

CELMR Research Digest

Autumn 2013



What is CELMR?

CELMR is the Centre for European Labour Market Research and made up of 12 faculty from the Economics Department at the University of Aberdeen plus several 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.php>

CELMR News Quick Hits

- At the Sept 2013 European Trade Study Group (ETSG) meetings, Prof Catia Montagna presented a keynote address entitled, 'Negative Shocks, Job Creation and Selection'. The ETSG is the largest international trade conference in the world, drawing hundreds of academics from both sides of the Atlantic.
- CELMR, along with financial support from the Scottish Institute for Research in Economics, hosted a two day conference on performance pay in June 2013. Bringing together ten papers, including keynote addresses by Jed DeVaro (Cal State-East Bay) and David Marsden (LSE), this conference highlighted some of the newest and most innovative research on performance pay in economics. A Policy Forum, with representatives of the Scottish Government and Aberdeen City Council, was also held, discussing the challenges of implementing performance pay in the public sector. Details can be found here:

<http://homepages.abdn.ac.uk/kabender/pages/conference/conference.html>

A New Publication!

Welcome to the first CELMR Research Digest! In this biennial publication, we will highlight some of the recent papers and projects authored by faculty and students associated with CELMR. We intend that the summaries will be as nontechnical as possible to allow for the widest dissemination of the ideas and findings from CELMR research.

We hope that you find it of interest and welcome any feedback that you might have about this publication or the summaries contained here.

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and

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Project: Eye Care Service in Scotland Did the Scots Get it Right?

Alexandros Zangelidis, Heather Dickey,
Divine Ikenwilo, Patricia Norwood and Verity Watson

Funded by the Scottish Chief Scientist Office (CSO)



Dr Alexandros Zangelidis

In April 2006 the Scottish Executive, working towards the VISION 2020 declaration of eliminating avoidable blindness by 2020, introduced free eye-care in Scotland and commissioned private ophthalmic optician practices to perform eye examinations. The examination optometrists provided was no longer a simple sight test, but a thorough examination to assess the patient's eye health, which provides a benefit to all individuals not only those requiring spectacles. The introduction of free eye-care was expected to encourage wider use of optometry services in Scotland.

The research team, with the financial support from the Chief Scientist Office (grant: CZG/2/533), evaluated the impact of this policy in Scotland. Specifically, they investigated people's responses to the policy and explored the socio-economic differences in the utilization of the free eye care.

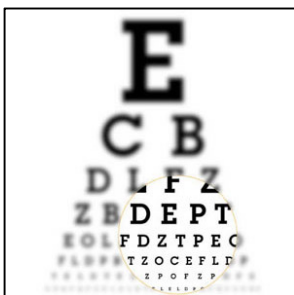
One of primary aims of the Scottish government's changes to eye-care policy was to encourage more of the Scottish population to have their eyes tested. All evidence, using different indicators, points in the same direction. The figures on the number of eye tests indicate a rise in the number of people in Scotland having their eyes examined since the policy introduction. However, the results reveal differences across socio-economic

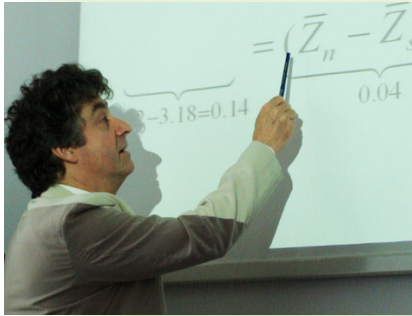
groups. While socio-economic groups associated with lower health care utilisation responded positively to the policy, they did so to a lesser extent than the other groups. Not only is the utilisation of eye tests lower for people with low education and those from poorer households it increased by less than other groups after the policy was introduced. Consequently inequality in eye-care utilisation has risen.

Tentative evidence suggests that the policy has encouraged those individuals who previously thought there was no reason to have an eye test to attend the optometrist more regularly. Moreover, the decrease in the percentage of eye examinations being referred to a GP or hospital indicates that more eye conditions are probably now being treated by optometrists in the community. This could potentially alleviate the financial and workload burden from Eye departments since these are patients who would otherwise need to be referred to secondary care.

The findings indicate that policy makers should focus on the more vulnerable segments of society in order to alleviate this inequality in utilisation. More effort could be devoted on informing the public about the free eye-care policy and educating them about the benefits of an eye examination. (For further information please contact Dr A. Zangelidis: a.zangelidis@abdn.ac.uk.)

Although people responded positively to the free eye care policy in Scotland, there are important socio-economic differences.





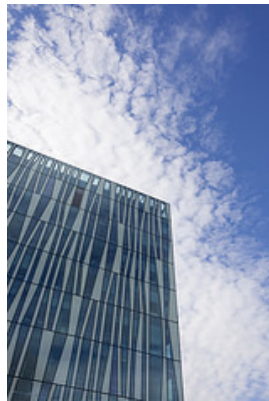
Prof Tim Barmby

'Incentives, Learning, Task Difficulty and the Peter Principle: Interpreting Individual Output Changes in an Organisational Hierarchy'

Tim Barmby, Barbara Eberth and Ada Ma

Labour Economics, vol. 19, no. 1, 2012, pp. 76-81

The Peter Principle is a well-rehearsed idea in Management Science, which has shown remarkable persistence since it was first proposed in the late 1960's by Laurence J. Peter and Raymond Hull, and it has arguably spawned a wider range of similar ideas such as the Dilbert Principle and has generalised itself into areas involving evolutionary change such as the Red Queen Effect and similar adages. The Peter Principle idea seems simple "Each worker is promoted to his (or her) level of incompetence". Clearly the principle seems to be important as it concerns itself with fundamental things to do with individual output or productivity. However, taken to a logical conclusion it seems to convey the rather somber message that people seem to do OK until they are promoted into a job they aren't very good at then they are stuck.



So what is the Peter Principle really saying and how useful might it be for Human Resource Professionals? In Ed Lazear's contribution to the commemorative *Journal of Political Economy* issue for Sherwin Rosen, Lazear in his usual direct style takes the theoretical structure of tournament theory (which of course he had invented with Sherwin Rosen) and showed the Peter Principle was simply an artifact of tournament theory. What he meant was that at the heart of any contest situation is an output equation for the individual worker. That output equation will have a systematic component which will be the effort of the worker and there will also be a stochastic

component, the worker had a bit of luck on his side, or not as the case may be. Workers who are promoted tend to have high output in the period prior to their promotion. High output comes from high effort, but it also comes from good luck.

Workers can deliver high output (at a certain cost) each period but they cannot ensure good luck! So luck will tend to revert to its mean, and have no effect in the long run. The artifact here is that workers who are promoted tend to have a large positive luck element in their output in the period prior to promotion which tends to revert to the mean in the next period after promotion, hence their output appears to fall!

In this paper Tim Barmby, Barbara Eberth, and Ada Ma, work out the different components which will constitute output change. It might be thought (in an HR sense) that promoting someone who subsequently doesn't produce as much is a problem. Since it is purely a statistical effect and not based on anything they can do anything about, HR professionals should worry less (which equates to devoting less resources to) about this. (For further information, please contact Prof T. Barmby: tim.barmby@abdn.ac.uk.)

Data from the firm under study indicate that only 11% of the observed productivity drop after promotion is due to the 'Peter Principle'.



Prof Ioannis Theodossiou

Health, Socioeconomic Status and Inequality

David Cooper, David McCausland and Ioannis Theodossiou, “Unemployed, Uneducated and Sick: The Effects of Socioeconomic Status on Health Duration in the European Union”, *Journal of the Royal Statistical Society (Series A)*, Vol. 171, no. 4, 2008, pp. 939-52

David Cooper, David McCausland and Ioannis Theodossiou, “The Plight of the Poor and the Curse of Permanent Inequality”, *Journal of Economic Issues*, 2013, forthcoming.

Research in European countries and the US has shown an increase in the risks of ill health with decreasing socio-economic status, and there is a growing concern that these inequalities in health are widening. Growing differences in socio-economic status imply growing health differences. Our extensive study published in 2008 on the effects of unemployment on health estimates the effect of socioeconomic and individual characteristics on the length of time that an individual remains in good health using data for 13 European countries, for the years 1994-2002. The study employs a relatively objective measure of physical health, the physical and mental health problems, illnesses and disabilities measure. The results show that the longer one faces low socioeconomic status the higher is the

Income inequality is harmful to individual wellbeing, regardless of one's position in the income distribution.

likelihood of the individual's health deterioration. In particular, as unemployment experience increases the probability that a person will cease to enjoy good health also increases. Income effects are, however, somewhat weaker compared to the unemployment effects, being confined to a small number of countries and being mainly observed only for the highest income quartile. Age and gender effects are also found. Finally, the detrimental effect of unemployment on health appears to be mitigated in countries with relatively generous unemployment insurance systems. Yet, socioeconomic deprivation does not seem to affect only the individual who suffers the deprivation but also the society as a whole.

In a forthcoming study, we use the same data providing evidence that those in the lowest twenty percent of the income distribution have a marked reduction in wellbeing compared to the remainder. Hence, poverty is detrimental to individual wellbeing. Importantly, though, the existence of permanent aggregate income

inequality reduces the wellbeing of individuals in other parts of income distribution, irrespective of their level of income. The study shows that income inequality does affect individual wellbeing but in a complex way. Income inequality appears to exert a permanent detrimental effect on wellbeing even after controlling for GDP per capita, individual household income, and other characteristics. Any transitory positive effects of income inequality on wellbeing are outweighed by the much stronger permanent negative effects of income inequality on wellbeing (through undermining social cohesion, enhancing social exclusion, and hindering the formation of social capital). Income inequality is harmful to individual wellbeing, regardless of one's position in the income distribution. Not only is having a low income detrimental to wellbeing, but the very existence of income inequality is bad for everyone's wellbeing in the long run.

The results of both papers, therefore, lend credence to the increasing attention on wellbeing as an explicit target for policy-makers, and to the growing focus on policies that seek to mitigate income inequality through redistributive taxation and improved conditions for social cohesion. Such policies would enhance the wellbeing not only of those at the bottom of income distribution, but also of all citizens in society. Overall, they point to a social agenda aimed at reducing income inequality as a means of improving the wellbeing of society at large. The studies offer support to the growing evidence that less equal societies have poorer health and greater social problems. This suggests that the promotion of social wellbeing in wealthier societies may now depend more on reducing income disparities than on economic growth without redistribution. (For further information, please contact Prof I. Theodossiou: theod@abdn.ac.uk.)

