market remains the main driving mechanism for solving unemployment... New organizations and institutions [to facilitate job search]...include public and private employment agencies”.

The purpose of this paper is to examine the use and impact of job search procedures used by migrant workers in China. As detailed subsequently, we take advantage of a rich data set on migrant workers in China that has information on their job search procedure as well as a wide array of other personal and human capital characteristics. The next section of the paper sets out our conceptual framework followed by our empirical methodology and a description of the data set. A discussion of our results follows, and the paper ends with some concluding observations.

2. Conceptual framework

While job search models can be formidable in their complexity, they essentially involve the process where workers obtain information on potential job offers as well as job search strategies. There is a trade-off between the cost of additional time, effort and resources spent in searching, including through using different search procedures, and the benefits that such additional search should yield. Different search procedures have different costs and benefits associated with them, and these costs and benefits may vary across different workers.

Informal procedures, generally termed “family and friends” in the job search literature may involve little cost for both job seekers (Rees, 1966) and employers (Fernandez, Castilla & Moore, 2000). Also, they may be particularly effective in yielding a good match to the extent that family and friends have good information on both the employee and employer sides of the market, and friendships and reputations may be at stake as part of reciprocal social capital exchanges (Holzer, 1988). However, the effectiveness of such informal procedures depends on the quality of the informal networks involved with family and friends (Fang et al., 2013; Giulietti, Wahba & Zenou, 2014; Granovetter, 1973). People who are similar to each other are likely to become friends (Mouw, 2003) and if those social networks are not well informed about good job possibilities, as can be the case with rural migrant workers in China (Chen, 2014; Long et al., 2013), they may yield poor quality job matches with low earnings.

Formal job search procedures may be more costly in terms of fees and time and effort for both job seekers and employers. But they may be more effective in terms of yielding better matches because of vetting and targeting. For example, direct applications for advertised

¹ Studies that contain reviews of the extensive literature include Mortensen (1986), Saks (2005) and Schwab, Rynes and Aldag (1987).

² Downs and Gunderson (2002) review the literature on developing countries.

³ Wang (2008) compares the job search of rural versus non-rural hukou, but the analysis is restricted to university graduates. Chen (2014) examines the job search methods of migrants, but the analysis is restricted to migrant workers into Shanghai. Hanser (2002) examines the choice of job search methods, but the analysis is restricted to young urbanites and based on interviews. The closest paper to ours is Long et al. (2013) who compare informal and formal search methods and finds, as we do, that informal networks yield lower earnings after correcting for selection bias.

⁴ We have also investigated how the informal job searching methods affect migrant workers' type of contracts (permanent, long-term, short-term, and no-contract temporary). We report the summary statistics in Appendix Table 1 and the multinomial logit estimates in Appendix Table 2. The summary statistics show that, relative to the other three types of contract, long-term contract migrant workers have highest average earnings and years of schooling, received more training, and have more people with unemployment insurance. In contrast, no-contract temporary workers are more likely to use informal job search methods (66%), compared to permanent (58%), long-term (56%), and short-term contract workers (60%). The multinomial logit results in Appendix Table 2 indicate that, relative to permanent contract workers, migrants who use informal methods to search jobs are more likely to become short-term contract or no-contract temporary workers. In contrast, there is no statistically significant effect of job search methods on long-term contract workers.

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