



Objective over-education and worker well-being: A shadow price approach

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ABSTRACT

This paper examines, for a sample of Flemish school leavers, the relation between objective over-education and job satisfaction by applying a shadow price approach. We differentiate between direct effects of over-education and indirect effects via other job characteristics that are associated with over-education. Additional fixed-effects estimates are executed to account for individual heterogeneity. The utility consequences of over-education are found to be large and cannot be compensated by a reasonable wage increase at the start of the first employment. These outcomes suggest that, at labour-market entry, over-education is largely involuntary, and is likely to induce negative productivity costs. The negative consequences of over-education are also found to diminish with years of work experience.

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1. Introduction

While research on the relation between over-education and job satisfaction has a long tradition in the psychological literature, economic studies on this issue are rather limited. A focus on this relation, we propose, is likely to deliver better insights into the economic dynamics behind the phenomenon of over-education. First, the relation between over-education and job satisfaction makes it possible to assess the degree to which over-education is voluntarily chosen. Since unemployed people are less happy, Clark and Oswald (1994) concluded that unemployment is largely involuntary. To escape from unemployment, job seekers may accept involuntarily a job below their educational level (Pollmann-Schult & Büchel, 2005). Consistent with the premise that over-education is involuntary would be the finding that over-educated workers are less satisfied than adequately educated workers with a similar educational background. Sicherman and Galor (1990) conversely state that over-education is voluntary since it is an investment in experience. Second, a focus on this relation might also shed more light on the negative productivity consequences of over-education (Tsang & Levin, 1985). Job satisfaction influences productivity both indirectly, through lower rates of resignation (Freeman, 1978), and directly, through higher worker per-

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formance (Iaffaldano & Muchinsky, 1985; Tsang, 1987). The premise that over-education affects productivity negatively would be supported by the finding that over-educated workers are less satisfied than adequately educated workers in jobs with similar requirements.

Satisfaction gains a theoretical meaning if it is interpreted as a reflection of utility (Clark & Oswald, 1996). One dichotomy in social sciences concerns whether utility depends on the individual's absolute position or rather on their relative position (Clark & Oswald, 1998). Traditionally, economists accepted the former view by modelling economic agents' behaviour as a function of absolute levels of income. Advocates of the latter view are generally found among sociologists, who attach more attention to socio-economic status in comparison with peers as a determinant of behaviour (see, e.g., Festinger (1954)). Both views predict that over-educated individuals have lower satisfaction levels than adequately educated individuals with a similar educational background. Contrary to the economic view, the sociological view may also predict lower satisfaction levels compared with adequately educated colleagues in similar jobs. This is the case if their peer group consists of former classmates (King & Hautaluoma, 1987). This view is also consistent with Adams' (1963) equity theory, which states that satisfaction depends on the ratio of inputs to outputs, and with the view of Wilson (1967) that subjective well-being depends on the gap between aspirations and actual realizations. Contrary to the impact from social comparisons, the latter two effects also result directly from the causal impact of over-education via under-utilization or over-investment in skills.

The supposition that over-educated individuals are less satisfied than adequately educated workers with a similar educational background has largely been confirmed by previous empirical research (Ahn, Moon, & Lee, 2001; Allen & van der Velden, 2001; Battu, Belfield, & Sloane, 2000; Feldman & Turnley, 1995; Tsang, 1987; Verhaest & Omey, 2006a; Vieira, 2005). Comparisons with adequately educated colleagues in similar jobs delivered less consistent outcomes. For this comparison, Hersch (1991) noted lower satisfaction levels among over-educated workers. Also Tsang, Rumberger, and Levin (1991) and Verhaest and Omey (2006a) found evidence for this relation. The relation was only statistically significant for some of their estimations, however. Additionally, most other studies are in line with the economic view by finding no evidence on lower job satisfaction levels (Büchel, 2002; Groot & Maassen van den Brink, 2000; Khan & Morrow, 1991; King & Hautaluoma, 1987). This lack of evidence tempted Büchel (2002) to the conclusion that assumptions of personnel managers about the lower productivity of over-educated workers should be reconsidered. The type of adequately educated workers with which over-educated individuals are compared is thus clearly important for the outcomes of the analysis and its interpretation. Moreover, also other points are often neglected in the literature on the relation between over-education and job satisfaction.

A first point concerns the differentiation between net and gross effects of over-education. It is generally found that over-educated workers earn more than their adequately educated colleagues, but less than their adequately educated former classmates (see Hartog (2000)). Thus over-education also generates indirect effects through its impact on wages. More generally, any job characteristic that influences utility may offset, or reinforce, the effect of over-education. To assess whether over-education is voluntary, it is important to consider its overall relation to job satisfaction. To assess whether over-education induces indirect productivity consequences, it might be more interesting to condition the analysis on the characteristics of the job.¹

Some methodological issues are also often neglected. A first methodological flaw is the measurement of over-education. Evidence in the literature is particularly based on subjective measures of over-education (see Verhaest and Omey (2006a)). Problems of spurious correlation between over-education and job satisfaction, therefore, might be severe (Verhaest & Omey, 2006b). Moreover, both types of indicators are likely to measure something different, objective versus subjective over-education. Subjective over-education probably reflects the worker's satisfaction with the match rather than objective over-education. In this case, we can model job satisfaction as a function of a two-stage process; objective over-education influences subjective over-education or match satisfaction, which in turn influences overall job satisfaction.² Although the influence of subjective over-education and the subjective experiences of other objective job characteristics on satisfaction is interesting on its own, we primarily want to assess the well-being costs of objective over-education. We are thus investigating a reduced form relationship. The usage of cross-sectional data might also be a draw-back of the existing evidence in the literature. Ferrer-i-Carbonell and Frijters (2004) illustrated the importance of allowing for individual fixed effects in research on the determinants of happiness. They showed that coefficients of independent variables such as income can be strongly upwardly biased if fixed effects are not accounted for. Since over-educated workers are likely to differ from other workers on their preferences and innate ability, it might also be an important issue within the context of this paper.

Finally, the outcomes are also likely to depend on the sample used. Most studies are based on data for the whole labour force, yet the negative relation between over-education and job satisfaction is probably more pronounced for new hires or new labour-market entrants such as school leavers. First, set-point theories state that individuals have some baseline level of satisfaction or happiness. These theories predict that satisfaction levels initially react to an event, but afterwards return to their baseline levels (Headey & Wearing, 1989). The effect of over-education on the individuals' job satisfaction may thus be

¹ Closely related to this are the studies that investigate the relation between the educational level and job satisfaction. Several contributions noted a negative relation between education and job satisfaction after conditioning on wages and other job characteristics (see, e.g., Clark and Oswald (1996), Verhofstadt, De Witte, and Omey (2007)).

² Van Praag, Frijters, and Ferrer-i-Carbonell (2003) developed such a two-layer model. Overall life satisfaction was modelled as a function of the satisfaction with the separate domains of life (including job satisfaction and leisure satisfaction), whereas domain satisfaction in turn was modelled as a function of objectively measured variables.

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