12-16-2013

When investing in human capital is not enough: economic pain in Europe

Michael Hemesath
College of Saint Benedict/Saint John's University, mhemesath@csbsju.edu

Quad 136

Previous Next

When Investing in Human Capital is not Enough: Economic Pain in Europe


Photo: Paul Middlestaedt

This *New York Times* article reminds us that investing in human capital, while necessary for upward mobility in advanced economies is not necessarily sufficient.

The choices society makes obviously affect macroeconomic outcomes which in turn affect the labor market students enter when they leave school. The United States' labor markets are generally thought to be more flexible than labor markets in the EU.

Put another way, workers in the EU have more labor market protections than the typical US worker. These protections are great if you are already employed, but they harm new entrants to the labor market by making employers less willing to hire new employees because they are hard to fire, should that be necessary. The EU policies tend to favor the old over the young, with the results that are described in the NYT story. These outcome are doubly worrying as there is evidence that if people enter the labor market during a downturn and are not able to fully use their human capital soon after acquiring it, the negative effects can impact anindividual for their whole career.

From the point of view of an educator and society as a whole, this has potentially harmful long- term implications as it diminishes the incentive to invest in education. Economic growth, social mobility and everyone's standard of living are closely tied to investment in human capital. It is largely why Europe and North America are rich. But as we think about investing in education as individuals and as a society, it is important to remember that we need to have a dynamic economic system and flexible labor market to absorb new college graduates.

One other observation about this article. In the profiles of young people included in a link on the webpage, there is a reminder that one can overinvest in education. While there is plenty of strong evidence of the economic value of a bachelor's degree, the evidence for graduate degrees is more complicated. The economic return on graduate school depends entirely on the type of degree one is pursuing and the market for those specific skills. This is why I often tell students to consider graduate school to be a vocational degree and ask two questions:

1. What will this degree allow you to do that a bachelor's degree won't?
2. What is the market like for the specific kind of training you are seeking?

The profiles of unemployed or underemployed young Europeans are filled with students with master's degrees, some in areas where demand might well have been predicted to be weak—for example a master's degree in social media or a master's degree in modern and contemporary art history or a master's degree in history or several master's degrees in journalism. Why all the master's degrees? I suspect it has a lot to do with the European model of financing higher education, which is largely state supported. So at least these young unemployed are unlikely to have large student loans, though it is not clear that taxpayers are getting a very good return on their investment. But the financing model is the subject for another time.

December 16th, 2013 | Categories: Economics, Higher Education | | 0 Comments

About the Author: Michael Hemesath

Michael Hemesath is the 13th president of Saint John's University. A 1981 SJU graduate, Hemesath is the first layperson appointed to a full presidential term at SJU. You can find him on Twitter [at] PrezHemesath.