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SELECTED THEORETICAL FRAMEWORKS FOR STUDIES ON SITUATION OF RURAL INHABITANTS ON LABOUR MARKET

WYBRANE MODELE TEORETYCZNE DLA ANALIZY SYTUACJI LUDNOŚCI WIEJSKIEJ NA RYNKU PRACY

Key words: labour market, rural inhabitants, human capital theory, job search theory

Słowa kluczowe: rynek pracy, ludność wiejska, teoria kapitału ludzkiego, teoria poszukiwań na rynku pracy

Abstract. As far as branches of economic activities areas are concerned, agriculture and agribusiness were traditionally perceived as the main element of rural areas. These patterns have been changing recently and there are some functions which are getting more and more important. These processes are connected with transformation of the situation of rural inhabitants on the labour market. Moreover, nowadays quite a significant proportion of rural inhabitants does not come from the country – they work in towns and they moved to the country because they want to have a rest from the pressure of an urbanised lifestyle. The aim of the paper is to present selected theoretical approaches (human capital theory and job search theory) to important factors determining economic activity on the labour market and to display significant elements of these theories, which can distinguish the labour situation of rural and urban inhabitants. Empirical verification of such relationship can have practical implications in the process of programming and implementing different policies towards rural areas.

Introduction

Recently, Polish rural inhabitants have been facing many challenges connected with transformation of the economy, which include decrease in the role of the primary sector and development of other, non-agricultural functions of rural areas. These processes contribute to changes of the labour market. There are a lot of factors facilitating or hindering activity on the labour market, which are indicated in some economic theories. For example, educational attainment, occupation, and additional qualifications are the key factors facilitating adaptation to the new situation stressed in the human capital theory.

As far as the situation of unemployed is concerned, there is a group of job search theories, whose authors tried to determine for example how long unemployed are ready to look for a job – is it conditioned by a particular number of applications made (taking into account costs of any additional application) or does it depend on a wage possible for acceptance (reservation wage or acceptance wage)? These aspects can also have different importance for rural inhabitants compared to urban population, resulting for example for a larger physical distance to a wider range of work offers.

There are of course other labour market theories, like for example insider-outsider theory [Lindbeck, Snower 1989], which can have some implications for the situation of rural inhabitants on the labour market but as a result of a limited capacity of this study they must remain material for further studies. However, these two selected theories create some bases for empirical analyses and their verification is especially important taking into account different conditions of rural and urban inhabitants on the labour market. These aspects should be taken into account in the process of programming and implementing different policies towards rural areas.

Human capital theory

Education has been widely considered in microeconomics as a factor determining people's economic activity on the labour market. The first economic theory which especially stressed this role was the human capital theory. The concept of „human capital” was implemented by Schultz [1960], who proposed to treat education as an investment in man and to treat its consequences as a form of capital, which increases national income.

Human capital analysis starts with the assumption that individuals decide on their education, training, and other additions to knowledge by weighing the benefits and costs. Benefits include cultural and other non-monetary gains along with improvement in earnings and occupations, while costs usually depend mainly on the foregone value of the time spent on these investments [Becker 1992].

According to Becker, one of main authors in this field, the human capital theory explains an empirically observed connection between the unemployment rate and skills of potential workers. He stated that the unemployment rate is inversely connected with the skill level [Becker 1962]. The logical consequence of this relation is a fact that long-time unemployment causes decrease in skills and the qualification level of the unemployed, so decline of their human capital takes place [Wojtyna 1994].

Becker also distinguished two kinds of training – a general one and a specific one. The first increases workers productivity not only in a present workplace but in all potential workplaces, whereas skills gained during the specific training can be used in one workplace only, and they are useless in other. For example, a machinist trained in the army finds his skills of value in steel and aircraft firms, and a doctor trained (interned) at one hospital finds his skills useful at other hospitals. Most on-the-job training presumably increases the future marginal productivity of workers in the firm providing. However, general training also increases marginal product in many other firms as well. „Perfectly general” training would be equally useful in many firms and marginal products would rise by the same extent in all of them. On the other hand, some kinds of training increase productivity by different amounts in the firms providing the training and in other firms. „Completely specific” training can be defined as training that has no effect on the productivity of trainees that would be useful in other firms. For instance, the military offers some forms of training that are extremely useful in the civilian sector, as already noted, and others that are only of minor use to civilians, i.e., astronauts and fighter pilots. Such training falls within the scope of specific training because productivity is raised in the military but not (much) elsewhere [Becker 1975].

These deliberations on general and specific kinds of trainings prove a necessity of some extent of general education and qualifications in order to provide basic abilities to find or change a workplace during a lifetime. What is more important, because of (1) a fact that firms are not prone to cover the costs of general training, since it increases workers’ competitiveness on the labour market and also the probability that workers will look for better work conditions in other workplaces, and (2) education of rural inhabitants is usually more expansive so less accessible in a situation of self-financing, there exists a challenge for public educational services to provide such kinds of education for rural inhabitants in order to improve their position on the labour market.

The theoretical relationships between opportunities on the labour market and the level of education as well as general skills were verified by many researchers using different statistical instruments, for example regression methods were used to verify relationships between the level of education and the number of periods of unemployment [Winkelmann 1994]. The others [Kwiatkowski 1995, Drejerska 2009] examined for example a connection between the probability of economic activity on the labour market and the level of education, and as a result they proved the relationship indicated in the human capital theory. A closer examination of a relationships between education and economic activity of rural inhabitants on the labour market [Drejerska 2010] confirmed that higher level of education, some acquired professions (professionals, technicians and associate professionals, service and sales workers, craft and related trades workers) as well as additional skills occurred to be important factors resulting in higher probability of economic activity. These results confirm assumptions of the human capital theory stressing better chances of people with a higher level of human capital on the labour market. As a consequence persons with a lower level of human capital (lower levels of education, without sought-after occupations or additional skills) have smaller chances on the labour market, they give up when they cannot find a job and as a result they become economically inactive on the labour market.

This theory seems to be helpful in explaining many other regularities on the labour market, also taking into account a specificity of the situation of rural inhabitants on the labour market. Rural inhabitants usually do not have so good access to educational services as urban so investments in their human capital are more difficult and expensive. However, these investments should take place because they play an important role as determinants of possibilities of finding a job in non-agricultural sectors, for example the service sector. The third sector is the biggest employer in Europe’s rural areas but it is smaller compared to urban areas and tends to be dominated by the

public sector. This is reflected in the slower shift to activities centred in the knowledge-based economy. On the other hand, the education level, occupation, and qualifications of agricultural workers affect development opportunities of the primary sector. Unfortunately many farmers do not have skills necessary to take advantage of the potential of the new environment for innovation, provision of environmental services, diversification, and development of local services and bioenergy production. The situation is much more difficult taking into account a phenomena of migration of educated individuals from the rural sector to other sectors, for example because of differences in wages (usually lower in the agricultural sector compared with others) or work conditions (work in agriculture often perceived as harder and more tiring than in other workplaces).

Job search theories

The job search theory was initiated by Stigler [1962], who considered a situation of young people entering the labour market. According to this author, the young person entering the labour market for the first time has an immense number of potential employers. As the worker becomes older the number of potential employers may shrink more often than it grows, but the number will seldom fall to even a thousand. In this situation no worker will ever be able to become informed on the prospective earnings which would be obtained from every one of these potential employers at any given time. He faces the problem of how to acquire information on the wages rates, stability of employment, conditions of employment, and other determinants of job choice, and how to keep this information current. In this situation Stigler assumed that respectively a person looking for a job and a potential employer will search a job/employee until marginal benefits equals marginal costs of searching. There are some implications of such approach. For example, if a process of search is more expensive, it will be less intensive and will last shorter than in the situation of lower costs of looking for a job.

One of the examples of models from a group of job search theories is a model developed by Joll, McKenna, McNabb [1983]. Their basic assumptions are:

- jobseekers are homogenous in all aspects (qualifications, the level of education, there is a variety of offers, all characteristics of the jobs other than wages are known and identical,
- jobseekers know the exact form of wage distribution, including the minimum and maximum values, uncertainty arises because they do not know which firms are offering each wage,
- the individual can begin to discover which firms are offering which wage by search, i.e. by selecting a firm at random from the distribution and making job application,
- jobseekers are assumed to prefer a higher wage to a lower wage, and to have an infinite life span over which they searches for the highest offer.

However, the crucial assumption is that each application imposes a significant cost upon the jobseeker. This cost can be widely understood as for example travel expenses, opportunity costs (forgone leisure or earnings from the time expanded in writing letters and going to the firm). These costs are known, constant lump-sum payments and can be perceived as the marginal cost of search as the cost of one more selection. In this situation search will continue only whilst the marginal benefit of search exceeds its marginal cost. Since information is imperfect, the jobseeker must calculate the expected benefit to search. In such circumstances there are proposed two possible solutions:

- the jobseeker decides before search begins to calculate the maximum expected wage offer for each sample size and to choose a particular number of firms to be sampled which maximises the difference between expected maximum wage and search costs,
- the jobseeker decides before search begins upon the lowest wage offer that is considered acceptable and to stop searching when an offer is received which is greater than or equal to that acceptable wage; the wage in question is that which maximises expected income net of search costs.

According to Kwiatkowski [Kwiatkowski 2006] the first approach significantly differs time of looking for a job between rural and urban population. The time of search can be longer in urban areas because the same number of potential workplaces can be checked by lower costs (mainly because of lower transport costs) and it results in assuming that the jobseeker will plan to investigate more possibilities. On the other hand, it should be noticed that there are usually more job offers in urban area compared with rural area so this fact can inverse this relationship. So in this situation, these aspects of the job search theory require empirical verification of a power of the real relationship, taking into account careful comparison of rural and urban conditions in this issue.

Conclusions

One of the most important conclusions from this study is the importance of the education and additional skills in development of Polish rural areas. Results of the theoretical studies as well as quoted examples of empirical verification with use of regression models clearly indicate that these factors are stimuli to economic activity of rural inhabitants on the labour market so they contribute to growth and development in rural areas. That is why these aspects should be taken into account in the process of programming and implementing different policies towards rural areas.

There are also much more detailed conclusions, like for example the necessity of providing educational services in the field of general training for rural inhabitants, for example by paying special attention to these issues during the process of formal education or providing possibilities of life-long learning. Moreover, the concept of life-long learning is especially important taking into account higher probability of economic inactivity of persons with lower educational attainment. In addition, a fact of long-time staying outside the labour market causes decrease in skills and the qualification level of the unemployed, so further decline of their human capital takes place.

The human capital theory seems to be quite well verified by empirical research whereas the job search theory needs to be examined in the context of differences between the situation of rural and urban population on the labour market.

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Streszczenie

Roľnictwo i agrobiznes byly dotychczas postrzegane jako tradycyjne sektory gospodarki na obszarach wiejskich. Obecnie ich dominacja nie jest tak oczywista, a większego znaczenia nabierają inne, pozarolnicze funkcje obszarów wiejskich. Zmiany znajdują swoje odzwierciedlenie w sytuacji ludności wiejskiej na rynku pracy. Ponadto, należy wziąć pod uwagę, że znaczący odsetek mieszkańców wsi (szczególnie w funkcjonalnych obszarach ośrodków miejskich) to ludność napływowa, która pracuje w miastach, a mieszka w jego okolicach, aby uciec od presji miejskiego stylu życia. Celem opracowania było zaprezentowanie wybranych modeli teoretycznych (teoria kapitału ludzkiego i teoria poszukiwań na rynku pracy), a w ich ramach elementów różniących potencjalnie sytuację ludności wiejskiej i miejskiej na rynku pracy. Empiryczne udowodnienie tego typu zależności ma praktyczne znaczenie w procesie programowania i wdrażania różnych polityk kierowanych do obszarów wiejskich.

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