

## University of Groningen

### Selectie en allocatie op de arbeidsmarkt

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## Summary

The research reported in this book aims to explain why different people get different jobs and incomes. It is an investigation into allocation mechanisms on the labor market, and an elaboration for two different labour market segments. These segments differ in institutional arrangements, but can be compared in required qualifications of the personnel: the paid informal market for child minding, and the institutionalized child care centers.

In chapter one it is argued that a specification of allocation mechanisms is needed for the explanation of the allocation. The neo-classical model and the credentialist theories offer such models, but these aren't satisfactory. The neo-classical model is relatively simple and elegant, but has a problem in short-term explanation, because of difficulties in the measurement of productivity. The credentialist theories are the sociological alternative, but they deny any connection between the productivity of the worker and labour market allocation. An elaboration which seems to contain best of both kinds of theory construction can be found in Thurow's wage and job competition models. In the wage competition model the price mechanism on the labour market is very flexible, so that adjustments in wages for different human capital characteristics are easily made. In the job competition model wages are coupled with jobs, and jobs are divided among heterogeneous workers. It is expected that selectors rank applicants according to expected training costs in a labour queue. The rigidity of wages is explained in three different, mutually rivalling ways. In the first explanation the wages are rigid because the productivity is in the job and not in the man. In the second explanation rigidity of wages is necessary for reducing training costs. In the third, barely elaborated explanation, wages are rigid because productivity is difficult to measure and wage differentials are based on considerations of fairness. In the remaining part of chapter one, the main innovations of the job competition model in comparison to the neo-classical model are subjected to critical examination. It is argued that the job competition model lacks a theory of jobs and job structures, is contradictory and incomplete in its wage theory, and is incomplete in its elaboration of the matching process on the labour market. Though the wage and job competition models are put to empirical tests, a more complex model of the allocation process is elaborated.

In chapter two such a selection model is verbally elaborated. It is argued that labour relations are weak solidarity relations, in which each contract partner strives for his own individual benefits without causing damage to the other. In such weak solidarity relations the exchange principle is equity, that is division of benefits according to contributions. Another characteristic of weak solidarity relations is the intertwined exchange of person-bound and general means of exchange. Person-bound means of exchange are investments in relations that cost time. The most important general exchange medium is money. In most employment contracts, which are per definition long-term contracts, it is difficult to specify all efforts of the contract partners exactly, and impossible to foresee all changes in

the environment of the employment relation. To prevent opportunistic behaviour, which causes damage, it is necessary to use additional means to govern the relation. The employer will use the means of control or investments in a trust relation. A control theory of employment relations is elaborated, in which it is hypothesized that control on input or output is a means of restricting opportunistic behaviour. Control can stimulate motivation, but is only applicable as far as the costs of control do not exceed benefits. When output or effort are difficult to measure, the employer will try to establish a trust relation with the employee. In the employment relation-signalling theory, it is elaborated that trust can be established by making a sacrifice or offering a gift. The employer can use money or person-bound means of exchange to bind the employee, preferring the use of money alternatives. On the basis of the control and relation signalling theories of labour relations, a job structure theory is elaborated. It is argued that jobs are part of relational structures, which are the product of the efficient division of labour. Division of labour increases total organizational production, because of differentiation and specialization, but also has costs in demand for coordination and control. In the hierarchical job structure these tasks, which contain a larger measure of uncertainty than the performing work, are concentrated in the higher job levels. It is argued that, as an effect of the pyramid form of job structures, the contribution of higher level employees to total organizational production is larger as the hierarchical level of work is higher. This explains wage differentials between different hierarchical levels and the strategic importance of the quality of higher level employees for the organization. In the remaining part of chapter two the selection model is elaborated in its consequences for selection and wage determination in isolated employment relations, organizational employment relations, and for differences in allocation and compensation between different organizations. An important additional implication is that larger organizations, because of higher organizational costs, will select better educated employees and pay higher wages.

In chapter three it is argued that the labour markets for child care are excellent testing grounds for the wage and job competition models and the selection model. The tasks of the performing personnel are comparable among the segments, though the labour market segments have very different structural characteristics. The informal market consists of unpaid services provided by family members, friends or neighbours, and paid services by market contacts. Especially when weekly demand is relatively large, a market solution for child care is preferred. The most popular market solutions for the child care problem are the child minder for the own private family, and child care centers. It is asserted that the supply of child care centers undergoes a professionalization process. The demand side of the market is interested in high quality services; the supply side of the market for child care tries to improve quality of services by increasing quality requirements for equipment of centers and personnel. As a consequence of the professionalization process the services of child care are brought on a higher quality level, and among institutions homogenized.

In chapter four the selection model is elaborated for the informal and institutionalized child care labour market segments. It is argued that child care is a good with credence characteristics, that control of workers in child care is only partially possible, and that therefore trust relations between employer and employee have to be established. In the informal child care, during the recruitment and selection process the employer has to make trade-offs between qualities of the child minder, characteristics of the desired relation and the use of different means of exchange. Characteristics of the candidate child minder will be evaluated in terms of competence in handling children and uncertainty, loyalty (dedication to the job) in terms of motivation and expected duration in the job, ho-

mogeneity (corresponds to the demand side) depends on resources. It is expected that high income candidates will bind the child minder, and monetary costs (wage and monetary costs) will bind the child minder. Demand will bind the child minder, and level candidates are attracted by considerations of homogeneity and better performance, and correspondence to the demand side and the monetary costs. A higher level child minder will be chosen, low income candidates will have contact with the child minder, the child minder. The hypotheses are formulated for the segment. It is expected that a margin around the market between incomes of child minders are also expected to be low. Low income candidates will invest in pay, and invest in a larger number of better qualifications.

In the institutionalized child care market the extent under the spell of trust relations between employer and employee means that every center has to get a good reputation. To produce homogeneous services it is expected that the child care center with a good reputation, but in the child center with one parent will come into existence. In the selection process will take coordination as a product of the division of labour in the higher levels of the child care center is one of a number of maximal standards for qualitatively good performances. Therefore it is expected that the selection process and the expected duration are not expected to be impacted by age and age are not expected to be impacted.

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homogeneity (correspondence to the family's culture) and costs. The ultimate decision made depends on resources. For instance, for the selection criterium educational level it is expected that high income demand will choose a higher level candidate because of greater competence (in handling uncertainty) and (potentially) better performance. Homogeneity and monetary costs (within certain bounds) will not be very important. The choice of a higher level candidate will be checked when job duration is long. High income demand will bind the child minder by paying larger hourly wages than the market rate. Low income demand will bind the child minder by person-bound means of exchange. High educational level candidates are attractive because of greater competence in handling uncertainty, but considerations of homogeneity and (monetary) costs are also very important. So low income demand will tend to choose a high level child minder because of greater competence and better performance, but as important considerations are homogeneity, in the sense of correspondence to the family's culture, and the own educational level of the educators, and the monetary costs. As for high income demand, low income demand will not choose a higher level child minder in a long-term job. If, after all, a high level child minder is chosen, low income demand will spend a relatively large amount of time on social contact with the child minder, and maybe some extra monetary cost on the hourly wage of the child minder. The upshot of the elaboration of the selection model in this chapter is that hypotheses are formulated on wages and allocation on this particular labour market segment. It is expected that wages will be quite rigid, differentiating only within a small margin around the market wage. Furthermore it is expected that there will be correlations between incomes of child care demanders and wage of the child minder. Positive correlations are also expected between the hourly wage rate and the educational level of the child minder. Low income demand will pay relatively lower wages, will differentiate even less in pay, and invest a larger amount of time in their child minder, especially when she has better qualifications.

In the institutionalized sector it is expected that employment relations are to a large extent under the spell of the professionalization process. In contrast to the very personal trust relations between educator and child minder, the centers will try to establish collective trust relations between supply and demand. For the supply side of the market, this means that every center will strive for qualitatively good services, to establish in the market a good reputation. The professionalized centers organize the supply side of the market to produce homogeneous services and to reduce search costs for the demand side. It is expected that the child care centers will arrange their job structures according to the goal of good reputation, but in accordance with job structure theory. It is expected that in a small child center with one paid child care worker per group no hierarchical differentiation will come into existence. In a child care center with two persons working per group one person will take coordinating and controlling tasks. As the child center grows in size, as a product of the division of labour, coordinating and controlling tasks will be concentrated in the higher levels of the job hierarchy. An extra job level will be added when the child center is one of a number under the same board. On the performing level minimal and maximal standards for educational requirements will be set. They are the guarantee that qualitatively good personnel is selected, and are at the basis of the collective trust relations. Therefore it is expected that not only educational level but also educational training is important in the selection process. Because of the fast pace of the professionalization process and the expected emphasis in selection on educational credentials, experience is not expected to be important in the selection process. Ascriptive characteristics such as sex and age are not expected to be important in the selection process. As far as the higher level

jobs are concerned, the demand will be for increasing job level. It is expected that pay is primarily dependent on job level: the higher the job level, the more pay. This is a kind of relation signalling for strategic jobs in the organization. Next to job level, monetary relation signals will also be given for investments done in surplus educational credentials and seniority. On the aggregate level it is expected that higher credentials will be paid more for two reasons. The first is that the higher qualified workers will occupy the higher positions in the job structure. The second is that there will be relation-signalling for surplus educational credentials in the same job. On the level of the institutions differences between them are expected. It is expected that more professionalized institutions are larger, because of their better reputation. They will have a higher level of pay, and can therefore attract better qualified personnel and more subsidies. The less professionalized centers will take the professionalized centers as reference point, but lack financial resources to make arrangements according to professional standards. In these small centers probably not only educational credentials but also the embedding in value-communities, as local or religious communities, will be important in establishing trust and binding personnel.

In chapter five the data collection method is reported. The empirical analysis is based on samples of child minder demand and child care centers. Child minder demand was traced by examining advertisements, seeking a child minder. Of 239 questionnaires sent to child care demanders, mostly after telephonic approval of the respondent, 179 were returned. The child care centers sample was a list of all known institutions for child care in the province of Groningen. On the total of 175, 114 were returned.

The hypotheses concerning the paid informal relations, elaborated from the selection model, are tested in chapter six, with explanations based on the wage and job competition models as rivals. It is found that wages are quite rigid, and only flexible in a small range around the market wage of 5 guilders. There are clear indications that this market wage is above the market clearing rate, because a large number of applicants react to advertisements. No indication is found that the wage depends on (short-term) supply and demand. The only supply characteristic that is relevant in wage determination is educational level of the candidate, and this characteristic explains only a small part of wage variation. Job characteristics are more important for wage determination. If house work has to be done, or when more children have to be taken care of, pay is better. A large amount of variance in hourly wage is explained by the incomes of the demand side. When the income is large, relation-signals are given for a higher educational level of the chosen applicants (probably to motivate them), and for longer job duration. Such signals are not found for low income demand in the data. There are indications that low income demand chooses their child minder more homogeneously and less dominantly in comparison to their own educational level, that they invest more time in social exchange (especially coffee drinking) with their child minder, and that they label the relation less as an employment relation, and more as a personal relation with a kind of added family member, a friend or an acquaintance. As far as the matter of flexibility is concerned, no indications are found that wage flexibility is large, and strongly influenced by supply characteristics. The amount of flexibility is largely determined by the individual demand, and hardly dependent on characteristics or behaviour of the supply side. Educational level is important for adjustments in the wage offer, but adjustments are mostly only a matter of the employer's own decision. The upshot of these analyses is that both wage and job competition are unsatisfactory models in comparison to the selection model. The wage competition model is unsatisfactory because on this unregulated labor market segment wages hardly appear to depend on the ratio of supply and demand and on supply characteristics, i.e. the human

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capital of the child minder. Flexibility has no direct influence on entrance chances. The job competition model is in this context unsatisfactory, because it can't explain the correlation between supply side characteristics, such as educational level, and hourly wage. Furthermore the explanation that wages are rigid because of training costs is in the context of these isolated labour relations not salient.

In chapter seven the expectations concerning the labour market segment in institutionalized child care are put to the test, with wage and job competition, credentialist theories and the demand-supply model as rivaling explanatory models. The existence of hierarchical levels in the center depends strongly on the number of people working per group. With two people working per group a large chance of hierarchical structuring of jobs exists. If the center is one of a number of centers under the same board, the chance of an additional hierarchical layer is large. Indirectly the number of hierarchical levels depends on the number of workers in the child center. It is found that educational level, educational direction and job level are important in determining wage. Even more important than these characteristics is the collective wage arrangement. The collective wage arrangements differ per group of centers, and corresponds roughly to the level of professionalization. The wage arrangements have job level as primary compensation principle, while in the more developed arrangements extra monetary compensation is also given for surplus educational credentials, seniority and age. Allocation is largely dependent on jobs and wage arrangements. The best explanatory mechanism for allocation of educational level is job level. The number of high hierarchical levels is rationed by the efficiency of the division of labour. It is found that for the allocation of educational level credentials, the best explanatory mechanism is the mutually rationed supply of high level jobs and high level educational credential holders. This principle explains allocation better than reference matches on preferential educational credentials criteria, or matches based on wages and educational credentials. Furthermore, it is found that the allocation between centers differs. The more professionalized centers are larger, have a higher monetary compensation level, and attract, for the same job, better qualified personnel. The less professionalized centers are smaller, have difficulties in keeping to professional standards, pay lower wages, and have difficulties attracting well qualified personnel. These results correspond to a large extent to expectations based on the selection model. Rivalling explanatory models explain less, and less well. The wage competition model is unsatisfactory, because this market segment lacks almost all short-term wage flexibility, and lacks explanations for the effects of job levels and wage arrangements on wages. The job competition model not only lacks a theory of job structure, but is also unsatisfactory in the explanation of wage differentials for people in the same jobs, for instance according to educational credentials and collective wage arrangements. The explanation of wage stickiness because of training costs in this context is also unsatisfactory because most skills are acquired in school. The supply-demand model, which is a matching model that explains wage differentials as interaction effects of job and worker characteristics, is unsatisfactory because wages correspond much more closely to jobs than to supply characteristics. Furthermore, the matching of educational credentials corresponds more closely to jobs than to wage levels per se, as would be expected in the supply-demand model. The credentialist theory is unsatisfactory because it is not educational credentials itself that are rewarded, but better pay is given to those who are expected to perform better.

In sum, it is concluded that a model that includes governance structures of the employment relation add to the explanation of the results of selection and allocation processes on the labour market. Simple models, such as the wage and job competition models,

that equate productivity, wages and human capital cannot explain short-term processes in the labour market well. More complex models that elaborate on governance structures of the employment relation and that can incorporate specific aspects of different jobs do much better in the explanation of structural characteristics of labour market (segments) and the results of the allocation process.

(English corrected by mr. J.P. Allen)

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