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Planning a European Policy for Increasing Graduate Population: The Conditions That Count

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Abstract : Despite the fact that more equal access to higher education has been an objective public policy for several decades, little is known about the effectiveness of alternative means for achieving such goal. Indeed, nowadays, high level of graduate population can be observed both in countries with the high and low level of fees, or high and low level of public expenditure in higher education. This paper surveys the extant literature providing some background on the economic concepts of the higher education market, and reviews key determinants of demand and supply. A theoretical model of aggregate demand and supply of higher education is derived, with the aim to facilitate the understanding of the challenges in today's higher education systems, as well as the opportunities for development. The model is validated on some exemplary case studies describing the different relationship between the level of public investment and levels of graduate population and helps to derive general implications. In addition, using a two-stage least squares model, we build a macroeconomic model of supply and demand for European higher education. The model allows interpreting policies shifting either the supply or the demand for higher education, and allows taking into consideration contextual conditions with the aim of comparing divergent policies under a common framework. Results show that the same policy objective (i.e., increasing graduate population) can be obtained by shifting either the demand function (i.e., by strengthening student aid) or the supply function (i.e., by directly supporting higher education institutions). Under this theoretical perspective, the level of tuition fees is irrelevant, and empirically we can observe high levels of graduate population in both countries with high (i.e., the UK) or low (i.e., Germany) levels of tuition fees. In practice, this model provides a conceptual framework to help better understanding what are the external conditions that need to be considered, when planning a policy for increasing graduate population. Extrapolating a policy from results in different countries, under this perspective, is a poor solution when contingent factors are not addressed. The second implication of this conceptual framework is that policies addressing the supply or the demand function needs to address different contingencies. In other words, a government aiming at increasing graduate population needs to implement complementary policies, designing them according to the side of the market that is interested. For example, a 'supply-driven' intervention, through the direct financial support of higher education institutions, needs to address the issue of institutions' moral hazard, by creating incentives to supply higher education services in efficient conditions. By contrast, a 'demand-driven' policy, providing student aids, need to tackle the students' moral hazard, by creating an incentive to responsible behavior.

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