



Legacies of opportunity and economic integration: Path dependent labor force participation in Puerto Rico's development



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ABSTRACT

Using a large-scale sample of the working-age population drawn from U.S. decennial census microdata for Puerto Rico, this article evaluates whether theories of labor markets adequately explain labor force participation rates in developing countries that are highly integrated to more developed nations. Significant differences across labor cohorts in the likelihood of participation of men and women indicate that participation is conditioned by historical timing of entry into the work force. A two-equation model is used to estimate the exogenous effect of expected earnings. Cohort differences persist net of controls for education and earnings. This evidence suggests path-dependent participation rates associated to distinct stages of the economic development process, and is most consistent with institutionalist perspectives in the sociology of labor markets. Cohort participation-experience profiles are not consistent with the labor-leisure choice model or with the international division of labor theory.

1. Introduction

Sustained participation in the work force is a fundamental precondition for earnings and occupational attainment in developed and developing countries alike (Breen, 2005; Gangl, 2003; World Bank, 2013). Despite this generally acknowledged importance, how participation in developing countries is shaped by their integration to more developed ones, remains an open question. In this article, I extend current sociological perspectives on the interplay between economic development and inter-country integration by examining labor force participation during Puerto Rico's industrialization. Relying on labor cohorts to proxy timing of entry into the work force, I analyze whether phases of development associated to variation in economic opportunities generate cohort-specific participation trajectories. The estimated inter-cohort differences for men and women are then used to assess theoretical perspectives on economic integration and labor markets.

The supply of labor is defined as the sum of all those working or actively looking for work. When considered as a proportion of all adults, it measures the rate of labor force participation. The analysis of participation rates over time relying on micro-data has been extensively carried out for industrialized countries and their corresponding industrialization experience (Balleer, Gómez-Salvador, & Turunen, 2009; Clogg, 1982). These results indicate that greater economic integration does not necessarily produce convergent participation rates across countries, findings that allude to the importance and persistence of differences in labor market institutions (Kapsos, 2007). Comparable

insight into developing countries has remained limited owing to a focus on periods of insufficient length, or due to reliance on intra-country variation at a single point in time to gauge differences in levels of industrialization (Evans & Saraiva, 1993; Smith, 1981; Yu, 2005).

Puerto Rico provides a threefold methodological advantage for improving sociological knowledge about the relationship between labor market institutions and inter-country integration: First, Puerto Rico's high level of economic and political integration to the United States, typifies the conceptualization of high integration found in sociological perspectives concerned with its consequences for development. Puerto Rico's labor market can therefore provide a well-suited context for examining such perspectives. Secondly, since Puerto Rico's relationship to the United States resembles that of many developing countries with more industrialized nations, findings on Puerto Rico may speak to the experience of countries, territories, or provinces relying on integration for development. Such is the case with Ireland, Jamaica, and the Dutch and French Antilles, all of which have relied on export-based strategies and on out-migration to more industrialized partners (Byron & Condon, 1996; Mjøset, 1993; Peach, 1967). Finally, Puerto Rico's development trajectory, with fairly distinct economic development periods, can be differentiated by institutional and macro-economic characteristics.

I exploit variation in these characteristics to evaluate the presence of inter-cohort differences in labor force participation. For the purposes of my analysis, a labor cohort is defined as a set of individuals who, upon entering the work force for the first time, face similar labor market institutions and macro-economic conditions. Previous work,

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relying on this aspect of Puerto Rico's development, documented differences across historical periods in the relevance of labor cohorts for occupational status inequality (Toro, 2014). I improve on this research design by using information on English ability in Puerto Rico as a source of exogenous variation in a non-recursive estimation of the relationship between expected earnings and participation. This identification strategy enables disentangling the effect of cohort covariates from the net effect of earnings.

I find evidence of inter-cohort differences in labor force participation. Specifically, the relative odds of men who entered the work force in the 1950s and 1960s, during the most dynamic period of Puerto Rico's industrialization, are higher when observed 11–20 years after their initial entry into the work force, than those of comparably experienced labor cohorts, whose initial entry into Puerto Rico's work force took place in the 1970s and 1980s. At higher levels of experience, industrial-era labor cohorts reflect a lower likelihood than preceding cohorts. Inter-cohort differences among women resemble those documented for men, but are mostly significant upon controlling for expected earnings. These results are best viewed as path-dependent participation profiles determined by changes in the institutional make-up of Puerto Rico's labor market throughout its industrial development. Expected earnings are an important mechanism that channels differences in economic opportunities that result from changes in the institutions of Puerto Rico's labor market. More generally, evidence from Puerto Rico suggests the need for sociological perspectives focused on development and social stratification to formulate explicitly how the institutional context of labor markets in developing countries interacts with economic integration.

2. Labor force participation and inter-country integration

Three theoretical perspectives address the dynamics of labor force participation under economic development: the labor-leisure framework; the institutionalist perspective in the sociology of labor markets; and the international division of labor theory, itself a specification of world systems theory and the dependency school to account for the characteristics of labor markets in developing countries. Each of these three perspectives has distinct implications for the likelihood of participation by labor cohort under conditions of high inter-country integration. My discussion specifies for each theory gender-specific hypotheses for cohort differences.

2.1. Integration and the labor-leisure trade-off

The nineteen fifties and sixties witnessed the apogee of modernization theory, which argued that development is determined by the adoption of institutions similar to those of industrialized nations (Moore, 1951). A similar formulation by various theories of globalization considers that trade, and flows of information across countries, lead less developed countries to adopt the institutions of Western countries (Guillen, 2001). In this view, integration is expected to germinate institutional convergence, a likely outcome in countries that see a high level of legitimacy in the practices and institutions of the more developed country (Herkenrath, König, Scholtz, & Volken, 2005). High levels of institutional convergence make it possible for economic actors to base their actions on the calculation of trade-offs. The labor-leisure choice framework conceptualizes labor force participation in terms of this decision-making process. A potential labor market entrant is more likely to enter and stay in the work force if he/she can expect to earn a wage or salary that is higher than the value placed on leisure-time, child-care, and household-related production (Heckman, 1980; Mincer, 1962). Concomitantly, as merit and performance become key markers of expected productivity, employers make hiring and pay decisions based on the education and experience of applicants. Research on industrialization in the United States has documented changes in the elasticity of earnings consistent with this interpretation,

suggesting that earnings became a more important predictor of participation with economic change (Blau & Kahn, 2007).

This perspective suggests that inter-cohort differences are channeled through differences in expected earnings. Potential entrants into the labor force in the early stages of development face distinctly less attractive trade-offs owing to lower earnings, lower diversity of occupational opportunities, and to the incipient institutionalization of meritocratic criteria. This implies that early cohorts are likely to participate at lower rates than more recent ones. As development proceeds, subsequent labor cohorts encounter more favorable conditions upon first entering the work force, leading them to participate at higher rates. These inter-cohort differences should be present net of education since comparably educated workers in more recent cohorts are faced with better earnings and employment prospects.

Early formulations of the labor-leisure choice perspective, based on an invariant conception of gender roles, expected development to induce a reduction of women's labor force participation as rising earnings in manufacturing were expected to stimulate male participation, enabling families to sustain consumption levels with fewer workers (Mincer, 1962). Despite this expectation, the labor-leisure framework is consistent with the view that development leads to rising women's participation. Through the combined effect of growing "gender-appropriate" service sector jobs, and prospects of higher earnings owing to rising educational attainment, development can induce rising participation rates among women. Together with declining fertility and lower marriage rates—social changes commonly associated to development—women experience a reduced opportunity cost of work. Research examining the relationship between participation and GDP per capita has documented a U-shaped pattern consistent with these expectations (Rau & Wazienski, 1999). The labor-leisure framework implies that inter-cohort differences among women will be strongly channeled by expected earnings since women are disproportionately affected by the trade-offs between work and family obligations. Consequently, in the multivariate analysis, I examine cohort differences, net of controls for marriage and number of children. All hypotheses presented below are formulated conditional on these controls.

The implications for gender-specific rates suggest the following hypotheses:

Hypothesis 1. (men's participation). Development induces a monotonic rise in participation across cohorts as recent labor cohorts participate at higher rates than preceding ones. But, net of expected earnings and education, male inter-cohort differences in participation should be non-significant.

Hypothesis 2. (women's participation). Net of education and experience, recent labor cohorts participate at higher rates than pre-industrial and industrial labor cohorts. Inter-cohort differences should become non-significant upon controlling for expected earnings.

2.2. Comparative institutionalism and path dependence

The institutionalist perspective on labor markets has emphasized how variation in employment systems across countries affects the degree of uncertainty faced by workers (DiPrete, Goux, Maurin, & Quesnell-Vallee, 2006; Fligstein 2001; Kalleberg, 1988). Employment systems refer to the combined array of social policies that provide social security and training for the work force (Breen, 2005; Wolbers, 2007). This perspective shares with institutionalist perspectives in the sociology of economic development an interest in how variation in regulations induces differences in economic opportunities (Evans, 2005; Hall 2008; Hicks & Kenworthy, 1998; Portes & Smith, 2012). For example, development may depend as much on merit-based selection, as on institutionalizing employment systems and regulations that facilitate long-term employment security, and viable retirement

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