Introduction

- Differences in labor market regulation across the world
- Rigid labor markets survive
- Why?
We argue that family values play a crucial role.

What is the relation between family values and labor market regulations?

Flexible labor markets require *mobile* workers.

Otherwise, firms can take advantage of the immobility of workers and extract *monopsony* rents.

In cultures with strong family ties, moving away from home has utility costs.

Thus, individuals with strong family ties support regulated labor markets to reduce the monopsony power of firms, even though they produce lower employment.
There are complementarities between the strength of family ties and the stringency of labor market regulation.

- Weak family ties ⇔ flexible labor markets
- Strong family ties ⇔ rigid labor markets

This leads to two equilibria:

- Weak family ties and labor market flexibility
- Strong family ties and stringent labor market regulation
What can we explain?

On the positive side

- why certain countries have more regulated labor markets than others
- strong inertia in labor market regulations due to intergenerational transmission of family values

On the normative side

- why rigid labor markets with high unemployment are not necessarily less efficient than flexible labor markets with low unemployment
- why it is so difficult to reform labor markets in many countries
Related research

- Cultural values and institutions (Tabellini 2008)
- **Our approach:** about family values and labor market regulation
Outline

1. The model
2. Family ties and the demand for labor market regulation
3. Persistent effects of family ties
Results

- Individuals with strong family ties migrate less, face a wage and employment penalty, and demand more labor market regulations (within country and second generation immigrants)
- Family values inherited from the country of origin before WWII are positively correlated with the stringency of labor market regulation today
- Family structures in the Middle Ages are related to current desire for labor market regulation
The model
The setup

- There are two goods: labor and a numeraire good produced with labor
- Continuum of individuals of mass one
- Individuals are uniformly located on the $[0, 1]$ line
- Identical, risk neutral and no preference for leisure
- Utility $= \text{consumption} + \text{valuation of family relations}$
- 3 stage static model
Stage 1: At birth, each individual is located on the $[0, 1]$ line, on a point where his parents live

- Individuals "choose" family values which can be
  1. either with strong family ties
  2. or with weak family ties
- The choice of family values is irreversible
The share of individuals with strong family ties is denoted by $\sigma$.

Person with weak family ties are indifferent between living in their location of birth or elsewhere.

Strong family ties yield utility

$$
\begin{cases}
\Delta(\sigma) > 0 & \text{if immobile} \\
-\Delta(\sigma) & \text{if mobile}
\end{cases}
$$

$\Delta(\sigma)$, the valuation of strong family ties, increases with $\sigma$ (social norms more influential when more spread).
Stage 2: People vote to choose labor market regulation according to the majority rule

- There are two possible types of labor market regulation
  1. Labor market flexibility (i.e. laissez-faire)
  2. Regulation which comprises
     - minimum wage
     - job protection
Stage 3: Firms offer labor contracts

- When a worker is employed in his initial location, his productivity $y$ is drawn in the uniform distribution on the interval $[0, 1]$

- All workers can find jobs with productivity 1 in locations different from their initial location

- Job protection constrains firms to keep all employees whose productivity is above a threshold value denoted by $R \in [0, 1]$.

- Job protection entails deadweight losses $c$, that is the production of a worker who draws the productivity $y$ is equal to $y - c$. 
The model

The solution

- Model solved backward
- **In stage 3**, the labor market is either regulated or flexible, and the share of individuals with strong family ties is given
Flexible labor market

- Individuals with weak family ties get a wage equal to 1 because they are perfectly mobile

\[ U_F^W = 1 \]

- Individuals with strong family ties get a wage equal to 1 if they leave their initial location, but the cost of moving is \( 2\Delta(\sigma) \), so their reservation wage is equal to:

\[ \max[0, 1 - 2\Delta(\sigma)] \]
If $\Delta(\sigma) > 1/2$ they stay and their utility is $\Delta(\sigma)$

If $\Delta(\sigma) < 1/2$

1. If their productivity is larger than their reservation wage, they are hired and their utility is $1 - \Delta(\sigma)$
   $$(1 - 2\Delta(\sigma) + \Delta(\sigma))$$

2. If their productivity is lower than their reservation wage:
   $$1 - \Delta(\sigma)$$

The utility of individuals with strong family ties is

$$U^S_F = \max[\Delta(\sigma), 1 - \Delta(\sigma)]$$
Rigid labor market

- The government regulates:
  
  \[
  \begin{cases}
  \text{minimum wage } w \\
  \text{job protection } \quad \text{individual gets a job if } y \geq R
  \end{cases}
  \]

- Deadweight losses associated with job protection:
  productivity is \( y - c, \ c > 0, \ c \) small, instead of \( y \)

- \( y \) uniform distribution on \([0, 1]\)
• Individuals with weak family ties get the expected utility

\[ U^W_R = (1 - R) \max(1 - c, w) + R(1 - c). \]

• The expected utility of individuals with strong family ties is

\[ U^S_R = (1 - R) \max[w + \Delta(\sigma), 1 - c - \Delta(\sigma)] + \\
R \max[\Delta(\sigma), 1 - c - \Delta(\sigma)]. \]
In stage 2, people vote to choose the labor market policy according to the majority rule.

The share of individuals with strong family ties, chosen in stage one, is given.

The median voter can have either strong family ties or weak family ties.

2 policies: either regulation or flexibility.
Individuals with weak family ties obtain

\[
\begin{align*}
U_W^F &= 1 \quad \text{under labor market flexibility} \\
U_W^R &< 1 \quad \text{under labor market regulation}
\end{align*}
\]

Therefore, individuals with weak family ties always prefer labor market flexibility.

Vote → labor market flexibility if the share of strong family ties \( \sigma < 1/2 \)
Suppose $\sigma > 1/2$,

The expected utility of individuals with strong family ties with flexible labor market is

$$U_F^S = \Delta(\sigma)$$

When the labor market is rigid:

$$U_R^S = (1 - R)w + \Delta(\sigma)$$

Thus, when $\sigma > 1/2$, a median voter with strong family ties prefers a rigid labor market
The optimal labor market regulation:

$$\max_{(w,R)} U^S_R = (1 - R)w + \Delta(\sigma)$$

subject to the zero profit condition

$$\int_{R}^{1} (y - c - w) dy = 0$$
Solution

\[ R = c \text{ and } w = \frac{1 - c}{2} \]

Workers with strong family ties get the expected utility

\[ U^S_R = \frac{(1 - c)^2}{2} + \Delta(\sigma) \]

which is larger than \( \Delta(\sigma) \), the utility they would get if the labor market was flexible.

In conclusion: the outcome of the vote is

\[ \begin{cases} 
\text{regulation} & \text{if } \sigma > 1/2 \\
\text{flexibility} & \text{otherwise}
\end{cases} \]
• **In stage 1** individuals choose their family values with perfect foresight

• The utility gains of choosing strong family ties rather than weak family ties are:

\[
\Gamma(\sigma) = \begin{cases} 
\max[\Delta(\sigma), 1 - \Delta(\sigma)] - 1 & \text{if } \sigma \leq 1/2 \\
\Delta(\sigma) - \frac{1-c^2}{2} & \text{if } \sigma > 1/2
\end{cases}
\]
Properties of equilibria

- Under the assumptions that $\Delta(1/2) > 1/2$ and $\Delta(0) < 1$ there are two stable Nash equilibria.
- The equilibrium with strong family ties and rigid labor market has lower employment and lower production than the equilibrium with weak family ties.
Welfare comparison

- "Standard" result in economics, BUT the equilibrium with strong family ties provides higher welfare than the equilibrium with weak family ties IFF $\Delta(1)$ is sufficiently large

- The economy can be coordinated on an equilibrium in which the labor market can be
  - either too rigid
  - or too flexible
The model

The dynamics of family values

- Paternalistic parents wish to transmit their own values to their children (Bisin and Verdier, 2001)
- Each individual lives for one period, and has payoffs as before
- Children inherit family values with probability $p$ and are free to choose their family values with probability $1 - p$
• Sequence of events repeated in each period with an infinite horizon, with a fraction $p\sigma_{t-1}$ constrained to have strong family ties and a fraction $p(1 - \sigma_{t-1})$ to have weak family ties.

• If $\sigma_0 > 1/2p$, then the median voter chooses to regulate the labor market and every individual is better off with strong family ties. $\sigma_1 = 1 - p(1 - \sigma_0)$.

• In period $t$ the labor market is regulated and the share of individuals with strong family ties

$$\sigma_t = 1 - p^t(1 - \sigma_0) \rightarrow 1 \quad \text{as } t \to \infty$$

• $\sigma_0 < 1 - 1/2p$ the same type of reasoning shows that the economy has flexible labor market in period $t$ and that $\sigma_t \to 0$ as $t \to \infty$
If $p > 1/2$ and if the initial share of individuals with strong family ties is

- large $\rightarrow$ rigid labor market
- small $\rightarrow$ flexible labor markets
The model yields two main predictions:

1. Individuals with strong family ties prefer more stringent labor market regulation, because they want to stay geographically immobile and they want to be protected from the monopsony power of firms.

2. The strength of family ties can persist over time and can have persistent effects on labor market regulation if family values are transmitted across generations.
Family ties and the demand for labor market regulation

We document two facts:

1. strong family ties predict strong demand for job security and wage regulation
2. positive cross-country correlations between the strength of family ties and labor market rigidity
Data

- Survey of Health, Ageing and Retirement in Europe (SHARE): family ties (child-parent geographical proximity)
- International Social Survey Program: demand for wage regulation
- Word Bank: employment protection
- Aghion, Algan, Cahuc (2008) and ILO: minimum wage
Family ties

1. Share of adult population in parental house
2. How important is the family in one person’s life (with 4 being very important and 1 not important at all)
3. 1) One does not have the duty to respect and love parents who have not earned it; 2) Regardless of what the qualities and faults of one’s parents are, one must always love and respect them.
4. 1) Parents have a life of their own; 2) It is the parents’ duty to do their best for their children even at the expense of their own well-being;
5. Importance of obedience as value trasmited to children
6. The goal of my life is to make my parents proud
7. Fraction of adult children who live 5 Km or closer to their family; average age at which the young adult left home, frequency of contacts with their parents
Demand for regulation

- Preference for job security (WVS): “Here are some more aspects of a job that people say are important. Please look at them and tell me which ones you personally think are important in a job?: Good Job Security?” (1 if job security is mentioned and zero otherwise)

- Demand for wage regulation (ISSP): "Here is a list of potential government actions for the economy: Control wages by law?" (from strongly agree (4) to strongly disagree (1))
Cross-country correlations

Labor market regulation and family ties

- Firing costs vs. Share of adults living in parental house
- Minimum wage index vs. Share of adults living in parental house
Desire for labor market regulation and family ties

- Share of adults living in parental house
- Demand for job security
- Demand for wage security
Desire for labor market regulations and family ties

- Age left home
- Less than 5 km close to parents
- How often talk to your parents

- Demand for job security
- Demand for wage security

Countries: Austria, Poland, Switzerland, Greece, Italy, Sweden, Czech Republic, Germany, Ireland, Denmark, France, Belgium, Netherlands.
The persistent effects of family ties

We show that:

1. Second generation U.S. immigrants inherit the family values and the behavior of their country of origin.
2. The strength of family ties before WWII is correlated with labor market rigidities at the beginning of the 21st century.
3. Family structures in the Middle Ages are correlated to current desire for regulation.
The persistent effects of family ties
Intergenerational transmission of family values

- General Social Survey to study the impact of family values on attitudes of U.S. immigrants towards labor market regulation (since 1977)
- Both surveys provide information on the birth place and the country of origin of the respondent
For both attitudes and labor market outcomes, we run the following OLS or probit (depending on the nature of the left hand side variable) regressions:

\[
Y_{ic} = \alpha_0 + \alpha_1 \text{family\_ties}_c + \alpha_2 X_i + \delta_s + \varepsilon_{ic}
\]

- \(Y_{ic}\) is our variable of interest for an immigrant \(i\) whose forbear was born in country \(c\)
- \(X_i\) are individual controls
- \(\text{family\_ties}_k\) is the measure of strong family ties calculated from the WVS in the country of origin
- \(\delta_s\) state or county dummies whenever possible
Evidence from the CPS

- Second generation immigrants outcomes from the Current Population Survey
- We also repeat the exercise using the Censuses 1940, 1960 and 1970
### Table 1: Effect of Family Ties on Mobility

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*Significance levels: *** p < 0.01, ** p < 0.05, * p < 0.1. Standard errors in parentheses.
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## Family ties and the demand for labor market regulation

### The persistent effects of family ties

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Evidence from the General Social Survey

- Evidence on demand for regulations for second generation immigrants
- Three questions on labor market regulation:
  1. Whether job security is the first, second, third, fourth or fifth most important thing in a job
  2. Whether the government should regulate wages
  3. Whether the government should support declining industries

- Each regression controls for a quadratic in age, years of education, gender, income, employment and marital status, number of children and region fixed effects.
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<td>0.421*</td>
<td>0.274***</td>
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<td>(0.231)</td>
<td>(0.302)</td>
</tr>
<tr>
<td>spect parents</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>obedience</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>rents proud</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>rents responsibility</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Family important</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>2146</td>
<td>2127</td>
<td>2146</td>
<td>1845</td>
<td>2140</td>
<td>2146</td>
</tr>
<tr>
<td>squared</td>
<td>0.07</td>
<td>0.07</td>
<td>0.06</td>
<td>0.07</td>
<td>0.06</td>
<td>0.06</td>
</tr>
</tbody>
</table>
Family values are transmitted across generations

We show the persistent effect of family values

1. Countries with stronger family ties before WWII have more rigid labor markets in the beginning of the 21st century

2. Exploit differences in family types across European regions dating back to the Middle Ages, by using the classification of Emmanuel Todd (1990)
Inherited values before WWII and labor market regulation today

- We detect family values before 1940 by looking at the family values inherited from their country of origin by U.S. immigrants whose forebears arrived in the U.S. before 1940 (second gen. born before 1940, third gen. born before 1965 and fourth gen. born 1990)

- Country of origin fixed effects OLS regression for answers to the question about family ties in the GSS
The question is: “Do you spend social evening with relatives?”

1. almost daily
2. several times a week
3. several times a month
4. once a month
5. several times a year
6. once a year
7. never
Introduction

The model

Family ties and the demand for labor market regulation

The persistent effects of family ties

Conclusion
### Table 1: Dependent Variable Analysis

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>(1) Firing costs</th>
<th>(2) State regulation of minimum wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inherited family ties before 1940</td>
<td>0.554**</td>
<td>0.024**</td>
</tr>
<tr>
<td>Civil law origin</td>
<td>0.001</td>
<td>-0.005</td>
</tr>
<tr>
<td>Scandinavian origin</td>
<td>-0.158</td>
<td>-0.021</td>
</tr>
<tr>
<td>German origin</td>
<td>-0.058</td>
<td>-0.007</td>
</tr>
<tr>
<td>Ln(population)</td>
<td>0.002</td>
<td>0.003</td>
</tr>
</tbody>
</table>

| Observations                        | 24               | 23                                   |
| R-squared                           | 0.48             | 0.55                                 |
Medieval family structures and current desire for labor market regulation

- We document a correlation between medieval family structures and current family arrangements.
- We show that medieval family structures are related to current desire for regulation.
Todd’s classification of family types

- Todd (1990) provide a classification of family types along two dimensions:
  1. Vertical relationship between parents and children ("liberal" versus "authoritarian" family)
  2. Horizontal relationship between siblings (based on inheritance rules)

- Four family types:
  1. **Absolute nuclear family**: liberal and unequal
  2. **Egalitarian nuclear family**: liberal and equal
  3. **Extended family**: authoritarian and unequal
  4. **Communitarian family**: authoritarian and equal
<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1) Living with parents (adult children)</th>
<th>(2) Most important for a job: job security</th>
<th>(3) Government: help to protect jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egalitarian Nuclear Family</td>
<td>0.090***</td>
<td>0.090</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td>(0.029)</td>
<td>(0.08)</td>
<td>(0.09)</td>
</tr>
<tr>
<td>Extended Family</td>
<td>0.061**</td>
<td>0.14**</td>
<td>0.102</td>
</tr>
<tr>
<td></td>
<td>(0.022)</td>
<td>(0.06)</td>
<td>(0.082)</td>
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<tr>
<td>Communitarian Family</td>
<td>0.092***</td>
<td>0.15**</td>
<td>0.262**</td>
</tr>
<tr>
<td></td>
<td>(0.028)</td>
<td>(0.07)</td>
<td>(0.102)</td>
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<tr>
<td>Observations</td>
<td>17854</td>
<td>19460</td>
<td>8659</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.347</td>
<td>0.090</td>
<td>0.167</td>
</tr>
</tbody>
</table>
Countries with strong family ties favour a host of labor market regulations.

Indivuals coming from strong family ties societies also have lower geographical mobility, wages and employment.

Low employment associated with labor market rigidity could be the price that certain countries choose to pay in order to enjoy the benefits of family ties.

This conclusion illustrates the interest of accounting for cultural values in economics and their interaction with institutions.