

CELMR News

New grants awarded 2015-17

- Catia Montagna: Globalisation, labour markets and the welfare state (NORFACE) £274k (Aberdeen share) Jan 15 - Mar 18
European welfare states are undergoing significant changes, partly advocated on account of the challenges posed by the globalisation of the world economy. On the one hand, the economic dislocations arising from globalisation have increased demand for social protection. On the other the international competitiveness of firms and industries is seen as requiring welfare state retrenchments and a deregulation of labour markets. And yet, welfare states have been very resilient and a great variety in policies and labour market institutions continues to exist in Europe. The research being carried out in this project by an international team led by Catia Montagna sheds light on the complex interactions between globalisation, welfare states and labour markets and results so far suggest that a quest for 'competitiveness' is compatible with, and indeed may benefit from, meeting the needs for social protection.
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PhD conference 2016

The ninth CELMR PhD Research Workshop took place on Friday 2 December 2016 in the Sir Duncan Rice Library. The aim of the workshop was to provide training and guidance to the presenters on improving both the substance and the style of the presentation. A record twenty-five PhD students presented and defended their research ideas (see over for titles). The keynote speaker and discussant Dr Peter Dawson (University of East Anglia) presented his recent research entitled "Leisure, well-being and health"

Professor W David McCausland, Head of Economics, who chaired the opening session said "It was fantastic to be able to welcome a record number of PhD students to this annual event. As well as being one aspect of our formal monitoring and training of research student, the conference has enormous benefits in the training, networking and wellbeing of our PhD students, many coming through our MSc in Applied Economics programme. I am grateful to Dr John Skåtun and Professor Catia Montagna for their assistance in organising this event."



A selection of recent articles from CELMR

■ Tim Barmby, J.G. Sessions and Alexandros Zangelidis, Looking After Number Two? Competition, Cooperation and Workplace Interaction. *Journal of Economic Behavior and Organization* Vol. 131, Part A, Nov 2016: 166-82

Economists have traditionally said relatively little about the effect of relationships between family, friends, neighbours and work colleagues. In our study, we model and measure the relationship between cooperation in the workplace and absenteeism. Every worker has a tolerance level of sickness, determined by wages, sick pay and working hours. The decision to go to work or not depends on their own health and reservation level of sickness. Our results shed light on how people may interact in the workplace and the effect of this interaction on absenteeism. What we show is that people cooperate and don't selfishly maximise their own utility, as it is commonly assumed in standard economic analysis.

■ Yu Aoki, Donating Time to Charity: Working for Nothing? *Oxford Economic Papers*, forthcoming.

Millions of people across the world work for voluntary organisations and invest their abundant energies to help their communities. Globally, 21% of individuals volunteered in 2013, with Americans recording the highest volunteer participation rate of 44% in developed countries. Despite its enormous potential effects given the scale of volunteer activity, the studies on the effects of voluntary work, especially its effects on the recipients of service, are scarce. The finding suggests that societies facing population ageing can consider encouraging voluntary work for the elderly as a means to provide support for the elderly.

■ McCausland, D., and Theodossiou, I. "The Consequences of Fiscal Stimulus on Public Debt: A Historical Perspective" *Cambridge Journal of Economics* vol 40, no. 4, 2016, pp. 1103-1116.

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. However, contrary to these 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. 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.

■ Bender, KA. and K. Roche, Self-Employment and the Paradox of the Contented Female Worker. *Small Business Economics*, Vol. 47, no. 2, 2016, pp. 421-35.

There has been a growing literature in economics that examines the subjective wellbeing of workers. One of the most consistent empirical findings of this literature is that, *ceteris paribus*, women report having higher levels of wellbeing than men, in spite of the lower earnings levels of women. This result is so persistent across studies that some researchers have named it, "The Paradox of the Contented Female Worker". Explanations of this 'Paradox' range from some research suggesting that it is about men and women having different expectations about the workplace while other research finding that it is about the characteristics of the jobs themselves. Our results suggest that the 'Paradox' is even more apparent among the self-employed – the female-male job satisfaction differential is higher among the self-employed than for employees. Our findings further suggest that women are far better than men in matching to jobs with the characteristics that they want out of a job, such as independence, responsibility and contribution to society.

PhD Conference Titles 2016

- *Yiakoumi, Despina The impact of the design of the new UK Capacity Market on the market outcome*
- *Boddigere Sathyanarayana, Sujay Role of MSMEs in economic growth - A study on the Indian manufacturing sector*
- *Loria Rebolledo, Luis Enrique Investigating willingness to pay for low emission public transportation using a Discrete Choice Experiment*
- *Vanni, Eguolo May Capital market liberalisation, capital formation and economic growth: time-series evidence from Sub-Saharan Africa*
- *Ghosh, Deboshree Impact of immigration on regional native wages*
- *Pinto, Avanti Nisha The impact of regional environmental agreements on international trade and environmental quality*
- *Vanin, Pietropaolo Mismatch and arm characteristics: Oaxaca-*

A selection of recent articles from CELMR – contd.

■ Bender, KA. and Theodossiou, I., Economic Fluctuations and Crime: Temporary and Persistent Effects' *Journal of Economic Studies* 43, 4, p. 609-623

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 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.

■ Fraser Summerfield and Ioannis Theodossiou, The effects of macroeconomic conditions at graduation on overeducation, *Economic Inquiry*

This article shows that unfavourable economic conditions at graduation decrease the likelihood of a good job-worker match over a worker's subsequent career. Mismatch is quantified in terms of overeducation by both industry and occupation. The German Socio-Economic Panel and region-level unemployment rates from 1994 to 2012 are used. Instrumental variables estimates account for endogenous graduation timing. A single percentage point increase in regional unemployment causes an increase in the probability of overeducation of 1.6–1.7 percentage points for university graduates. Effects for technical tertiary education and apprenticeship graduates are smaller. The findings in this article suggest that the costs of recessions may extend to the future career of the affected workers. Whereas there is a focus among policy-makers on unemployment statistics, unfavourable labour market conditions are also costly for those who do find work. This article also suggests that scarring effects are persistent because estimates of the probability of overeducation are not restricted to early career workers. Furthermore, the effects of initial labour market conditions may last up to 9 years after graduation. The duration of scarring effects suggested by these overeducation estimates is consistent with the duration of scarring effects on wages in the literature. This suggests that overeducation may help to explain why workers graduating in a recession earn lower wages for several years after they enter the labour market. Therefore, the results in this article suggest that time does not cure all evils. Although workers may be able to climb the ladder, switching to better jobs as times improve, many workers cannot overcome the initial scarring effect. Some workers may choose to remain mismatched after the recession if they have developed specific human capital that might be lost in transition to the "right" job. However, there may be scope for training and job-search assistance programs following recession periods to assist those who are better served by returning to occupations or industries where their education is fully utilized. These policies may benefit some more experienced workers as well as recent graduates. This study finds scant evidence that horizontal mismatch responds to initial labour market conditions. Therefore, policy to improve job matching may be more effective if it is directed at workers with vertical mismatch. It appears that overeducation, that is an excess level of schooling, rather than mismatch across fields of study, is more likely to come about because of economic downturns. It is also more likely to have significant and lasting effects.

PhD Conference Titles 2016 (continued)

Blinder decomposition for England and Scotland

- *Haidy Amer Energy consumption and economic growth in the MENA region*
- *Farah Roslan An analysis on the linkage between electricity generation and economic growth in Malaysia*
- *Borhan Abdullah The immigrant-native wage gap in Malaysia*
- *Shan Lu The information content of corridor-implied volatilities of CBOE index options*
- *Jingzhen Liu Oil price systemic risk for the oil and gas industry: a Copula-CoVaR approach*
- *12 first-year students also presented their thesis proposals*



Ioannis Theodossiou

Ioannis Theodossiou with Costas Lapavistas, School of Oriental and African Studies, University of London, Theodore Mariolis, Panteion University and Stergios Skaperdas, University of California, Irvine recently received some prominence in the Greek media on the debate on [Euro crises in Greece](#) (see [English summary on final page](#))

New grants - continued

- **Catia Montagna:** ESRC Studentship for Pietropaolo Vanin £56k Sep 14 – Aug 17 The aim of this project is to shed light on the nature of high-skill mismatch in Scotland. The key conjecture underpinning the research is that a mismatch may not simply arise because of an absolute shortage or oversupply of skills, but also because firms and industries in a region fail to be perceived as being sufficiently attractive to those workers who possess the right skills. By bringing the firm and regional dimension into the analysis of skill mismatch, this project addresses a relatively neglected dimension in the literature and suggests that interventions directed to improving firms' and industries' attractiveness to high skill workers (such as industrial policy) may be as effective at mitigating mismatches as those that target the skill acquisition process (such as education policy).
- **Catia Montagna:** Management practices in determining firm performance and internationalization, Scottish Government, £12k Sep 14 – Jun 17 Aspects of firm behaviour internal to the firm have long been recognized as potentially important drivers of firm performance, but are still not been part of mainstream empirical work in the economic analysis of firm performance. This project aims to explore the role of management practices in determining firms' productivity and internationalisation. The main reason for a lack of empirical research on this topic has been the unavailability of large scale data bases that allow one to link management practices and organizational behaviour to firm performance in a consistent manner. Such data are now available for the US and will soon be available for Germany. Our aim is to explore the feasibility of collecting similar data for Scottish firms.

External Links and Public Engagement 2016-17

- **K Bender:** Interview with Sofiane Kennouche, "[Manufacturing in Scotland: What Do We Still Make?](#)", The Scotsman online 10 Feb 2016
- **K Bender:** Interview on the Kaye Adams Programme, BBC Radio Scotland, "Self-Employment and the Paradox of the Contented Female Worker," 27 Sept 2016.
- **I Theodossiou:** Key Note Speaker: Economic Society of Thessaloniki, 13th International Conference, Aristotle University of Thessaloniki, 24/11/2016. Title: Greek Tragedy in European Theatre; the Economic Consequences of Depression

A selection of the most recent articles from CELMR members

- The effects of macroeconomic conditions at graduation on over-education, **Summerfield, F. & Theodossiou, I.** 20 Jan 2017 *Economic Inquiry*.
- Measurement of Inequality with a Finite Number of Pay States: The Majorisation Set and its Applications, **Abul Naga, R. H.** 2 Nov 2016 *Economic Theory*. 25 p.
- Looking after number two? Competition, cooperation and workplace interaction, Barmby, T., Sessions, J. G. & **Zangelidis, A.** Nov 2016 *Journal of Economic Behavior and Organization*. 131, Part A, p. 166-182 17 p.
- Bargaining on your Spouse: Coasean and Non-Coasean Behaviour Within Marriage, **Skåtun, J. D.** 11 Oct 2016 *Journal of Family and Economic Issues*.
- Taxation, risk aversion, and the wage gaps in tournaments, **Skatun, J.** 7 Oct 2016 *Oxford Economic Papers*.
- Educational mismatch and retirement, **Bender, K. A.** & Heywood, J. S. 26 Sep 2016 *Education Economics*. p. 1-19
- Efficiency Effects of Access to Information on Small Scale Agriculture: Empirical Evidence from Uganda using Stochastic Frontier and IRT Models, Abdul-Salam, Y. & **Phimister, E.** 9 Sep 2016 *Journal of Agricultural Economics*.
- How effective are heuristic solutions for electricity planning in developing countries, Abdul-Salam, Y. & **Phimister, E.** Sep 2016 *Socio-Economic Planning Sciences*. 55, p. 14-24 11 p.
- Self-employment and the paradox of the contented female worker, **Bender, K. A.** & Roche, K. Aug 2016 *Small Business Economics*. 47, 2, p. 421-435 15 p.
- The Consequences of Fiscal Stimulus on Public Debt: A Historical Perspective, **McCausland, W. D. & Theodossiou, I.** Jul 2016 *Cambridge Journal of Economics*. 40, 4, p. 1103-1116 14 p.
- Leahy, D. & **Montagna, C.** (2017). 'Economising, Strategising and the Vertical Boundaries of the Firm'. *B.E. Journal of Theoretical Economics*, vol 17, no. 1
- Joint hypothesis tests for multidimensional inequality indices, **Abul Naga, R. H.,** Shen, Y. & Yoo, H. I. Apr 2016 *Economics Letters*. 141, p. 138-142 5 p.
- Performance Related Pay, Efficiency Wages and the Shape of the Tenure-Earnings Profile, Sessions, J. G. & **Skatun, J. D.** 18 Feb 2016 *The Manchester School*.
- "Doctor my eyes": A natural experiment on the demand for eye care services, Dickey, H., Ikenwilo, D., Norwood, P., Watson, V. & **Zangelidis, A.** Feb 2016 *Social Science & Medicine*. 150, p. 117-127 11 p.
- Economic Fluctuations and Crime: Temporary and Persistent Effects, **Bender, K. & Theodossiou, I.** 2016 *Journal of Economic Studies*. 43, 4, p. 609-623 15 p.

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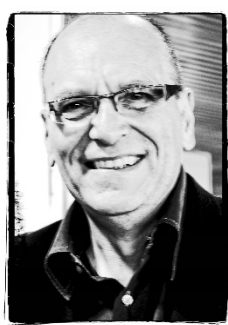
<http://www.abdn.ac.uk/business/research/celmr.php>

Directors: Professor Ioannis Theodossiou, Dr W David McCausland, and Dr John Skatun. Members: see website for full listing.

The Centre for European Labour Market Research was established in January 2000 and became part of the University of Aberdeen Business School in August 2002. Research is organised into four programmes:

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

The Centre has links with the Medical School through its collaboration with the Health Economics Research Unit (HERU) and the School of Biological Sciences. The Centre's activities include workshop series and the publication of its own discussion paper series. It also supports graduate student research and sponsors visiting scholars.



Professor Ioannis Theodossiou
Director, CELMR

Greek Tragedy in European Theatre

Ioannis Theodossiou recently received prominence in the Greek media for his article [Greek Tragedy in European Theatre: the Economic Consequences of Depression Economics](#), subsequently published by [Prime Economics](#). He is a short summary of that work.

Since 2010 the European Commission, the IMF and the Greek and European political establishment have imposed a full blown internal devaluation programme that in Greece has caused a depression unlike any seen in Europe since WWII. The main drivers of the programmes have been an implementation of the neoliberal policy agenda, including cuts in wages and pensions, increases in taxation, total relaxation of any collective agreement, redundancies for public sector employees, the fire sale of public assets at fire prices and severe cuts in funding for an already underfunded health system. These deflationary policies have been lately reinforced with an outrageous policy prescription for an economy in severe depression, namely the requirement of a Primary Surplus, i.e. the attainment of excess of revenues over expenditures net of interest payments. Almost ten years of strict implementation of these policies has created only despair for the Greek nation. The Greek national debt – the reduction of which was supposed to be the reason for these policies in first place - increased from around 109% in 2008 to almost 180% of GDP in 2015 . Meanwhile the country's GDP has declined by more than 25% over the same period and the Gross Fixed Capital Formation as percentage of the GDP (GFCF) has uniformly fallen from 26.0 in 2007 to 11.7 in 2015. The unemployment rate has increased from 11% to over 23% after reaching a peak of 28% and youth unemployment after reaching an extraordinary 60% is still around 44%. The destruction of the Greek economy is best highlighted by the reports regarding rising inequality and poverty. Greece has the largest increase in income inequality (before taxes and transfers) in Europe since 2010 which is now the highest in the EU. Any recovery is inseparably tied up with the re-establishment of both the purchasing power of the public and the restoration of demand at higher levels and importantly with establishing a higher volume of new capital investment. This should involve first, maintaining low interest rates and second, the return of confidence to the business world so inducing favourable expectations for the future so they are confident in investing in new capital. However, confidence cannot return without the experience of improvement in business profits; but business profits cannot return without the increase in new investment relative to savings. This can only take place first, when there is a rise in prices thus improving the ability of reducing the monetary indebtedness as the alleviation of the debts or at least the writing down of debts to match the market value of the and second, when favourable expectations to the business people are built up regarding the future yield of a unit of new capital asset compared to the current production cost of this unit of capital asset. The question then becomes what methods can be implemented to increase the volume of investment. The first is the restoration of confidence in business prospects. However, restoration of confidence should be based on real improvement in the demand for goods and services. This result can be achieved only along a second scheme. This scheme consists of a total reversal of the current policies and a drive for new public capital investment under the direct auspices of the State or other public authorities. It is of a vital necessity for the efforts to recovery to be a well-orchestrated, well programed by the strategic intervention of the government to increase economic activity. As Keynes put it 'I expect to see the State ... taking an ever greater responsibility for directly organising investment... a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment' (Keynes 1936).