

# CELMR Research Digest



## What is CELMR?

CELMR is the Centre for European Labour Market Research and is made up of 12 faculty from the Economics Department at the University of Aberdeen plus associate members from across the world. The Centre prides itself on high quality, policy relevant research examining a whole range of labour market issues based primarily around four themes:

- Education, Skills and Labour Mobility
- Inequality in the Labour Market
- Health and Work
- Wage Determination

More information about CELMR can be found on our website:  
<http://www.abdn.ac.uk/business/research/celmr/index.php>

## CELMR News Quick Hits

- **Congratulations!** Two CELMR staff were recently promoted: Dr Heather Dickey from Lecturer to Senior Lecturer and Dr David McCausland from Senior Lecturer to Professor.
- **Hot off the Press – forthcoming publications in 2016:**
  - **Dickey, Zangelidis** et al., 'Doctor My Eyes: A Natural Experiment on the Demand for Eye Care Services,' *Social Science and Medicine*, forthcoming.
  - **McCausland** and **Theodossiou**, 'Consequences of Fiscal Stimulus on Public Debt: A Historical Perspective,' *Cambridge Journal of Economics*, forthcoming.
  - Sessions and **Skatun**, 'Performance Related Pay, Efficiency Wages and the Shape of the Tenure-Earnings Profile,' *Manchester School*, forthcoming.
  - Inkwood, Minns and **Summerfield**, 'Reverse Assimilation? Immigrants in the Canadian Labour market During the Great Depression,' *European Review of Economic History*, forthcoming.

## Editors' Corner

Welcome to the fifth CELMR Research Digest! We have had an excellent reception to the previous editions and are pleased to bring you further highlights of some of the recent papers and projects authored by faculty and staff associated with CELMR. We hope that you find it of interest and continue to welcome any feedback that you might have about this publication or the summaries contained here.

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## 'Historical Personnel Economics: Economic History and Economic Present'

Tim Barmby

University of Aberdeen, Department of Economics Working Paper



Prof Tim Barmby

There is a growing recognition that understanding economic history is more important than ever in the understanding of our economic present. Equally current economic thinking coupled with historical data can shed new light on our economic past.

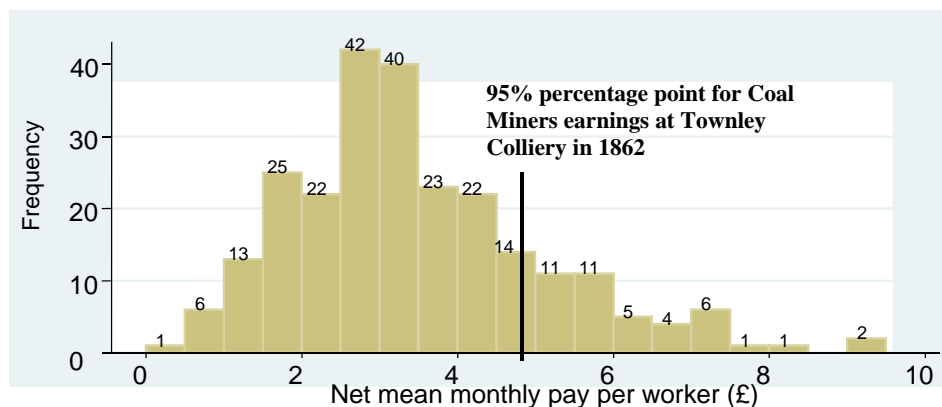
The contracting arrangements which were seen as the industrial revolution in the 19<sup>th</sup> century are a case in point. Much economic and social history places emphasis on the harsh conditions and exploitative arrangements faced by labour in this period. No doubt, making a living could be very tough at this time. However overly focussing on this aspect can obscure aspects of contracting where workers' human capital, skill and knowledge were important.

The numbers in brackets above the bins is the number of quarters in which this mean net monthly pay was observed. The miners took bargains each quarter, at piece rate to dig levels in the mine and/or extract galena (lead sulphide) ore. Lead miners were allowed to decline bargains they didn't think worth their while to take. The black

line at £4/17/7 is the 95% point for coal miners earnings (who were comparatively well paid) at Townley colliery around 30 miles or so from the lead mines in Allendale. So while coal miners earned on average more than lead miners (around £4 to £3/10/-) only 5% of coal miners earned more than the black line. What the histogram shows is that around 16% of lead miners earned more. Lead miners seem to have some discretion over which bargains they took, and *sometimes* it resulted in relatively good pay.

This is no more than suggestive that within the restrictive and exploitative arrangements which predominately characterised the 19<sup>th</sup> century labour market, there was some room for agency of the individual to use their skill and knowledge to secure a good pay day for themselves and their families. There were opportunities, and evidence (even statistical evidence) of this, giving a more nuanced picture of the skills and aspirations of an under-regarded group of workers.

(For further information please contact Prof Barmby: [tim.barmby@abdn.ac.uk](mailto:tim.barmby@abdn.ac.uk))



Net pay per month of Allendale Lead Miners in 1858-61



Prof Ioannis Theodossiou

## 'The Consequences of Fiscal Stimulus on Public Debt: A Historical Perspective'

W. David McCausland and Ioannis Theodossiou

*Cambridge Journal of Economics*  
forthcoming.

The current policy agenda of neoclassical macroeconomics, as expressed within conservative political circles in the UK and European Union, is that fiscal contraction is the lever that can bring about recovery from the current economic downturn. Allegedly, the reason is that when business sees that the government balance sheet is improving—and public debt declining—there will be greater confidence in the country's economic prospects, and this increased confidence will lead to higher investment. This in turn will lead to growth and the road to economic recovery.

Contrary to traditional predictions, it turns out that over a long historical span, fiscal contractions deteriorated rather than improved public debt as a percentage of GDP. This implies that fiscal austerity exacerbates the lack of demand and deteriorates

the prospects of economic recovery. Indeed, historical data have identified long periods during which primary deficits are increasing but debt ratios are falling. This seems to be at odds with the standard stock-flow notion that the stock of debt is augmented by the flows of excesses of government spending over tax revenues.

Employing annual data that span the period 1881–2011 for a panel of 11 OECD countries, we find an inverse relationship between primary government deficit and national debt. Increases in government expenditure reduce the national debt.

Conversely fiscal austerity turns out to increase the national debt. Furthermore,

***Taken together these results should cast some doubts on the merits of reducing public spending during periods of recession. Policies aimed at reducing the primary deficit would seem to actually worsen the debt ratio and increase unemployment.***

cuts in government expenditure appear not only to have transitory effects in increasing the national debt but also to have significant permanent effects in worsening the public debt. Thus, fiscal austerity leads to worsening public debt. Furthermore, a secondary effect of fiscal austerity is the important and negative impact on employment levels, showing that fiscal austerity has at least significant transitory effects on increasing unemployment.

The policy implications are profound and controversial. The results imply that in periods of recession, far from pursuing an aggressive

programme of austerity aimed at cutting the government deficit and involving substantial cuts to government spending, policymakers should be increasing public spending. If such spending is focussed on investment, rather than transfer payments (which

are excluded from the measures of the government deficit used in this article), then this not only stimulates demand and employment in the short term, when it is sorely needed, but also expands capacity for the long term, mitigating problems of lack of supply capacity when the economy moves out of recession. These conclusions are at odds with the received wisdom of current political

thinking, the media and much of the academic literature that promotes the notion of small government and appeal to a simple but misleading stock-flow idea that the stock of debt can be reduced by cuts to government spending. (For further information about this paper, please contact Prof Theodossiou: [theod@abdn.ac.uk](mailto:theod@abdn.ac.uk).)

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## 'Economic Fluctuations and Crime: Temporary and Persistent Effects'

Keith Bender and Ioannis Theodossiou

*Journal of Economic Studies*  
forthcoming



Prof Keith Bender

The link between crime and economic activity has a long history in economics. Adam Smith observed in his Lectures on Justice, Police, Revenue and Arms, '*Nothing tends so much to corrupt mankind as dependency, while independency ...increases honesty of the people. The establishment of commerce and manufactures, which brings about independency, is the best police for preventing crimes*'. Surprisingly, however, much of the recent social science research on the determinants of crime have either focused on inherent behaviour or on prevention. This paper focuses on this earlier line of research – focusing on the linkage between overall economic activity and crime. Establishing this link is important, particularly at a time when economic growth is still fragile in many parts of the world after the Great Recession.

The analysis in this paper utilises data for individual states in the US over a 40 year period for a number of crimes, including violent crime, property crime, murder, rape, robbery, aggravated assault, burglary, larceny theft and vehicle theft. The key relationship that is modelled is the linkage between these crime rates and the unemployment rate, holding constant a number of other factors that can contribute to crime rates.

***Allowing for the dynamics in the crime-unemployment rate relationship shows that there is a long-lasting, persistent effect of increased crime when unemployment rates increase.***

An important aspect of this literature is the statistical modelling of the relationship between crime and unemployment rates. Our innovation is to specify a dynamic model that incorporates the initial ('temporary') shock of a change in unemployment rates on crime as well as longer-term ('persistent').

Simple statistical models, without these dynamics, suggest that contrary to intuition (and Adam Smith!) increases in unemployment rates lead to lower crime, particularly for property crime, robbery and burglary. However, once the dynamics are modelled, the results confirm that there is a strong linkage between crime and unemployment rates, *ceteris paribus*, through a long-lasting, persistent effect of unemployment on a wide range of crimes. This suggests that economic downturns destabilise the social fabric, increasing social stress and disorder, as well as diminish the resources available to economically vulnerable people. Thus, Smith was right to say that economic prosperity is, '*...the best police for preventing crimes*'. The findings further suggest that an important tool in fighting crime is the promotion of a strong economy.

(For further information, please contact Prof Bender: [kabender@abdn.ac.uk](mailto:kabender@abdn.ac.uk)).

