

Individualism, Human Capital Formation, and Labor Market Success

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Motivation

“We are fast becoming a nation of alienating individualists, unwilling to put the unifying values of patriotism ahead of our narrow self-interests.”

John McCain, NY Times, March 26, 2008

- Individualism as a **polarizing element** of our Zeitgeist ([Dionne 2012](#))
 - Culture of personal freedom and achievement
- Opposing economic effects at the **aggregate level**
 - Positive effects on long-run growth ([Gorodnichenko & Roland 2017](#))
 - Negative effects on redistribution & pandemic response ([Bazzi et al. 2020/21](#))
- We do not know if / how individualism affects **individual economic success**
 - Positive skill effects due to uniqueness- and autonomy-focused mindset
 - Negative skill effects due to lower provision of public goods

This Paper

- We study the role of **individualistic culture** in human capital formation and labor market outcomes
 - Scarce evidence on the importance of cultural traits for educational success
 - [Figlio et al. \(2019\)](#) and [Kinne et al. \(forthcoming\)](#) look at long-term orientation and/or risk preferences
- Data from **PIAAC** – an international adult skills assessment administered by the OECD (31 countries)
- Complementary **identification strategies** exploiting within-country variation in individualism between migrants (1st and 2nd generation) and natives
- Our results show that **more individualistic people**:
 1. have higher levels of **cognitive skills**
 2. invest more in **education**, also over the life-cycle
 3. achieve better / different **labor market outcomes** (i.e., higher wages, more research-focused occupations)

Measuring Individualism

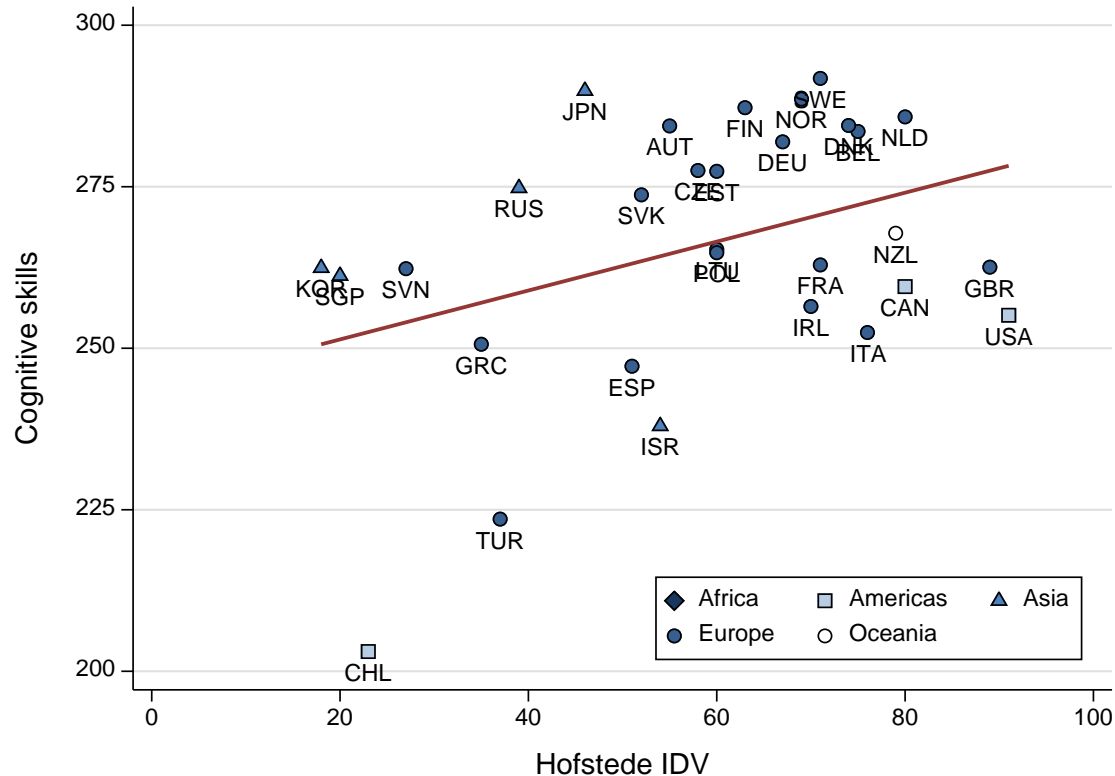
Aggregate measures

- **Hofstede (2001)** index based on IBM employee surveys (**IDV**)
 - Part of six-dimension model of national culture by Geert Hofstede
 - Index is based on questions about time for personal life, job security, and challenge at work
 - **Country-level**
- **Kashima & Kashima (1998)** index of pronoun drop
 - Pronoun drop (conservation): emphasis on the action (actor)
 - Binary (reverse coded; 1 = individualistic)
 - **Language-level**

Personal measure

- Seven PIAAC questionnaire items are closely related to classic individualism survey items (**Oyserman et al. 2002**)
 - Combination of **work-related** and **private-life** questions (freedom, intellectual challenge-seeking, broad-mindedness, intellectual openness)
 - Aggregation of items following **Kling et al. (2007)** and **Deming (2017)**

At First Glance



- Simple **cross-country evidence**, 14% of international variation in skills explained
- Main **empirical challenge**: Hold the institutional and economic environment constant when evaluating the effects of culture

Epidemiological Approach (Fernández 2007; Figlio et al. 2019)

- Migrants take their original cultural toolkit to their destination country
→ compare migrants from different origin countries **within the same destination country**

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

- First- and second-generation migrants
- Additions:
 - **Language-based** and **person-level IDV** allow for including origin country FE

Other Sources of Variation

- Within-country across-natives approach
- Value-added approach

IDV and Numeracy Skills

Overview of the Results

	Classic Epi			Epi + language (1 st only)		Person-level IDV			IV
	1 st Gen	1 st Gen	2 nd Gen	Between origin	Within origin	1 st Gen	2 nd Gen	Natives	1 st Gen
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Hofstede IDV	0.290*** (0.049)	0.246*** (0.057)	0.228*** (0.056)						0.349*** (0.116)
Kashima IDV				0.654*** (0.082)	0.215*** (0.064)				
Person-level IDV						0.289*** (0.021)	0.290*** (0.030)	0.258*** (0.013)	
Covariates	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
10 other cultural dimensions		Yes							
<i>Fixed Effects</i>									
Destination country	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Continental	Yes	Yes	Yes	Yes					Yes
Year of migration	Yes	Yes		Yes	Yes	Yes			Yes
Destination country x year of migration	Yes	Yes		Yes	Yes	Yes			Yes
Different language			Yes						
Destination country x different language			Yes						
Origin country					Yes	Yes			
Destination country x origin country					Yes	Yes			
Origin language							Yes		
Destination country x origin language							Yes		
R-squared	0.24	0.26	0.14	0.26	0.41	0.44	0.24	0.26	0.07
Observations	15,349	15,349	13,372	16,020	16,020	21,451	17,869	159,068	10,359
Origins	68	68	84	39	39	212	123	31	33

- Hofstede & personal IDV & test scores standardized to mean 0 and SD 1
- SE clustered at the origin level
- Weight of 1 for each destination country

- Selective migration
 - Control for migration costs: distance between countries (geo., ling., genetic)
 - Direct investigation of migrant selection on culture
- Country-of-origin controls
 - GDP per capita
 - PISA score
- Other cultural controls
 - Hofstede dimensions (e.g., long-term orientation)
 - Patience, trust, risk-taking, altruism, reciprocity
- Alternative IDV measures
 - GLOBE
 - Schwartz
 - Suh

Individualism and Skill Formation over the Life-Cycle

- More individualistic persons tend to increase their skill advantage over the life-cycle
 - Consistent with the idea of **dynamic skill complementarities** (Cunha & Heckman 2007; Cunha et al. 2010)
 - German **skill panel data** (PIAAC-L) to distinguish between age and cohort effects
- We find strong positive associations of individualism with:
 - **Formal education**: Years of schooling, university degree
 - **Adult learning at work**: On-the-job training, other training
 - **Adult learning at home**: Reading newspapers, professional journals, or books
- Mediation analysis (Heckman & Pinto 2013, 2015)
 - Almost half (45 percent) of the increase in skills is mediated through the abovementioned channels
 - Both **formal education** (32 percent) and **adult learning** (13 percent) explain sizeable fractions of the effect of individualism on skills

Conclusion

- Individualism is an important determinant of **human capital formation** and **labor market outcomes** in adulthood
- Results consistent across various estimation strategies using **different specifications and populations**
 - We use measures of individualism that vary at various levels (country, language, individual) to provide a consistent picture about why this cultural trait matters for economic outcomes
- Next step: Gain a more complete picture of the economic impact of individualism
 - Positive effects of individualism on individual-level outcomes, but **potential negative effects at societal level** (Hofstede 2001; Gorodnichenko & Roland 2012; Bazzi et al. (forthcoming))

Thank you for your attention!

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