

# 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

- **Mismatch Conference a Success.** CELMR, with financial help from the Scottish Institute for Research in Economics, hosted the international conference, 'New Research in the Economics of Educational and Skills Mismatch' in October 2014. Keynote speakers with Prof M Sattinger (SUNY-Albany) and Prof P Kuhn (UC-Santa Barbara). Details on the conference and other presenters, along with papers, are found here: <http://homepages.abdn.ac.uk/h.battu/pages/>. Plans for a third international conference are being made now, so watch this space!
- **Recent Grants** (funder):
  - *Catia Montagna*, 'Globalisation, Labour Markets, and the Welfare State' (NORFACE)
  - *Keith Bender* and *Ioannis Theodossiou*, 'Performance Pay and Stress: A Pilot Study' (Scottish Economic Society)
  - *Catia Montagna* and *Keith Bender*, 'Skills, Mismatches and Competitiveness: Workers, Firms and Industries' (ESRC/Scottish Gov't PhDship)
  - *Alexandros Zangelidis*, 'Health Status and Political Preferences' (Santander Mobility Award)

## Editors' Corner

Welcome to the fourth 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 students associated with CELMR. In addition, we are adding a new feature: the '[CELMR Policy Page](#)' where CELMR staff give opinions on current economic issues. 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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and

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## 'The Socio-economic Status and Integration of Immigrants in the UK: The Role of Language Skills and Education'

Yu Aoki

*Grant funded by the Carnegie Trust*



Dr Yu Aoki

The foreign-born share of the population has increased in almost all OECD countries between 2000/01 and 2009/10, and the social integration of immigrants is high on the policy agenda of developed countries. In order to implement successful policies to target social and health inequalities among their immigrant population, policy makers need to understand what barriers immigrants face to integrate. Among possible barriers, this project focuses on language. Language facilitates access and use of public services, such as health and education, and this in turn may affect the health and educational achievement of immigrants. There is extensive evidence that better language skills improve immigrants' economic status, in particular their earnings, but there is little research on how language affects their social life, health and family structures. This project aims to contribute to this knowledge by identifying the causal effect of English language skills on a number of fertility, health and education outcomes for immigrants in England and Wales.

Credibly identifying and quantifying the impact of language proficiency on fertility, health, and education outcomes poses a significant empirical challenge because English language proficiency is endogenous. First, unobserved heterogeneity across individuals that affects both proficiency in English and these social outcomes, such as ability and cultural attitude, may bias estimates of the effect of English proficiency. Second, the social outcomes can also affect an individual's English proficiency (reverse causality); for example, having children might improve English skills because the mother interacts more with other parents, schoolteachers, and healthcare professionals. In order to address these concerns and estimate the causal effect of

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English language skills, an estimation technique called Instrumental Variable (IV) estimation is used, where age at arrival in the UK is exploited to construct an instrument for English language skills.

The preliminary results obtained from the IV estimation indicate that better English-language skills considerably delay the age at which women have their first child, lower the likelihood of becoming a teenage mother, and decrease the number of children the mother has, but do not affect self-reported health and child's birth weight. The impact of better English skills on education achievement is also considerable: better English skills significantly raise the probability of having post-compulsory qualifications and academic degrees and significantly lower the probability of having no qualifications and compulsory-level qualifications. The preliminary results suggest that English learning programs for immigrants would help them improve their language skills, which in turn could have an important impact in their capability to complete compulsory education and pursue higher degree studies, becoming more productive contributors to the UK economy.

(For further information please contact Dr Aoki: [y.aoki@abdn.ac.uk](mailto:y.aoki@abdn.ac.uk))



Dr W. David McCausland

## 'Is Unemployment and Low Income Harmful to Health? Evidence from Britain'

D. Cooper, W. David McCausland and I. Theodossiou

*Review of Social Economy*  
Vol 73, no. 1, 2015, pp. 34-60.

In this paper, we investigate how unemployment and income influence the length of time an individual remains in good health. Recent economics research suggests that health improves during periods of unemployment, despite medical evidence to the contrary. These could be due to reduced smoking and drinking, the increased opportunity to exercise, and decreases in excessive working hours or dangerous working environments. Yet there is epidemiological evidence to show that unemployment, low income and poverty are detrimental to health, due to poorer financial resources, restricted access to health services and adverse psychological effects. This paper examines these competing claims by investigating how unemployment and income influence the length of time an individual remains in good health. This is a complex relationship since unemployment or low income deteriorates health but poor health can become a barrier to obtaining higher income or gaining re-employment.

Using a British survey, our results show that unemployment, low income and poor education adversely affect the time that people remain in good health. These results have important implications for public policy, particularly in an age of austerity when social protection mechanisms are under threat. In fact, the

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results suggest that to improve health and reduce health inequality, more investment needs to be directed at policies that enhance labour force participation, improve education and reduce income inequality. The findings also dovetail with recent work taking a comparative political economy perspective. They support the thrust of the arguments of Wilkinson and Pickett (2011), who provided evidence that there is a causal relationship on the detrimental effects of inequality on psychosocial determinants and social gradients of health. Furthermore, their findings chime with the spirit of Stuckler and Basu (2013) that current austerity policies that decrease income and increase unemployment may lead to severe adverse effects on population health. The policy implications of the findings are therefore profound: reducing the extent of socio-economic inequality and enhancing the likelihood of gainful employment are advantageous to the health and longevity of the most vulnerable in society, which further improves labour market participation, and they provide the basis for a constructive substitute to policies that merely seek to reduce health care provision to manage costs.

(For further information about this paper, please contact Dr McCausland: [d.mccausland@abdn.ac.uk](mailto:d.mccausland@abdn.ac.uk).)

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## 'Personal Decisions, Wage Profiles and Investment in Firms'

John D.F. Skåtun and I. Theodossiou

*British Journal of Industrial Relations*  
Vol. 49, no. 4, 2011, pp. 742-766.



Dr John D.F. Skåtun

Two dramatic features in recent decades have been the increased growth in high technology industries and the substantial change in labour market flexibility. A natural question is whether the new capital intensive production modes have driven the changes in workplace practices or whether the collinear movement of technology and labour market flexibility is a matter of a chance. This study finds in favour of the former.

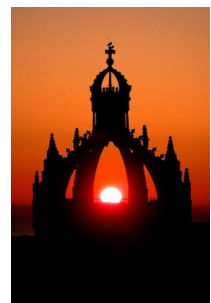
Workers may use capital investment to hold high technology firms to ransom. Large investments make the firm vulnerable in the wage bargaining process as capital costs have to be covered even during strikes. This enables workers to gain a bargaining advantage, whilst the firm is a victim of "hold-up". Hence a positive relationship between capital investment and wages emerges, thereby causing the firm to under-invest in order to restrain wage payments. Since hold-up is ultimately detrimental to both parties, workers and firms may seek evasive actions to limit its extent.

This paper provides a theoretical matching model to investigate firms' evading action in regards to hold-up of investment. This is in contrast to previous literature that has concentrated on trade union behaviour, such as earlier work on trade

union leader delegation. The paper examines firms' use of 1) hiring strategies and 2) workplace practices to limit the extent of hold-up. Workers' characteristics, such as gender, age, marital status and education, may be associated with the worker's ability to exploit a firm's capital level. Thus firms will resist employing workers with "undesirable" characteristics. The study also provides a theoretical reason for how personnel practices, such as the use of; temporary workers, shift work, tenure arrangements and training regimes, may be used to weaken the worker's bargaining position.

Empirical analysis then scrutinises the theoretical predictions by utilising a worker-firm matched data set. There is strong correspondence between the theory and empirical evidence. Highlights of these findings includes: High investment firms are more likely to utilise shift workers, employ temporary workers and provide multi-skill training, whilst union workers with higher bargaining strength are less likely to work in high investment firms. These findings are all consistent with the firm taking evading actions in order to limit the worker's bargaining strength and problems of hold-up. Thus the paper finds convincing evidence that recent experience of high technology growth and increasing labour market flexibility is not coincidental.

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***The study provides a theoretical reason and empirical support for how personnel practice, such as the use of temporary workers, shift work, tenure arrangements and training regimes, may be used to weaken the worker's bargaining position.***

# CELMR Policy Page

## Why Austerity Cannot Save the Greek Economy

Professor Ioannis Theodossiou, CELMR Director

The European Commission, the IMF and the conservative Greek political establishment has imposed a cruel austerity on the Greek nation unlike any seen in Europe since WWII. The proponents of this austerity consistent with their dogmatic belief that the self-correcting market mechanisms are able to eliminate excess supplies of labour and other productive resources argue that since over the over previous decade(s) the Greek economy suffered a drop in productivity and the people's marginal productivity dropped, real wages should drop and people should accept lower wages or choose unemployment. They argue that national governments should curtail spending to at least match tax revenues. In opposing the attempts of the newly elected left-leaning Greek government to revive the economy by lessening the severity of the austerity policies and addressing their humanitarian catastrophic consequences, the neoliberal mantra in the European Commission and the Eurogroup argue that austerity policies promote confidence within business as they demonstrate that the government is determined to, and is capable to, live within its means. Thus the increased confidence increases investment spending. This, in turn, should be expected to out weight the contractionary effects of austerity. Furthermore, the neoliberal austerity proponents argue that the deflation which follows the austerity policies increases the real the wealth of the community increases by deflation as at lower prices the real value of wealth held in the form of assets increases. In summary it is argued that these deflationary policies are bound to lead to a recovery of the Greek economy. Hence the newly elected Greek government should continue with the recessionary policies.

However, European bureaucracy turns a blind eye to the consequences of these policies implemented post-2008 that threaten the lives of the poorest and the most vulnerable, social cohesion and the health of the population. During the past five years, austerity policies have caused the Greek GNP to decline by over 25%. For comparison one should consider that the GNP of the US during the Great Depression declined by 20% and the GNP of the UK declined by 11%. Currently in Greece, youth unemployment has reached 70%, one in four adults is now without a job and poverty rates are on the rise. The results of austerity policy are of unprecedented detrimental consequences for the Greek population; crime and suicide rates increased, infant mortality showed steep rise and the spread of disease put the underfunded and deeply downgraded healthcare system into chaos. Thus, the only remaining source of wealth in Greece - her citizens - is severely undermined. Thus the five giant evils society that were identified by Sir William Beveridge in 1942 (namely: want, disease, ignorance, squalor, and idleness) are now deep-rooted in the Greek society of 2015.

However, J. M. Keynes challenges the idea of the existence of self-correcting market mechanisms which would eliminate excess supplies of labour and other productive resources. He argues that this is not because the process may take a very long time or because there are market imperfections - industrial monopolies, trade union militancy, minimum wage legislation or high unemployment benefits - but because even if it nominal wages fall, as it should in a well-behaved competitive market, the result would not be an increase in employment. When wages fall,

prices would also fall in the same proportion as wages. Production, employment, real wages, real profit margins remain unaffected. There is no mechanism through which a reduction of the money wage would increase aggregate real demand. There is no mechanism by which the willingness to demand and to supply more labour at a lower real wage-or possibly even at the same real wage- could be realised. The opposite, in fact occurs; demand decreases as austerity increase and wages and prices fall. Furthermore, the wealth of the community does not increase by deflation. Deflation should raise the burden of the debts at least as much as the real value of the assets. The population is not distributed between debtors and creditors randomly. The debtors have high marginal propensity to spend from current income or wealth than the lender. The business borrowers have a strong propensity to hold physical capital or producers' durable goods and their desired portfolios contain more capital than their net worth. Household borrowers are families buying homes and furnishings before they earn incomes to pay for them, hence they are liquidity-constrained. When prices and wages are deflated, the Debt service is a higher proportion of debtors' incomes banning them from further credit. The declines in real market value of their equities due to the greater burden of their debts far exceed the gains to creditors. Bankruptcies and defaults spread the distress from debtors to creditors, Hence the solvency and liquidity of individual lenders and financial institutions is endangered – a case that is highlighted by the state of affairs in the Greek financial institutions today.

Hence, the austerity cannot bring recovery. The only vehicle to bring recovery is an increase in investment. However, investment is not the sale of public assets at fire prices that the European bureaucracy imposes on the Greek authorities. Furthermore, investment is not even deterred by the existence of trade unions, the minimum wage or the high unemployment benefits which are so severely condemned by the European political establishment. Investment is determined by the Marginal Efficiency of Capital (MEC) defined in terms of expectation of future yield and of the current production cost of the unit of capital asset. Hence, the long run nature of expectations relevant to investment decisions is important. The government should act via stabilisation policy to mobilise of savings via progressive taxation and demand management. The aim should be to limit the fluctuations of demand so to reduce uncertainty regarding investment decisions, thus to counter any fall in the MEC.

Future generations will judge us not by the level of deficit reduction but by our ability to draw the countries out of the catastrophic effects of austerity and the efforts to care for society's most vulnerable and frail. The policies to reduce unemployment and inequality and promote economic progress provide a path for the countries to progress towards a more civilised society. This may bring to fore the sanguineness expressed by Keynes at a Royal Economic Society dinner in 1945 when he toasted "to economics and economists who are the trustees, not of civilisation, but the possibilities of civilisation".

(This is a summary of newspaper columns in the Greek newspapers, *Efimerida Syntakton* (26 Feb 2015) and *Kathimerini* (30 March 2015) and a radio interview for ERT (13 March 2015))