

**PUBLIC FUNDING**  
**AND**  
**PRIVATE RETURNS TO EDUCATION**  
  
**PURE**

**Final Report**

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## **Abstract:**

The TSER-financed project on *Public funding and private returns to education – PURE* started in November 1, 1998, and ended in October 31, 2000. The project has involved 15 European countries (Austria, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom) with Finland as the co-ordinating partner.

The project has produced, on a comparable basis, cross-country evidence *at a European level* on a broad set of policy-relevant issues related to private returns to education. Starting from a comprehensive analysis of individual returns to education across the 15 countries, the project expanded to investigate the interplay between education and work experience, including differences between cohorts; the productivity-enhancing versus the signalling role of education; the interaction between education and wage inequality; the relationship between education and unemployment; the importance of the supply of and the demand for highly educated labour as well as of labour market institutions for individual returns to education; the influence of public funding and enrolment into higher education on educational outcomes; and the structure of student loan systems.

In brief, some of the main findings are as follows. The private returns to education, as well as the so-called college wage gap, vary considerably across Europe, and there are no signs of a convergence of returns to education across the European countries. One possible consequence in the future might be higher mobility across national borders, particularly of highly educated people trying to exploit these cross-country differences in the rewarding of individual investment in education.

Throughout Europe social groups that commonly acquire little education face a potentially higher than average return to education. Thus it would be of considerable importance to identify these groups and to provide them with incentives to continue in school. More generally, improving the educational attainment level of the less educated can be expected to reduce wage inequality, since education still contributes substantially to the wage differences observed in the European labour markets. However, there are also forces working in the opposite direction because within-educational-level wage inequality is found to increase with the educational level. This means that the link between educational expansion and wage inequality is not so straightforward as is often claimed in the political debate. The interrelation between within- and between-educational-level wage inequality definitely deserves further research.

This European-wide finding of rising wage inequality with the educational level also reveals that the European labour markets are characterised by a notable wage risk associated with further education, which might affect individuals' incentives and decisions to invest in higher education. Other aspects of crucial European importance that are likely to influence individual schooling decisions are employment prospects and unemployment benefits. The findings indicate that what matters is the difference in unemployment rates between educational levels rather than the absolute unemployment rate, and that employment expectations affect incentives to invest in further education more at the lower end than higher up the educational scale.

At a European level, the relative wages of highly educated employees are found to have displayed an increasing rather than a decreasing trend, which is explained by an even more rapid expansion in the demand for than in the supply of highly educated labour. Furthermore, public funding, entry exams in the high-school system, and tuition fees are detected to strongly influence enrolment into higher education and thus the supply of highly educated labour. In contrast, current returns to education and current unemployment rates for younger age groups seem to leave current enrolment into higher education unaffected.

For detailed information about the project, please visit the project's web-site [www.etla.fi/PURE](http://www.etla.fi/PURE)

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