JOBS, GROWTH, PAY AND POLLUTION
New research evidence from the Centre for Economic Performance

New research findings from the Centre for Economic Performance (CEP) at the London School of Economics are highlighted in the spring 2012 issue of CentrePiece magazine:

EMPLOYMENT: recessions are the wrong time to be cutting public sector jobs
GREEN TAXES: failings of the UK’s climate change levy on polluting firms
EXECUTIVE PAY: pay cuts for failure not as speedy as pay rises on the upside
INNOVATION: institutional investors encourage CEOs to invest in the future
GIANT OILFIELDS: new discoveries raise the risk of civil conflict
SCHOOL FUNDING CUTS: negative consequences for pupils’ academic achievement
NON-NATIVE ENGLISH SPEAKERS: no threat to natives’ educational outcomes
BUSINESS SUPPORT SCHEMES: employment benefits but only for small firms
UK GROWTH: abandon policies based on too pessimistic a view of potential output

Jobs in a recession

When the economy is in recession, unemployment insurance should be more generous and governments should invest in infrastructure. What’s more, recessions are the wrong time to be cutting public sector jobs.

These are among the implications of research by Pascal Michaillat, which takes a simple insight – that in a recession, people queue for jobs, either literally or metaphorically – and shows its relevance for today’s debates about jobs and growth.

The long queues of unemployed workers at factory gates during the Great Depression suggest that jobs are lacking in recessions, irrespective of the amount of effort that the jobless put into searching for them. This suggests that in recessions, the labour market functions as a rat race: forcing people to search harder will not create more jobs, only more competition in the queues.

The polluter-doesn’t-pay principle

By granting discounts on environmental taxes to heavy polluting firms, the government is missing out on significant tax revenues and achieving considerably less in reducing greenhouse gas emissions. That is the central conclusion of research by Ralf Martin and colleagues, which reveals the failings of the UK’s climate change levy.

Their study shows that firms that enjoy a discount from the levy, claiming that such measures damage their ability to compete in the global economy, do not in fact face higher risks to their competitiveness. Firms that pay the full climate change levy reduce their energy use and their emissions by more than those that get a tax discount.

UK chief executives: paid for performance?

When corporate performance improves, so does the pay of CEOs – but CEO pay cuts for failure are not as speedy as pay increases on the upside. These are among the findings of research by Brian Bell and John Van Reenen, which explores the relationship between corporate performance and executive remuneration.

Their study, which has created and analysed a new database of pay for senior executives and employees in 400 UK firms, also finds that institutional investors appear to have some success in ensuring that CEO pay is linked to performance. Publicly quoted UK firms with higher levels of institutional share ownership have a stronger and more symmetric link between shareholder returns and executive pay.

Two cheers for Anglo-Saxon financial markets?

Institutional investors are good for industrial innovation, according to research by John Van Reenen and colleagues. Their study finds that publicly traded companies in which institutions have raised their equity stake increase their innovation. The mechanism seems to be that institutional investors offer job insurance to CEOs who make risky but potentially rewarding investments.

Giant oilfields and civil conflict

Giant oilfield discoveries significantly increase the risk of armed conflict within a country, according to research by Yu-Hsiang Lei and Guy Michaels. Their study also finds that conflict over oil is especially likely in countries with recent histories...
of political violence. In conflict-prone areas, windfalls from oil discoveries may well encourage challenges to the incumbent government’s power.

Urban schools: does money make a difference?

Cuts to school funding are likely to have negative consequences for pupils’ academic achievement. But the government’s ‘pupil premium’ policy could close the performance gap for schools with lots of pupils from low-income families.

These are among the conclusions of research by Steve Gibbons and colleagues, which examines whether greater funding for UK primary schools can improve academic achievement. They note that while it might seem self-evident that a school’s resources influence its pupils’ educational outcomes, so many previous studies have found little association between more money and better results.

Language barriers? Non-native English speakers in the classroom

We should not be concerned about the growing proportion of children in England’s primary schools for whom languages other than English are their mother tongue. That is the conclusion of research by Sandra McNally and colleagues, funded by the Nuffield Foundation.

Their study finds that an increased presence of children who do not speak English as their first language is not detrimental to the educational attainment of native English speakers. Indeed, evidence from Catholic schools attended by the children of Polish immigrants suggests that the presence of non-native English speakers might – in some cases, at least – have a positive effect on natives’ results.

Can industrial policy boost jobs?

Business support policies aimed at revitalising economically disadvantaged regions can be effective at raising employment, according to research by Henry Overman and colleagues. But government subsidies, such as Britain’s ‘grant for business investment’, only seem to work when targeted at smaller firms.

The study, which analyses the impact of expenditure through Britain’s ‘regional selective assistance’ programme over a 20-year period, finds that grants increase area-level employment but lower productivity, leaving firms potentially vulnerable in the future. Grants to smaller firms boost jobs but grants to larger firms are a waste of taxpayer money.

Growth and productivity: UK economic performance since 1997

Policies based on an excessively pessimistic view of potential output can lead to needlessly slow growth. That is one of the messages of a CEP report by Anna Valero and colleagues, which focuses on the UK’s economic performance during the Labour years 1997-2010 – and draws lessons for the current government’s strategy for growth. They conclude that getting the market environment right is key for promoting growth.

The report shows that after a century of decline in which UK productivity fell behind that of France, Germany and the United States, the last three decades have seen the country catching up. UK economic performance under Labour continued the trend improvement under the previous Conservative government – and productivity increases during this period were mainly in business services and distribution, not in finance and property bubbles.

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Notes to Editors:

1. CentrePiece is the magazine of the Centre for Economic Performance. It is published three times a year. The Spring 2012 issue is Volume 17, Issue 1. Cover price £5; subscription rates on application to +44 (0)20 7955 6648.

2. The Centre for Economic Performance is an independent ESRC funded research centre based at the London School of Economics. Its members are from the LSE and a wide range of universities within the UK and around the world.

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