



Human capital, political capital, and off-farm occupational choices in rural China



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ABSTRACT

This paper estimates the determinants of off-farm occupational choices by rural people from six counties in Shaanxi Province, with particular emphases on the comparisons between migrants and local off-farm workers. The results indicate that the positive influences of human capital on people's engagement in managerial jobs, skilled jobs and self-employment are greater for migrants than for their local peers. Political capital increases the access for local off-farm workers to white-collar jobs and self-employment, but this impact is reduced when it comes to migrants' choices. Counterfactual comparisons reveal that migrants, had they stayed locally, would be more likely to engage in occupations with high human capital requirements, and less likely to conduct self-employed business. Overall, human capital nearly plays its full role in the migration destination's labor market, while political capital remains effective in the local labor market.

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1. Introduction

Occupation signals the success in the labor market and the general socio-economic status in a country like China. Having a stable and well-paid job accommodates a migrant integrate into the urban society with ease. Before the late 1970's rural people had to work in collectivized farms. After two decades of economic reform, they now enjoy much more freedom in choosing their occupations among traditional farming, local off-farm jobs, local off-farm self-employment, and migration (Xia and Simmons, 2007). The majority of rural migrants are engaged in occupations such as production workers and service workers, which are characterized by low wages, poor social security and little promotion opportunities (Li, 2010). Nonetheless, some have moved up the job ladder and rooted themselves in the cities as private businessmen, managers, professionals, or other white collar workers. According to the 6th national sample survey of private enterprises in 2004, about 20% private businessmen in the cities used to be peasants (ACFIC and China Private Economy Center, 2005).

Several papers have investigated the choice among different off-farm employment in China. Typically, off-farm employment is divided into local off-farm employment, self-employment and migration (Zhao, 1999; de Brauw, Huang, Rozelle, Zhang and Zhang, 2002; Shi, Heerink and Qu, 2007; Xia and Simmons, 2007; Wu, 2010). Ning (2012) focuses on job security and classifies employment choices as short-term wage earner, long-term wage earner and self-employment. To the knowledge of the authors, there is no empirical study based upon a detailed occupational category classification.

Among possible influencing factors for off-farm employment choices, political capital is the most controversial one. Some studies suggest that political capital such as village cadre status has a profound impact on rural people's labor market

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performance. For example, [Zhang, Giles, and Rozelle \(2012\)](#) argue village cadre status provides an opportunity for the cadre and his/her household members to earn more income from off-farm employment in village businesses and economic activities. In addition, cadre households are more (less) likely to undertake local off-farm (migration) employment. One possible explanation is, a cadre member has better information about employment opportunities and is in a better position to make recommendations to and for family members. To the extreme, political capital may be more important than market forces in choosing the final candidate for good off-farm jobs. [Zhang and Li \(2003\)](#) demonstrate that having family members serving as village cadre turns out to be much more helpful than having an extra year of education in obtaining a better-paid off-farm job.

In contrast, other researchers suggest that rural labor markets have emerged in a healthy way and are continuing to positively evolve. With the deepening of reform, returns to political capital fall as the role of market mechanisms becomes more important ([Nee, 1989](#)). Historically, a cadre member was able to enhance own household members' off-farm employment opportunities by his/her influence upon village or township enterprises. However, privatization of township and village factories since mid-1990s severely reduce the abilities of cadres to help family members obtain local off-farm jobs. For example, based on the rural household survey conducted in Liaoning Province in 1998, [Xia and Simmons \(2007\)](#) find that human capital, in terms of education and skills, is the sole factor to explain off-farm jobs undertaken by the rural workers. Although political capital helps the rural workers get local off-farm wage jobs, it discourages them from engaging in local off-farm self-employment or migration occupations. [Zhang, Huang, and Rozelle \(2002\)](#) obtain a similar conclusion that, between the late 1980s and the mid-1990s, the labor market in China has evolved positively and gives more off-farm employment opportunities to those with higher levels of human capital. Education and technical skill increase the likelihood for an individual to participate in the off-farm labor force, find jobs when unemployed, and earn a higher wage.

Although the existing literature has provided profound insights into rural people's off-farm employment choices, the analysis on the diversified occupational distribution is lacking. It is economically and socially important to find out the determinants of rural people's off-farm occupations under a detailed occupational category, particularly the factors that hinder rural workers from obtaining professional or skilled jobs with relatively better conditions and higher earnings.

After decades of evolvement, rural–urban migration began to take on new characteristics with a considerable increase in local off-farm employment. Since 2006, both China's central and local governments have turned to the development of local cities and townships to speed up urbanization. Many efforts have been taken to further local industries development and to encourage rural migrant workers to find employment locally. According to the National Rural Fixed Observation Spot survey, from 2007 to 2009, the proportion of off-farm employment within counties has increased by 5.2% and reached 30.0%, while the proportion of inter-provincial migration has decreased for the first time by 5.4% and reached 40% ([Wu and Zhang, 2010](#)). Nevertheless, there has been a rising concern on competent labor crisis in local areas, that is, whether those who choose to stay locally are inferior in unobservable abilities to those who migrate as the lacking of competent workers will surely harm the local development in China ([Wu, 2010](#)). To address this issue, it is necessary to investigate self-selection based on unobserved characteristics when analyzing rural people's occupational choice. If more able rural people choose to migrate and obtain higher status occupations, then a failure to control for this correlation will yield an upward bias in the estimated migration effect on occupational decision.

In this paper, we attempt to answer the following questions: which of the two sectors attract more capable rural people, local labor market or destination labor market? What roles do human capital and political capital play in rural people's occupational choices in the two sectors, respectively? How does the occupational choice of the rural migrant differ from that of the local peers? Had they chosen not to migrate, what would the occupational choice of the migrants differ from those who stayed? What would be the occupational choice of the stayer had he or she decided to migrate? We analyze the 2010 household survey data from six counties in Shaanxi Province, which is one of the least developed regions with a large rural migration population in China. Our study contributes to the literature on rural people's off-farm occupational choices with a detailed occupational classification. Particularly, we examine the differences in occupational decision mechanism between local off-farm workers and migrants after adjusting for selection bias from migration choices.

In terms of unobserved characteristics, we find no significant self-selection into migration with respect to local off-farm work, but the occupational choice mechanism differs in many aspects between the two subgroups. The positive influences of human capital like formal education and post-school training are greater on migrant's occupational choices than on that of their local peers. Unlike the case for migrants, local off-farm workers' engagement in white-collar jobs and own account business are greatly affected by political capital. Furthermore, counterfactual comparisons reveal that migrants, had they stayed, would more likely be engaged in occupations with higher human capital requirements, and less likely conduct own account business which is shown to be greatly dependent on one's political capital endowment.

The paper is organized as follows. Section 2 sketches a theoretical model for rural migrant's off-farm occupational choice based on self-selection bias correction; Section 3 describes the data; Section 4 reports the empirical findings, and finally Section 5 concludes with policy implications.

2. Theoretical models and research design

2.1. Empirical framework of occupational choice

The theoretical underpinning of the occupational choice model is drawn from the theory of rational occupational choice which proceeds from the premise that an individual chooses an occupation by comparing the discounted utilities derived from all

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