

CELMR Research Digest



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 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

- **PhD studentships.** CELMR faculty have been successful in securing funding for several labour-related PhDships:
 - *Dr Heather Dickey, 'The Impact of Regional Migration on Inequality'*
 - *Prof Keith Bender and Catia Montagna, 'Skill Mismatches and Competitiveness: High-Skill Workers, Firms and Industries'*
- **Mismatch Conference in October.** CELMR is sponsoring an upcoming conference entitled 'New Research in the Economics of Educational and Skills Mismatch' organised by Dr Harminder Battu (h.battu@abdn.ac.uk) for 13-14 October 2014. See the attached flyer for more information.
- **New MSc in Applied Economics.** The Economics Department is excited to announce a new MSc in Applied Economics starting in Autumn 2014. CELMR members will be heavily involved in this MSc given its applied focus. More information on the MSc can be found here: <http://www.abdn.ac.uk/study/courses/postgraduate/taught/appliedeconomics>
- **Recent Conference Presentations:** 2013 European Association of Labour Economics (Alexandros Zangelidis, Keith Bender); 2014 Scottish Economic Society Conference (Yu Aoki, Ioannis Theodossiou); 2014 SESSTIM Scientific Symposium on Health Economics (Ramses Abul-Naga)

Editors' Corner

Welcome to the second CELMR Research Digest! Our first edition in the Autumn was a great success, and we are happy to offer a second edition. As in our first edition, 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.

Keith Bender

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and

Alexandros Zangelidis
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'The Impact of Migration on Regional Wage Inequality: A Semiparametric Approach'

Heather Dickey

Journal of Regional Science, forthcoming, 2015



Dr Heather Dickey

There is a wide variety of existing theoretical perspectives on migration. Early economic approaches to migration focused on the role of wages, and argued that differences in net economic advantage, chiefly differences in wages, are the main cause of migration. Traditional migration theory predicts that workers will move from low to high wage areas in order to maximize their lifetime earnings potential. Regional migration, therefore, acts as an important labour market adjustment mechanism, with regional convergence in average wages predicted to take place as a result of labour mobility across regions.

However, even if regional migration does act to reduce differences in average wages across regions, so that regional wage convergence is achieved, this does not necessarily mean that regional migration will have an equalising effect on regional wage inequality. If this is the case, regional migration may not be a desirable mechanism to reduce regional disparities in the wider context.

Despite the substantial literature on regional migration and regional wage inequality, very little attention has been focused on the relationship between the two; in particular, how the flow of labour into and out of regions affects individual region's wage distributions. This research is a starting point in seeking to fill this gap in the literature by investigating one mechanism through which migration will influence regional wage inequality, focusing on how the changes in the distribution of individual characteristics within regions due to migration affect the

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distribution of wages within regions. In doing so, it contributes to the ongoing debate about the effect of regional migration on regional economic outcomes, in particular, the role of regional migration as an important labour market adjustment mechanism.

This study applies a semi-parametric approach to examine the way in which regional wage distributions change as the distribution of worker characteristics within regions change due to migration. The results imply that migration not only affects regional average wages, as economic theory predicts, but that the movement of labour across geographical areas also plays an important role in changing regional wage distributions. For example, migration, through its influence on the distribution of characteristics within regions, acted to increase wage inequality in Greater London, the North of England, and Scotland, but acted to reduce wage inequality within Wales. This has wider interest and relevance as policy measures aimed at increasing migration as a way of reducing regional wage disparities may in fact act to increase the level of regional wage inequality.

(For further information please contact Dr H. Dickey: h.dickey@abdn.ac.uk.)



Prof Keith Bender

'The Unintended Consequences of the Rat Race: The Detrimental Effects of Performance Pay on Health'

Keith A. Bender and Ioannis Theodossiou

Oxford Economic Papers, forthcoming, 2014.

Recently, the linkage between health and work has generated an increasing interest among economists. However the idea that work and health are related has a long history as indicated by none-other than Adam Smith, the author of the classic book, *The Wealth of Nations*, who observed:

'Workmen . . . when they are liberally paid by the piece, are very apt to overwork themselves and to ruin their health and constitution in a few years.'

Although this observation was made in 1776, little research has been done to see if this relationship is generally applicable to many different kinds of workers or only for certain occupations. This paper is the first to examine the linkage between performance-related pay (PRP) and health using a large, national survey of workers.

Why might there be a linkage? There are several potential pathways. First, there may be an incentive to work harder' generating an increased probability of injuries on the job¹. Second, PRP makes explicit the foregone earnings from not working productively. Thus, workers may work rather than exercise or grab a quick take-away rather than cook something nutritious. Further, the extra work can generate increased stress which has been shown in medical studies

Increasing the amount of time spent in performance pay increases the odds of ill health, even after controlling for a wide variety of factors.

to generate a host of health problems, from ulcers to depression to heart attacks. Thus, while the effects of PRP on health may not be immediate (as in the case of injuries), the linkage between PRP and other measures of health is clearly possible.

This study examines the link between PRP and health using 18 years' worth of data from the British Household Panel Survey which has a lot of information on a nationally representative sample of UK residents and, importantly, has information on both health measures and whether earnings are based on performance. We focus on four health measures – overall health, heart health (e.g. heart attacks, hypertension), stomach health (e.g. ulcers), and mental health (e.g. anxiety and depression). Controlling for a variety of potential covariates, we find that an increase in the percentage of time spent in PRP increases the odds of ill health. This effect cuts across men and women and the rich and poor and indicate that workers get more than they bargain for when their pay is based on their performance.

(For further information, please contact Prof K. Bender: kabender@abdn.ac.uk or see the blog post on this article at: <http://blog.oup.com/2013/10/health-and-performance-pay/>)

¹ See Bender *et al.*, *Journal of Population Economics*, 2012, for evidence of this.





Dr Harminder Battu

'Job Contact Networks and Ethnic Minorities'

Harminder Battu, P.T. Seaman and Y. Zenou

Labour Economics, Vol. 18, 2011, pp. 48-56.

Going back to the seminal contribution of Mark Granovetter, a significant body of empirical research has found that personal job contacts are important for finding a job. A figure of up to 50% is usually quoted as the share of individuals who obtain or hear about jobs through friends and family. However, existing research says little about the methods utilised by ethnic group members nor about the quality of job obtained using friends and family.

At the heart of our analysis is the view that informal contacts or connections with friends or relatives can affect the matching of workers to jobs by providing information and/or influence. If contacts are from your own ethnic group or from your own neighbourhood, then the contacts may simply lead to poorer labour market outcomes. In particular, the effectiveness of connections may be diminished because of the higher incidence of unemployment amongst your own group. Having fewer connections to employed individuals makes it more difficult to receive inside information about jobs and reduces the likelihood that one is recommended by current employees to employers.

This paper examines the job finding methods of different ethnic groups in the UK and uses data from the UK Quarterly Labour Force Survey. The currently unemployed are asked which job search method is their primary method for finding employment and the newly employed are asked which job search method was the main method by which they obtained their current job. The two most commonly used methods are institutional (i.e. job centre) and adverts, with less than 10% of the

While personal networks are a popular method of finding a job for ethnic minorities, the most effective method is still a direct approach by employers.

unemployed having friends and family as their main job search method. Nevertheless, friends and family are used more heavily by Indians, Pakistanis and Bangladeshis compared to Whites. The job search methods that generated the greatest success for the newly employed were in order of importance institutional, personal networks and adverts. Nearly 30% of respondents were successful using personal networks.

Our econometric analysis reveals that personal networks are a popular method of finding a job for the ethnic minorities, the foreign born and those who identify themselves as non-British. However, they are not necessarily the most effective either in terms of getting into employment or in terms of the level of job achieved; direct approaches to employers seem to be the most successful method. There are again important differences across ethnic groups with the Pakistani and Bangladeshi groups and those born outside the UK, losing out disproportionately from using personal networks.

Part of the explanation for the differences across ethnic groups has to lie with the quality or nature of contacts. Not all the unemployed are equally well connected. For some ethnic groups, friendship ties may display greater ethnic homophily so that their connections are with their own. If their own ethnicities exhibit higher than average unemployment, people in this group may have fewer friends and relative who are employed and can help them attain steady jobs. Further research into the "quality" of ethnic networks needs to be undertaken. (For further information, please contact Dr H. Battu: h.battu@abdn.ac.uk.)





Scottish Institute for Research in Economics



Call for Papers

New Research in the Economics of Educational and Skills Mismatch

Conference 13-14 October 2014

The Scottish Institute for Research in Economics, the University of Aberdeen Business School and Centre for European Labour Market Research are sponsoring a two-day conference on the economics of educational and skills mismatch to be held at the University of Aberdeen on 13-14 October 2014.

Innovative theoretical and empirical contributions are invited with a focus on the reliability of measuring match quality, theoretical approaches to explaining mismatch, the determinants and consequences of mismatch for individuals and firms and the extent of mismatch during the financial crisis.

The conference will be organised around two invited keynote speakers, around ten academic papers and a policy roundtable. The keynote speakers are Professor Peter Kuhn, University of California, Santa Barbara and Professor Michael Sattinger, State University of New York at Albany.

If you are interested in presenting, please send an extended abstract (preferably a full draft paper) to **Dr Harminder Battu**, the conference organiser, at h.battu@abdn.ac.uk. The deadline for submissions is 15 August 2014. Authors of selected papers will be notified no later than the 29th of August.

We anticipate covering the travel and accommodation expenses of presenters and participants from Scottish universities, but all are welcome to attend the conference.

Please feel free to contact Dr Battu at h.battu@abdn.ac.uk or at 44-(0)1224-272718 with any questions.