



What makes education positional? Institutions, overeducation and the competition for jobs



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ABSTRACT

We compare three theoretical models for the relationship between schooling and labor market outcomes. On the one hand, the job competition model, which views education as a positional good with relative value on the labor market; on the other hand, the human capital and the social closure models, which view the value of education as absolute but differ in their expectations about returns to years of education above what required for the job. We analyze European countries using data from the European Social Survey (2010), and investigate the incidence of overeducation and the returns to years of overeducation in order to distinguish between the three theoretical models. We then relate these theoretical perspectives to institutions of the education system and of labor market coordination. Our empirical results indicate that education is more likely to function as a positional good in countries with weakly developed vocational education systems, where individuals have an incentive to acquire higher levels of education in order to stay ahead of the labor queue. However, no convincing support was found for the relationship we hypothesized between wage coordination and returns to years of overeducation.

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1. Introduction

A long-standing debate in sociology (Sørensen, 1979; Ultee, 1980) and economics (Hirsch, 1976; Thurow, 1975) has evolved around the question of whether education functions as a positional good in the labor market. According to the positional perspective, the value of qualifications on the labor market depends on the distribution of educational attainment for a given population of interest. When studying the job matching process, this population corresponds to the queue of applicants competing for a given job. Queuing theory (Thurow, 1975) describes the job matching process as a competition for jobs in which employers rank all available applicants within an imaginary queue, based on a number of characteristics, including educational attainment. To be hired, applicants have to be ranked ahead of all other job seekers. Education is a positional good in this model, as its value is relative to the educational attainment of other job seekers.

A corollary of queuing theory is that positional competition drives up overinvestment in education, as individuals have an incentive to stay ahead of the queue and overinvesting in education is a defensive strategy to maintain one's position in the queue. From this point of view, queuing theory differs from two alternative views on the relationship between education and job assignment that regard education as an absolute good: human capital theory (Becker, 1964; Mincer, 1974) and social closure theory (Brown, 1995; Collins, 1979; Weeden, 2002). If education is an absolute good, there is no need for individuals to overinvest in education, and the aggregate level of overeducation should be low.

In this study, we aim to accomplish two main goals. First, we compare three theoretical models – human capital theory, queuing theory and social closure theory – with regard to their predictions about the occurrence of overeducation in the labor market, and the wage returns resulting from educational mismatches. By considering these two outcomes simultaneously, we gain analytical leverage to separate these three theoretical models empirically.

Second, we test whether the occurrence of overeducation and its wage returns vary systematically across countries. In other words, we contextualize the three theoretical models in the institutional context in which employers and job seekers operate. Our argument is that institutions create incentives for job seekers to (over)invest in education, as well as for employers to reward schooling (over)investments. We expect the incidence of

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overeducation to be higher in countries with a low vocational orientation of the education system. In such systems, education is more likely to function as a positional good as vocational tracks are poorly developed and students can only attend higher education if they want to succeed in the labor market (*hypothesis 1*). With regard to the wage returns to overeducation, we hypothesize that wage-setting institutions limit employers' discretion in rewarding knowledge and skills over and above what is required for the job at hand. Returns to overeducation should be higher in countries with less regulated labor markets, where coordination among social partners is low (*hypothesis 2*).

To date, only a few sociological studies have related the study of overeducation to institutions (Barone & Ortíz, 2011; Levels, Van der Velden, & Allen, 2014; Levels, Van der Velden, & Di Stasio, 2014; Verhaest & Van der Velden, 2013). However, they drew quite freely from human capital theory, queuing theory and social closure theory to explain why overeducation occurs and why the extent to which it is rewarded varies across contexts. Our study builds on a recent strand of literature within comparative stratification research that argues that the three theories of job assignment should not be considered as rival explanations for the matching between education and jobs, but as *conditional* explanations, applicable in specific institutional contexts, or labor market segments (Bol, 2015; Goldthorpe, 2014; Matković & Kogan, 2012; Van de Werfhorst, 2009, 2011a,b).

Our contribution to the social stratification literature is twofold. First, we add an important nuance to the discussion on positionality presented in this special issue: instead of posing the question whether or not education is a positional good, we analyze the conditions under which employers are more or less likely to reward education because of its relative value. Our second contribution is to extend the sociological debate on the value of education as a positional good to the study of overeducation, an issue that has thus far primarily drawn the attention of economists (Groot & Van den Brink, 2000; Hartog, 2000; Leuven & Oosterbeek, 2011; McGuinness, 2006). Given the affinities between the concept of overeducation and that of credential inflation (Bills & Brown, 2011), and the fact that at times of educational expansion the inflation of credentials turns education into a positional good (Bol, 2015; Wolbers, De Graaf, & Ultee, 2001), merging these literatures seems theoretically relevant.

The paper is structured as follows. First, we introduce the three theoretical perspectives and discuss what each of them predicts about the occurrence of overeducation and its wage returns. Second, we discuss the institutional conditions under which we expect these theoretical models to apply. We then test our hypotheses with the 2010 wave of the European Social Survey (ESS).

2. Overeducation in the labor market: a comparison of three theoretical models

2.1. Education: absolute or positional good?

Three main groups of theories can be identified, in economics and sociology, about the relationship between education and labor market outcomes. These theoretical perspectives propose different explanations for why education matters to employers during the hiring process, and for the wage returns that result from the match between job seekers and jobs: human capital theory, queuing theory and social closure theory (for extensive reviews: Bills, 2003; Goldthorpe, 2014; Van de Werfhorst, 2011b).

Human capital theory was developed by economists (Becker, 1964; Mincer, 1974). According to this model, hiring transactions are determined by market mechanisms: employers compete to get the most productive applicant at the lowest cost and wages

are set to reflect individual marginal productivity. An important assumption of human capital theory is that education is productivity-enhancing: each additional year of schooling is an investment in skills that increases individual productivity. Employers reward the differentials in productivity resulting from different skill endowments by offering higher wages.

A critical response to human capital theory was put forward by signaling and screening theories (Arrow, 1973; Spence, 1973), arguing that education does not directly increase individual productivity, but simply signals productivity potential. Educational attainment correlates with unobservable aspects (e.g. willingness to learn, readiness to sustain effort, perseverance, capacity to acquire new knowledge and skills) that make individuals more productive in the labor market. Employers, while hiring, have only imperfect information about applicants and rely on education as a signal of the training costs that they will have to incur upon hiring a given candidate. Any job-relevant knowledge and skills will be learned through on-the-job training and employers screen applicants based on educational qualifications in order to save on training costs.

Part of this signaling framework, the job competition model proposed by Thurow (1975) describes the allocation of job seekers to vacant jobs as a double queuing process. Within the job queue, jobs are ranked according to technical complexity and training demands. Within the labor queue, applicants are ranked based on observable characteristics, and education is one of the main criteria that determines the ranking. Top-ranked applicants in the labor queue are assigned to top-ranked jobs in the job queue. From a demand-side perspective, the labor market is a market for training slots: employers rely on education as a screening device to identify applicants with high productivity potential and place them ahead of other applicants in the labor queue. From a supply-side perspective, the competition for training slots creates an incentive for job seekers to acquire more and more education in order to stay ahead of the labor queue. Education functions as a positional good in this competition: it is not the absolute level of education that matters for access to jobs, but the educational attainment *relative* to that of other job seekers (Hirsch, 1976; Thurow, 1975; Ultee, 1980).

Human capital theory and queuing theory share a common assumption: they both acknowledge the relationship, whether direct or indirect, between education and productivity (for a discussion: Goldthorpe, 2014; Van de Werfhorst, 2011b). On the contrary, a third theoretical approach, credentialism theory, has been discussed by sociologists. Although this perspective is rather heterogenous in that various interpretations have been advanced in the literature (e.g. Bol & Weeden, 2015; Brown, 1995; Collins, 1979; Weeden, 2002), we focus our discussion on the theoretical approach that has been labeled as *credentialist hiring*, a process that refers to the allocation of individuals to occupational destinations on the basis of educational qualifications and that is structured by "processes of professionalization, occupational regulation, and other forms of status closure [that] constrain the discretion of employers to hire based on criteria other than educational credentials" (Bills & Brown, 2011: 1).

According to this perspective, which we refer to as the social closure model, educational qualifications are formal entry requirements that regulate access to occupations, generating an artificial shortage of labor that is legally allowed to perform specific job tasks (Weeden, 2002). What matters to employers is the match between specific qualifications and specific occupations; as years of education that are not certified for the occupation of destination have no particular value in the labor market, individuals have no incentive to be overeducated to stay ahead of the labor queue. With regard to returns to education, the closure perspective also disputes the assumption, central to human capital theory, that wages directly reflect the productivity-enhancing effect of education.

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