

The Rat Race for Youth Employment?

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1. Introduction

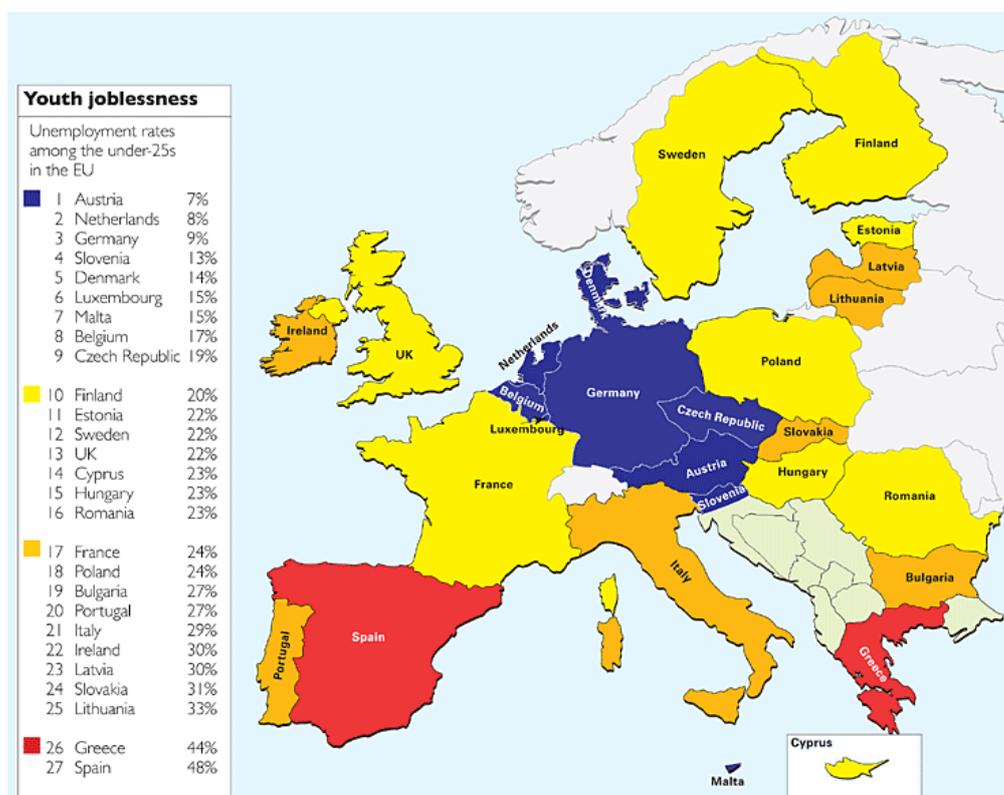
The labour market position of youth across Europe is deteriorating. March 2012 saw a new historic high of 22.4% unemployment among young Europeans—at least twice as high as unemployment rates for adults in all member states but Germany (European Commission, 2012). Young people are most sensitive to economic downturn, being the first to lose their jobs and the last to gain employment once the economy recovers (ILO, 2011).

The economic downturn is also impacting the youth through another channel, as accumulating state debts have led to a call for austerity measures in order to reach fiscal ‘consolidation’ across the EU. Austerity packages in many European countries have touched upon education, with the United Kingdom, Spain and several eastern European countries cutting funding for public universities.

With little signs of structural economic recovery in the European Union the years to follow, I wonder how this deteriorated labour market and declining public investment affects youth’s life chances and behaviour. Must we fear, as does the International Labour Organization does, for a ‘scarred generation’? In this paper I set out to find out how behaviour may be affected by both unemployment and budget cuts in education, and what the consequences can be for Europe, especially with regards to the soft power education can yield. I employ two models, the first having its theoretical roots in cultural capital and signalling theory, the second stemming from theories of human capital and endogenous growth.

2. Youth Unemployment in the European Union

In a recent ILO (2011) report, it speaks of a ‘youth employment crisis’, warning for a ‘scarred’ generation of youth, facing unemployment and inactivity. Except for Germany, every European country faces youth unemployment rates double those of adult



Moneyweek (2011)

unemployment. Spain, for one, has historically been an underachiever employing their younger generation since entering the EU. Numbers at this time, however, overshadow any previous youth unemployment spell, with almost half of the young unemployed.

As shows in the figure, Germany, the Netherlands and Austria are Europe’s best performing countries, while among the Southern and Eastern European countries youth unemployment figures near one-thirds of youth, Spain and Greece being the EU’s worst performing countries.

Next to these static figures for unemployment rates among the young, *long-term* unemployment rates of youths are now by far surpassing those of adults in most developed economies. An ILO report (2011) reveals Italy’s young people to be three times more likely of long term unemployment (at least one year) compared to adults. Ratios larger than two were also witnessed for Greece, Hungary, Slovakia and the UK (p. 2). The ILO also notes increased inactivity as young people are giving up job searching all together: the youth labour force count and the *expected* youth labour force are growing apart at increasing rates. Young

people could be either “hiding” in the educational system or waiting idle at home for job prospects improve. This inactivity of youth means reported unemployment rates may be distorted, making them underestimations of the *real* youth unemployment rate.

I will come back these young people “hiding out” in the educational system, after establishing recent changes to national higher education systems, especially the Dutch.

3. Cutbacks in higher educational systems

European austerity measures have affected higher education throughout Europe. In this section I focus especially on measures enacted in the Netherlands. Dutch policy makers are currently acting upon the assumption that prolonged and multiple studies are a burden to society. Internationalization is also looked on with suspicion, subject to strict cost-benefit analyses.

3.1 Cutbacks around Europe

The European University Association [EUA] (2011) writes ‘(...) it has become clear [...] that the economic crisis has left few higher education systems unaffected. While institutions in most countries still report being faced with uncertainty and expect further - and possibly deeper - cuts to come in the forthcoming months and years, some countries, such as the United Kingdom, prove that cuts are likely to have a significant restructuring effect on higher education systems around Europe (p. 2).

According to the EUA (2011) report, Latvia cut most drastically, initially cutting 48% at the start of 2009, later additionally cutting 18% in 2010 stemming from IMF and World Bank recommendations. Italy is expected to reduce its funding close to 20% by 2013. Greece has announced 30% cuts in university’s academic and maintenance budgets. The United Kingdom is slashing 40% of its current budget until 2014-2015, mainly affecting teaching budget, which is reduced by up to 79%. Cuts between 5-10% are noted in Ireland, Iceland, Estonia, Romania and Lithuania. Finally, most cuts in government support have been followed up by hikes in student tuition fees, endangering access to higher education, especially among the lower income segments of society.

3.2 The Dutch case

Dutch university students prolonging their studies beyond the standardized study length for both curricular and extracurricular activities such as foreign exchange, university board and

student association membership are now referred to as *Langstudeerders* (students with a ‘study delay’). Measures taken in the Netherlands foremost tackle the supposed ‘langstudeerder’. At the end of the most recent Dutch cabinet, the Netherlands has restricted study length to its nominal duration, plus one year and has evoked students’ funding for their MA programmes.

A second area of budget cuts targeted internationalization efforts, cancelling the Huygens Scholarship Programme—a fund facilitating international exchange between Dutch and foreign students (Ministerie van OC&W, 2010). Halbe Zijlstra, the former Dutch Minister of Education, in a letter to Parliament reduced the ‘Europeanization’ of education to a financial problem, writing that the large disparity between incoming German students in the Netherlands and outgoing Dutch students to Germany should be *compensated* by Germany (Ministerie van OC&W, 2011). The cost-benefit analysis carried out by the Ministry of Education focuses exclusively on quality of educational outcomes, improved trade relations and improved knowledge and innovation due to internationalization.

4. Educational systems: Convergence, yet diversification

Since beginning my own university studies, I have noted two major changes within the higher educational system of the Netherlands, which should be notable in most (Western) European countries: 1) *Europeanization* of the higher educational system and 2) *diversification* of academic programs. In the following section, I would like to shine some light on both developments, relating them through the concept of a *rat race* for youth employment to issue at hand: youth unemployment.

4.1 The Europeanization of national higher educational systems

Traditionally, the European Union has been reluctant to interfere directly with national policy concerning education. Through the Bologna Process, however, European Union nations (and even nations outside of the EU) have declared to work towards one European Higher Education Area, creating a framework in which mobility of students is facilitated¹. Among the priorities were a single European Credit Transfer System [ECTS] and an EU-wide shift towards the *BaMa*-structure, now realized in most European Union countries.

¹ One of the Bologna criteria says 20% of graduates should have done an internship or studied abroad.

In many countries within the European Higher Education Area, national study credit systems have been replaced with the generic ECTS, transferrable across (European) borders. National academic titles—remember the Dutch ‘Doctorandus’?—have been replaced by a wide array of academic titles, e.g. BSc, MSc, LL.M.

A final ‘flagship’ of the Bologna process is the European Community Action Scheme for the Mobility of University Students [Erasmus] programme, each year facilitating foreign exchange for 200.000 students.

4.2 The diversification of Academic programmes

As on the one hand, European higher education systems can be said to have converged, a second change I myself witnessed from the start of my university studies is the increasing diversification *within* the university system. Students need no longer finish *just* a Bachelor’s degree, but can now for instance at the Radboud University in Nijmegen enter the ‘Radboud Honours Academy’, or at the Utrecht University follow the ‘Honours Programme’, or enrol in the ‘Descartes College’ or the ‘Young Leaders League’. Within the Master’s programmes, one can follow a *regular* Master, or enrol in a ‘Research’ Master. These programs are always selective, accessible to a minority of students, often under the condition of good grades.

How can we explain these both trends? My aim in the following section is to link both trends to youth unemployment, focusing on the behavioural effects unemployment, concluding on how this ‘Europeanization’ of the education system might2 provide nations leeway in times of crisis.

5. Behavioural consequences of youth unemployment: The Rat Race

Having established Europe is facing all-time high youth unemployment rates, my main research question is how this affects behaviour of job market entrants and employers. My main focus is on university graduates, acknowledging however that these findings are perhaps not generalizable to behaviour of other groups in society also facing (relatively higher) unemployment. In this section I show both on the demand and supply side of the youth labour market changes occur in both expectations and behaviour. In section 6, I will seek to change the assumptions of the model and perform the same analysis.

In a tight labour market with a severe mismatch between supply of and demand for young workers, few employers with entry-level jobs can select from a large pool of prospective

employees. Standard economic theory sees an abundance of labour with limited demand as a mechanism towards lower, market-clearing wages, through which full employment should be reached. Wage rigidities could however—fortunately—be said to persist, hampering the market for young workers from clearing².

I hypothesize in the face of this oversupply of labour, employers are increasing their demands: From personal accounts, two M.A. degrees (if possible, *cum laude*), a full time one-year student body board position and international student exchange experience as résumé requirements are no longer uncommon. First selections among large groups of prospective job candidates are often performed solely on résumés, rather than on cover letters.

Secondly, on the (prospective) labour market entrant’s side, I use the concept of a *rat race* to describe the competition for labour market qualifications in order to achieve employment. In a rat race, players compete not for *absolute*, but for *relative* positions. Advantage over the other is won only if one exerts more effort than their competitor. Since this rule applies to all, all must work harder— and since one is judged not in absolute, but in relative terms, all extra effort cancels out (Hindriks & Myles, 2006, p. 184).

The payoff matrix to the left illustrates this rat race, in which two players can cooperate and both exert low effort, collectively reaching a pay-out of 1 ($1/2 + 1/2$). Player 2, knowing that

		Player 2	
		Effort	Low
Player 1	Low	$1/2$	$1-c$
	High	$1-c$	$1/2 - c$

he can reach $(1 - c)$ if he now *does* exert effort, c being the cost of effort, will exert effort in order to reach dominance over player 1. Player 1, aware of this constant threat to deterioration of cooperation, will also exert effort, bringing both players to the shaded equilibrium cell ($1/2 - c; 1/2 - c$). This latter equilibrium {high, high}

gives a lower pay-out through the costs of high effort than the optimal equilibrium {low, low}, but is reached, as it is *inescapable*.

In this case, young Europeans fight for scarce *relative* positions on the labor market, whereby contestants strive not for *absolute* positions (becoming a qualified, *good* MSc), but increasingly strive for ways to differentiate themselves from others on the labor market (becoming *better* than the other, “Honors” Classes, “Research” Masters, etc.). In this way,

² Neoclassical theory finds the minimum wage to hamper the effective clearing of the labor market. Efficient wage theory hypothesizes employers reward their current employees with wages above their productivity levels, so as to increase effort, as the alternative to the employee is unemployment (due to the higher-than-market clearing wages which are paid out).

extra effort leads not only to a loss of energy, as advantage can only be gained from working *harder* than your competitor, but ultimately inflates current qualifications.

5.1 Divergence as ‘Distinction’

As noted above, the European educational system has converged, adopting the *BaMa* structure and crediting study achievements through a European Credit Transfer System, yet *within* its system, has witnessed an increased diversification. The Utrecht University ‘Young Leaders League’ or the Radboud University ‘Radboud Honours Academy’ are two prime examples of a trend witnessed through all Dutch universities, in which within the system, one seeks further distinction.

Sociological explanation for this trend to distinction follow from Bourdieu (1984), who in his analysis of *cultural capital* explains education as a way to both acquire *and* certificate proof of one’s stock of cultural capital. The educational system as an avenue to acquire cultural capital, however, according to Bourdieu, is ill equipped to duplicate the way cultural capital is acquired at home, as the educational system is open to a wider segment of the population. This leads to a constant struggle in which qualifications and certificates are redefined in order to mediate the rising class fractions from those in decline.

Using this framework, one can imagine that once an increasing segment of the population reaches university—a trend we have witnessed in the last few decades, there comes a need *within* the educational system to redefine what a *good* education is. One telling illustration of this is the fact that the Radboud University’s slogan ‘Excelling is very normal here³’ came at the same time the University started a campaign to recruit ‘excelling’ students for its selective Honours Programmes.

6. Gains to Education?: Soft Power and Internationalization

The above model is pessimistic with regards to the benefits of *any* effort. It portrays effort as a mere cost, and finds the dominant equilibrium to be wasteful, both individually and societal. Are there perhaps benefits to education and internationalization? I will use the concept of *soft power* as just one source of benefit to societies stemming from the internationalization of education.

³ “Excelleren is bij ons heel gewoon”

Joseph Nye (2007) coined the term *soft power* as ‘getting others to do as you want—(...). Soft power can rest on such resources as the attraction of one’s ideas or on the ability to set the political agenda in such a way that shapes the preferences others express’ (p. 62).

Nye (2005) himself, in an earlier publication, observed the ‘American higher education produces significant soft power for the United States’ (p. 13). In his assessment, recent restrictive visa policies have caused a large drop applications from foreign students, seeking higher education now elsewhere. ‘America will lose the opportunity to both influence and learn from foreign students’, Nye (2005, p. 14) concludes, ‘this will diminish American’s awareness of cultural differences precisely when we must become less parochial and more sensitive to foreign perceptions’.

One could say the fact that international students are attracted to the Dutch educational system points at the *soft power* that *arises* from an accessible, good and international educational system.

6.1 Changing the equation

The case for soft power weakens the strong assumption of the rat race model, seeing increased effort as merely a cost to individuals and society. Beyond soft power, of course, educational outcomes produce a wide range of positive effects, widely acknowledged in human capital and endogenous growth literature. In the ILO’s ‘Three steps to curb youth unemployment’, education takes the forefront: combining classroom education with workplace training, integrating entrepreneurship in technical and vocational training and offering employment services: ‘To be successful’, ILO’ employment sector head José Manuel Salazar-Xirinachs said, ‘growth and development strategies should be strongly based on human capital development’ (ILO, 2012).

Altering the ‘rat race’ model to a model incorporating the net *benefits* to increased effort, both individually, as job prospects are increased with increases in human capital, and collectively, as a good and international educational system yields *soft power* in terms of the opportunity to both influence and learn from foreign students, we arrive at the following pay-out scheme. The dominant equilibrium now is high effort for both players, automatically achieving optimality, independent of the unemployment level.

		Player 2	
		Low	High
Player 1	Low	$\frac{1}{2}$	$1+c$
	High	0	$\frac{1}{2} + c$
		Low	High
		$\frac{1}{2}$	0
		$1+c$	$\frac{1}{2} + c$

Indeed, unemployment levels may even alter due to increased effort, as effort in a well-developed and accessible educational system yields human capital, increasing the array of opportunities available to graduates. More well-equipped labour market entrants with better matching skills will more easily find a job or create their own employment possibilities.

From this human capital standpoint, the Europeanization of higher educational systems creates more options for European citizens in terms of student and labour market mobility and increases awareness of cultural differences and sensitivity to foreign perceptions. Distinction, in this view, diversifies the market for labour market entrants, increasing the average quality of labour market entrants through increases in human capital.

7. Conclusion

In sum, high unemployment levels in Europe are hitting European youth harder than adults, leading them into long spells of unemployment, a prolonged stay in the educational system, or even to inactivity, dropping out of the labour market altogether. Being largely a macroeconomic phenomenon, now also hitting the revenues of national governments, unemployment is going hand in hand with budget cuts in higher educational systems, jeopardizing internationalization efforts and access due to increases in tuition fees. In this paper I explore how unemployment and cuts in higher educational budgets affect behaviour. I do this first through the lens of theory rooted in cultural capital and signalling theory, taking on the view that extra ‘effort’ in the educational system serves a mere signal with no societal benefits, and that this rat race is a race for a *relative* position.

The second view takes into account the benefits of increases in human capital and soft power for nations through widely accessible and international higher educational systems, pointing at how highly qualified labour market entrants are better suited for the job market and can create their own opportunities on the labour market.

Whereas the rat race might be a plea for governments to limit funding for education, and provide incentives to lure youth ‘hiding out’ in the educational system onto the—already tight—labour market, the idea of enhancing human capital required investments in education and appreciation of internationalization and extracurricular activity.

The former view has struck a chord with the late Dutch government. With respect to soft power alone, my claim is, analogous to Nye (2005), that attraction to one’s ideas within a mobile framework *should* be worth the investment: the awareness of cultural differences and

sensitivity to foreign perceptions will inevitably be the only way to survive on an increasingly globalizing and tight labour market—young *or* old.

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