

Mavisakalyan, Astghik

**Article**

## Returns to language skills in transition economies

IZA World of Labor

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*Suggested Citation:* Mavisakalyan, Astghik (2017) : Returns to language skills in transition economies, IZA World of Labor, ISSN 2054-9571, Institute for the Study of Labor (IZA), Bonn, <https://doi.org/10.15185/izawol.416>

This Version is available at:

<https://hdl.handle.net/10419/177794>

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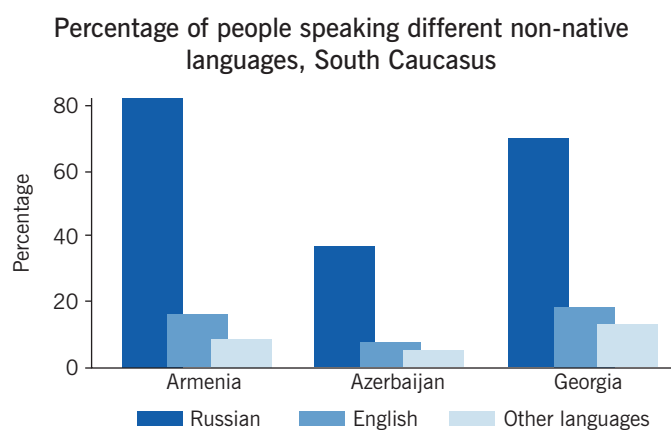
## Returns to language skills in transition economies

### Speaking English has its benefits in transition countries but can it supersede Russian?

Keywords: language, human capital, labor markets, transition economies

#### ELEVATOR PITCH

In many transition countries, the collapse of communism ushered in language reforms to adapt to the newfound independence from the Soviet Union and openness to the rest of the world. Such reforms may have implications for individuals' economic opportunities, since foreign language proficiency may enhance or signal productivity in the labor market. Recent empirical evidence documents positive labor market returns to English language skills in transition countries. However, Russian language proficiency also remains economically valuable, and nationalist language policies may lead to future loss of economic opportunities.



Source: [1].

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#### KEY FINDINGS

##### Pros

- + English language proficiency is in high demand in transition countries.
- + Russian language skills remain an important form of human capital in the former Soviet Union and are well rewarded in those labor markets.
- + There are apparent labor market returns to language proficiency in jobs where communication is important and tasks are complex.
- + Language is likely to be complementary to other forms of human capital; for example, high-skilled men gain more from language proficiency than men with low levels of skills.

##### Cons

- There are gender differences in the labor market returns to language proficiency in some transition countries.
- Nationalist language policies can hurt the outcomes of minorities in multilingual societies.
- Language skills may yield negative labor market premiums, particularly if there are differences in the quality of education offered in different languages.
- It is difficult to separate the effect of language from that of other less observable characteristics, such as innate ability.

#### AUTHOR'S MAIN MESSAGE

The economic value of language skills is widely recognized. Recent empirical evidence documents such positive labor market returns to English language skills in transition countries, while Russian language proficiency also remains economically valuable in the former Soviet Union. However, language proficiency may bear significant costs when it signals a minority status or when language-specific differences in the quality of education exist. Such costs need to be taken into account when making policy recommendations, particularly when considering the promotion of national languages over Russian.

## MOTIVATION

Traditionally, language skills are viewed as a form of human capital, since they are embodied in a person, are productive in the labor market, and are obtained at the cost of time, effort, and out-of-pocket expenses. Accordingly, there can be positive labor market returns to language skills, particularly in occupations where communication is important. Language skills may boost earnings directly by raising an individual's productivity. They may also indirectly lead to higher labor market returns through facilitating access to high-paying occupations, or by simply signaling productivity to employers. A large body of literature documents positive labor market returns for immigrants who are proficient in host-country languages. There are also positive returns to foreign language proficiency by natives in developed countries [2].

Transition economies present an interesting case in the context of labor market returns to language skills because of the region's unique historical and cultural heritage. In many transition countries, the collapse of socialism was marked by language reforms to adapt to the new realities of independence and openness to the rest of the world. Positive returns to foreign language skills are observed in the two main groups of transition economies, the successor states of the former Soviet Union (FSU) and the post-socialist countries of Central and Eastern Europe (CEE). Foreign language proficiency is particularly relevant in transition countries since it can facilitate communication and integration with the rest of the world throughout the transition process. Indeed, the importance of English, in particular, has been growing consistently due to its increasing worldwide use as a common language for international relations.

However, the two groups of transition countries also differ in an important way. While CEE countries had strong economic and cultural links to the Soviet Union, the Russian language was much less important for them than in FSU countries. Moreover, some CEE countries have important historical and cultural links with EU countries, such as Germany and Austria, and consequently have been subject to influences from other languages (e.g. German) [3].

The Russian language was actively promoted among the varied populations of the Soviet Union from the late 1930s until the later 1980s. This was done not only to promote Russian as a common *lingua franca*, but also to serve as a key component of a common Soviet cultural foundation [4]. Since the collapse of the Soviet Union in 1991, various programs to promote national languages at the expense of Russian have been initiated in the newly independent states. In many of these states, "derussification" has been seen as essential to building independence and national sovereignty. Indeed, evidence shows that the promotion of national languages can shape the formation of national identity and political preferences [5]. However, the potential costs associated with such programs have been a source of concern.

Russian continues to be an essential political and business language in the region: it is the main medium of communication between many formerly Soviet republics that remain economically and politically dependent on Russia and each other. The decline in Russian language skills may therefore lead to future loss of economic opportunities. Moreover, nationalist language policies can hurt minorities in multilingual societies by restricting their capacity to communicate, which can have implications for their labor market outcomes and overall well-being. The rapid transitions from Russian to a national

language as a medium of instruction in schools have been a further source of concern. Russian language schools are seen in many FSU countries as superior in quality, and without the required investments to build up the quality of national language schools, there is a concern that the overall quality of education could deteriorate.

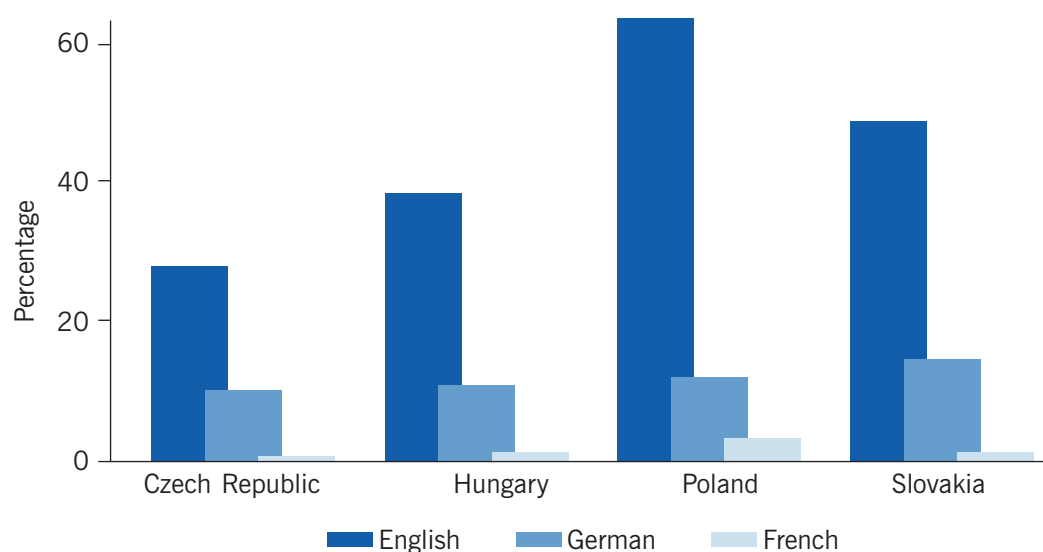
Against this background, it is important to understand the economic benefits and costs associated with language skills in transition countries.

## DISCUSSION OF PROS AND CONS

### Returns to English proficiency

English language proficiency is an important asset in the globalized world. The importance of English language skills has grown in transition countries as they have increased their openness to trade and foreign investments. Evidence from the Visegrad Four countries of CEE—the Czech Republic, Hungary, Poland, and Slovakia—shows that English language knowledge is in high demand [3]. Across the four countries, over half of the 74,000 job advertisements accessed via job portals as of July 2015 had English proficiency as a requirement. Looking at individual countries, in the Czech Republic 28% of the vacancies required English language skills, while in Poland 64% of vacancies did (Figure 1). However, English language skills among these countries' populations are not yet well-developed. As Figure 2 demonstrates, the share of those able to have a conversation in English ranges from 20% in Hungary to 33% in Poland. English language proficiency appears to be less common in the FSU countries (see the illustration on page 1). Data from a collection of nationally representative surveys conducted in the South Caucasus in 2013 show that only around 19% of people in Georgia, 16% in Armenia, and 8% in Azerbaijan speak English at an intermediate or advanced level (author's calculations based on data in [1]). It is therefore not surprising that proficiency in English is highly rewarded in these countries' labor markets: it leads to a significant increase in the probability of having a job [4].

Figure 1. Percentage of job adverts that list a language requirement, Visegrad Four

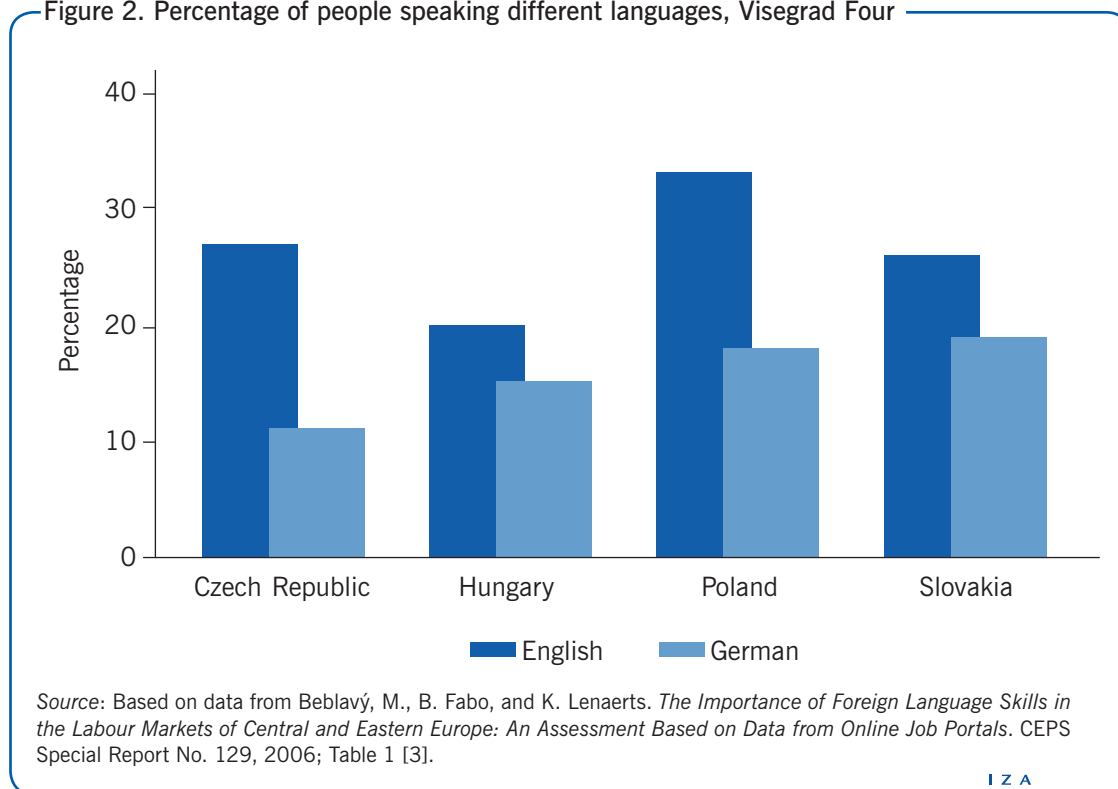


Source: Based on data from Beblavý, M., B. Fabo, and K. Lenaerts. *The Importance of Foreign Language Skills in the Labour Markets of Central and Eastern Europe: An Assessment Based on Data from Online Job Portals*. CEPS Special Report No. 129, 2006; Table 3 [3].

### What about Russian language skills?

During the Soviet era, Russian proficiency was essential to a successful career in the member republics of the Soviet Union, and Russian proficiency remains highly prevalent in many successor countries over two decades after transition. The illustration on page 1 depicts the percentage of people who spoke Russian (at intermediate or advanced level) in the three FSU countries of the South Caucasus in 2013. Accordingly, Russian is by far the most common of the foreign languages spoken in Armenia, Azerbaijan, and Georgia. Over 80% of individuals in Armenia, 70% of individuals in Georgia, and close to 40% of those in Azerbaijan are proficient in Russian (calculations based on data in [1]). This is not surprising since the incentives to learn Russian remain strong [4]. The language commonly maintains its status as a second language and medium of communication between various ethnic minorities within the countries. It also maintains its status as the *lingua franca* in interactions with Russia and other FSU countries. Russian proficiency therefore pays off in the labor market: existing estimates suggest that Russian language skills significantly increase one’s probability of employment in at least some parts of the FSU [4]. Moreover, evidence from Kazakhstan suggests that individuals who are less fluent in Russian (these happen to be those who classify themselves as bilingual in Russian and Kazakh) may in fact be penalized in the labor market in the form of lower earnings [6].

Figure 2. Percentage of people speaking different languages, Visegrad Four



### Language skills and occupations

Language proficiency as a form of human capital is particularly valuable in jobs that are reliant on communication skills and have higher-level language requirements. Russian proficiency has been found to contribute to selection into public sector jobs and into

jobs in foreign organizations, businesses, or non-governmental organizations in the three FSU countries of the South Caucasus [4]. This is consistent with higher language proficiency requirements in these jobs. Moreover, Russian proficiency increases selection into jobs in trade, services, and communications—sectors intensive in communication skills [4]. Language skills have also been linked to the complexity of jobs. Evidence from the Visegrad Four countries suggests that high-skill occupations are more demanding in terms of English language requirements relative to medium- and low-skilled occupations [3]. However, the same study shows that this observation does not hold for all foreign languages: it does not find a relationship between the demand for German language skills and the complexity of an occupation.

### **Language–skill complementarity**

Studies in various country contexts have shown that individuals with higher levels of education might gain more from knowing a language than those with lower levels of education [7]. This is referred to as language–skill complementarity, and appears to exist in transition countries as well. An analysis of returns to Russian proficiency by educational attainment demonstrates that the returns are higher for those with post secondary education, suggesting complementarity between language skills and education in the generation of labor market rewards in FSU countries [4]. Work experience is another indicator of the quality of skills valued in a given labor market. Older workers will typically have acquired more work experience compared with younger workers. Consistent with language–skill complementarity, the returns to Russian language skills appear to be higher for older cohorts [4]. However, these relationships are apparent among men only. For women, there is in fact an indication of some substitutability between Russian proficiency and general skills: Russian proficiency is significantly related to the employment probability of young and medium-educated women only.

### **Gender bias in rewards for language skills?**

Gender gaps are a persistent feature in labor markets internationally as well as in transition countries. The evidence on whether transition has resulted in an improvement or deterioration of women’s relative position in the labor market is mixed. The different returns received by men and women for the same characteristics are often interpreted as evidence of discrimination. Recent evidence from a group of western European countries suggests that men receive higher returns for various foreign language skills than women, a finding that is indicative of some form of discrimination against women linked to this specific type of human capital [8]. Another piece of cross-country evidence, on the other hand, suggests that foreign language proficiency reduces the risk of unemployment more for women than for men [2]. The limited evidence on this from transition countries is inconclusive. In Armenia and Azerbaijan, proficiency in Russian language skills apparently increases women’s employment probability more than it increases that of men [4]. The fact that Russian language proficiency on average is more prevalent among men compared to women is coherent with this pattern. On the other hand, the labor market value of speaking Russian is very high for men in Georgia, while for women it appears to be non-existent—a pattern that suggests the possibility of gender bias in returns to language skills [4].

## Minorities in multilingual societies

Since the collapse of the Soviet Union in 1991, various programs to promote national languages have been initiated in the newly independent states. These include single-language policies that made the national language the official state language as well as educational reforms that promoted the use of national languages in instruction. Evidence shows that such nationalist policies may have hurt the outcomes of minorities. One example is a reform implemented in Ukraine's school system in 2009/2010. The reform obliged all linguistic minority students to take a standardized school exit test in Ukrainian, the state language, thus denying them access to translated versions of the test. There is evidence to suggest that the reform resulted in a decline in the number of subjects taken by minority students in schools with Hungarian and Romanian/Moldovan languages of instruction, especially those demanding linguistic skills, such as History and Biology [9]. Nevertheless, even full language proficiency in the national language does not guarantee equitable outcomes for minorities in places where ethnic tensions are present. Evidence from Estonia and Latvia shows that knowledge of Estonian and Latvian, the sole official languages in the two Baltic countries respectively, is not closely related to an income premium for male minority workers (only the public administration sector shows a positive association) [10]. Another study of Estonia finds that proficiency in Estonian may in fact increase the risk of downward mobility for minorities in the labor market [11]. One possible explanation is that in the course of transition, an ethnic majority background was increasingly treated as an advantage for obtaining high-status jobs. It is likely that mainly people with relatively good Estonian language skills applied for such jobs, and then had to compete with ethnic Estonians. In contrast, those with poor or no proficiency in Estonian might have settled for lower-skilled jobs in which ethnic discrimination was less prevalent.

## Language and education

Language policies promoting or discouraging the use of various languages in transition countries may have important implications for school quality and economic returns to schooling. In many FSU transition countries, schools with Russian language instruction have traditionally provided higher-quality education than schools with national language instruction. Policies that encourage school instruction in national languages are likely to negatively affect returns to human capital if they are not accompanied by appropriate investment in the quality of those schools. Evidence from Kazakhstan illustrates this point: the Kazakh language continues to yield a negative wage premium 13 years after it was made the official state language—a fact that is largely explained by the comparatively poor quality of schools with Kazakh as the language of instruction [12].

Alongside promotion of national languages, various efforts to increase the prevalence of English have been underway in transition countries, many of these through education systems. One example is university instruction in English, consistent with a worldwide trend to offer English language instruction. However, such changes may have negative consequences for the formation of human capital without considerable investments to address the linguistic and methodological challenges that arise in the process of making them. Indeed, a case study from Central Asia demonstrates that the switch to English-only instruction may negatively affect students' academic outcomes when instructors and students are less than proficient in English [13].



## LIMITATIONS AND GAPS

The nascent economics literature surveyed in this article establishes important labor market effects of language skills in transition countries. Nevertheless, analysis of these effects faces a significant challenge: individuals with better language skills may have better labor market outcomes for reasons other than those skills. For example, it is possible that Russian-proficient individuals in FSU countries primarily come from socio-economically privileged families, or that these individuals have higher unobserved ability relative to those who are not proficient in the language. In this case, the correlation between language skills and labor market outcomes is not necessarily indicative of a causal relationship. Isolating the effect of language skills from that of other variables remains a challenging research task.

The existing evidence on labor market returns to language skills in transition countries comes from a very limited group of countries. This is not surprising, given the lack of data to capture language proficiency. A key source of information on transition countries is the Life in Transition Survey (LITS), which is a collection of comparable representative surveys from over 30 mostly transition countries. However, while it includes information on whether a respondent speaks any of the official languages of the country, no information on foreign language proficiency is included. Additionally, though they share a significant common historical legacy and similar institutions, countries in this region also differ in profound ways and have evolved differently throughout the process of transition. More evidence from other transition country contexts is hence needed to validate the existing results. Such evidence would also help to reconcile some of the inconsistencies in the existing findings, as well as allow for comparative analyses to identify policy-relevant institutional factors that underlie differences in labor market outcomes related to language proficiency across transition countries.

Furthermore, the available measures of language proficiency (e.g. in [1]) are often rough, lacking differentiation by skill categories (speaking, writing, and reading) in addition to being based on self-reports as opposed to objective test-based assessments. This poses further constraints for the economic analysis of language skills.

## SUMMARY AND POLICY ADVICE

The results of the literature surveyed in this article have important implications for policy. Since the beginning of transition, many countries have undertaken reforms to regulate the languages used in public life and education. Various programs to promote national languages at the expense of Russian have been initiated in the FSU. Promotion of national languages has important benefits: it may make schooling more accessible, especially for relatively disadvantaged groups, and it can shape national identity and empower active citizenship. However, it can also reduce economic opportunities because of the special role of Russian in the region. The loss of such opportunities may be especially pronounced for younger, less-experienced women, given the possible substitutability between Russian proficiency and general skills for them. National language policies may additionally put constraints on the opportunities available to linguistic minorities and serve to promote discrimination against these minorities. Furthermore, without adequate investment to build high-quality education systems that operate in national languages, such policies may drag down the overall human capital of current and future generations.



English language skills are an important determinant of labor market outcomes for individuals in transition countries and the demand for such skills appears to be on the rise. As such, acquiring English proficiency promises to be a profitable investment in transition countries. Moreover, increases in the prevalence of English skills among the populations of transition countries may contribute to economic development by boosting international trade, foreign direct investment, and innovation. However, the means to foster such competencies need to be carefully considered. Existing research seems to suggest that the introduction of university-level English language education in a context where there are linguistic and methodological constraints to the delivery of such education may negatively affect the formation of human capital. Increasing English language teaching during the schooling process may thus be a sensible approach to boost the English language competencies of future generations.

In sum, the existing body of research along with ongoing evaluations of the effects of various language reforms on political and economic outcomes are highly relevant for future policy making efforts in FSU countries.

### **Acknowledgments**

The author thanks an anonymous referee and the IZA World of Labor editors for many helpful suggestions on earlier drafts. Previous work of the author together with Alan Duncan contains a large number of background references for the material presented here and has been used intensively in all major parts of this article [4].

### **Competing interests**

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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### Further reading

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