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Non Cognitive factors and Economic Conditions of Individuals working in Informal sector : A systematic review.

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Abstract

Poverty has become inseparable part of our society. even in developed nations there are people who cannot afford basic facilities, required for survival. researchers have tried to find the reasons behind this severe problem. And now the exploration is not limited to the field of economy, but is studied in various science branches including Psychology. This study is also an attempt to explore the possible causes of poverty. In this review paper we are going to focus upon effect of some non cognitive factors upon real life economic achievements, in the non-formal sectors. According to ACT “Cognitive skills involve conscious intellectual effort, such as thinking, reasoning, or remembering. ...Non-cognitive or “soft skills” are related to motivation, integrity, and interpersonal interaction.” Previous researches support the hypothesis - non cognitive factors like locus of control, conscientiousness and self esteem effect or predict significantly sorting of jobs (Heckman, Stixrud and Urzua, 2006), (Barrick and Mount, 1991; Ham, Junankar and Wells 2009). But there is scope of further research in field of non cognitive factors responsible for keeping someone from fulfilling bare necessities of life.

Introduction

Poverty is severe a problem. Further, defining poverty and categorising someone’s economic condition as poor is even more controversial issue. According to Rangarajan committee report in 2014 in India if a person spends or earns below Rs 32 in rural india and Rs 47 in urban area, his/her economic condition is officially poor. This amount according to

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government's estimate is just enough for survival of an individual. What can a person possibly buy with this meagre amount? This implies poor people are not able to access even the basic essentials of life for example good food, clean water, basic health facilities and education. According to UNDP report at present there are about 736 million people in world living under extreme poverty. And one out of every ten persons live below poverty line. The question is what keeps so many people poor? One can say that external factors like government policies are to blame, which is true to great extent. But then the question arises does poverty depends only upon the external factors? Or some humane factors which are internal to the person also play role in maintaining the poverty status? Further question arises can these internal factors be changed for good and cycle of poverty be broken? If so then what are the ways to change these factors?

Cognitive vs Non- Cognitive factors

The internal factors can be informally categorised into cognitive and non cognitive factors or skills. According to ACT "Cognitive skills involve conscious intellectual effort, such as thinking, reasoning, or remembering. ...Non-cognitive or "soft skills" are related to motivation, integrity, and interpersonal interaction." According to Raja Bentaouetkattan (world bank country manager of Yemen) "Non-cognitive skills cover a range of abilities such as conscientiousness, perseverance, and teamwork. These skills are critically important to student achievement, both in and beyond the classroom. They form a critical piece of workers' skill sets, which comprise cognitive, non-cognitive and job-specific skills."

There have been plenty of studies regarding the cognitive skills and their impact on the academic achievement as well as general life achievements (Becker, 1964).

It is due to our firm belief in cognitive skills, that we stress so much upon, the learning skills of students in our formal education system. But It may not be possible to make people economically successful by just providing literacy or improving just cognitive skills. Thus experts from multiple fields are exploring other determinants of economic success and social status beyond the scope of cognitive abilities. The cognitive skills or factors come into more determining action in case of high level jobs which require processing, analysis and modification of information or patterns and taking relevant decisions (Schmidt and Hunter, 2004). On the other hand the non cognitive factors have broader application as they play determining role in case of lower level of jobs like semi skilled labour as well as play role in improving working in high level jobs (Barrick and Mount, 1991).

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Non Cognitive factors and Economic Conditions

In this study we are going to focus upon effect of some non cognitive factors upon real life economic achievements, in formal sectors. Common sense dictates that Occupational choices play major role in determining the economic outcomes or wages. And researches support the hypothesis - non cognitive factors like locus of control, conscientiousness and self esteem effect or predict significantly sorting of jobs (Heckman, Stixrud and Urzua, 2006), (Barrick and Mount, 1991; Ham, Junankar and Wells 2009). Various studies in past have found a relation between the personality factor of conscientiousness and performance at job as well as salaries. These studies include (Salgado, 1997;Barrick and Mount, 1991) Further few more researches supported relation of conscientiousness with market performance and incentives such as (Hogan and Holland, 2003), Nyhus and Pons [2005]). Even after finding relation causality remains an open question for relation between personality factors and labour market performance. Various researchers like Duncan and Dunifon [1998] suggest that locus of control and self esteem when measured through standardised measures tend to predict the wages of adult just like cognitive factors. Drago [2008] and Judge and Hurst [2007] found similar results.

The time period for which a person remains unemployed predicts the economic level of an individual. Gallo, Endrass, Bradley et al. [2003] found that locus of control directed inwards has association with better chances of re-employment. Thus, we can establish from the previous researches that the non cognitive abilities have effect upon the wages and labour market outcomes in formal sectors. But the question remains about the informal sectors. In the informal sectors things are different on two basis 1) economic outcomes depend upon multiple factors and not only on performance in specific field. 2) formal interventions like workshops are difficult to apply. 3) Questions about effectiveness of various interventions is still not adequately researched about. Take example of farmers which constitute around 45% of labour force in India and majority of them are poor masses. Let us discuss few researches relevant to these questions.

Is it possible that two individual who have similar external resources can have different economic outcomes facing similar crisis? And further is it possible that PSE act as independent variable effecting the outcome? Perceived self efficacy or PSE is “the beliefs in one’s capabilities to organize and execute the courses of action required to produce given attainments” (Bandura 1997, p.3). Wuepper et al (2016) took the sample of farmers who have experienced lower than usual rainfall. The farmers of this sample with higher PSE better adjusted to the situation and adopted techniques and methods to minimise the effect of low rainfall on their income. Thus they did not have significant impact on their incomes.

On the other hand the farmers with lower PSE had their income hampered by the

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environmental uncertainty. Gebrehiwot and van der been (2015) also found similar results for Ethiopian farmers in drought prone areas. The farmers with higher PSE had greater intentions to adopt the risk reducing adaptive measures. Zarafshani et al (2010) found that farmers with higher PSE tend to approach the crisis after drought with problem focused strategy. While the farmers with lower PSE were more focused upon emotions.

Few psychologists have tried to modify the level of PSE to study it's effect upon economic conditions and decisions. Bernard et al (2014) modified the level of PSE of farmers which increased aspirations of the farmers. This lead to overtly observable behaviours like increased saving, reduced leisure time, improved investment in education. And such behaviours will have defining impacts upon economic conditions of the farmers. Bryan et al (2012) did research on the migratory tendencies of Bangladeshi farmers to urban jobs during pre harvest season. Although attractive opportunities were available to the farmers in urban jobs yet few farmers opted to migrate during their relatively unemployed time of pre harvest season. It could be inferred though not completely established through the research that lower level of PSE of farmers respective to getting jobs played role in lower rate of such migration. Such findings of effect of non cognitive factors is not limited to farmers only. Similar experiment of raising self esteem and PSE of Indian sex workers to look for its effect on psychology and behaviour of these workers was done by Ghosal et al (2015). Findings were positive as the intervention led to increase in the saving and forward looking behaviour of the sex workers. Further, women, who are also marginalised or weaker section of our society have lesser role in economic development of themselves and country as whole. Lisa Farrell et al. in 2017 found that level of financial self efficacy influence the financial decisions of Australian women. Women with higher self efficacy tend to hold investments and savings rather than debt related products. Their research further revealed significance of financial self efficacy dependent from financial literacy. Thus improving financial self efficacy has unique role in overall economic outcomes or development.

Other than PSE and self esteem other important relevant non cognitive factor is self control. Camilla Strömbäck et al.(2017) tried to find relation of self control and other non cognitive factors with financial decision making. Their research revealed a significant relation between self control and better deciding making and lesser anxiety. They tend to save money from every pay check and feel more secure about present and future financial situations. However few researches suggest that self esteem positively effects wages but indirectly through education. The direct effect of self esteem is not significant if locus of control is taken as controlled variable. (Araujo & Lagos, 2013)

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Conclusion and Way forward

Away from scientific knowledge in the realm of common sense we have ample stories and theories supporting role of non cognitive factors in real life. For example story of tortoise and hare. We have a quote “ where there is a will there is a way”. But we lack research evidences supporting such claims specifically in informal sectors of economy and personal finance behaviour like decision of saving. Previous studies give support to the significant role of non cognitive factors in the defining the economic conditions of an individual working in non formal sector. But the number of studies done in the field are not significant in themselves. Another problem is that tools to measure specifically non cognitive skills have not been developed. Possible interventions in this field and their implementation remains unexplored. As end of first quarter of 21st century we are standing at the brink of fourth industrial revolution. In this era the boundaries between digital, biological and physical world are fading. The non cognitive skill required to survive (because under extreme poverty survival is the only objective) are changing drastically. Thus there is need for dynamic and fast paced research in this field, through more scientific and objective methodology.

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