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Why do graduates who spent part of their studies abroad get higher wages? Evidence from Germany⁹

By **Nicolai Netz and Fabian Kratz**

The past decades have witnessed an **enormous expansion of programs to support the international mobility of students**, the most popular example being ERASMUS. Lots of money has been invested to this end. Both policymakers and scientists have therefore become increasingly curious to know **whether international student mobility (ISM) pays off** for the mobile students.

Several studies from different European countries have addressed this question. They mostly came to the conclusion that graduates who spent part of their studies abroad indeed receive higher wages. It is still unclear, however, whether this wage advantage really reflects a causal effect of ISM. And if so, **which precisely are the mechanisms that explain the often observed monetary returns to ISM?** This is the question that we addressed in an article recently published in *Studies in Higher Education*. To answer our research question, we first developed a conceptual framework for analysing monetary returns to ISM using sociological and economic theories. As no single data set allowed us to simultaneously test all the hypotheses forming our framework, we used data from two harmonised German graduate surveys: the country-wide DZHW Graduate Panel and the Bavarian Graduate Panel.

What do we find? First of all, our results confirm that graduates who spent part of their studies abroad receive slightly higher starting salaries. We additionally find that they enjoy a steeper wage growth, so that their wage advantage increases with work experience. Five years after graduation, they enjoy a wage advantage of 7.7% at national level.

How can we explain these monetary returns? They are partly attributable to favourable self-selection, meaning that graduates who spent part of their studies abroad receive higher wages not only because they sojourned abroad but also due to other characteristics leading to higher wages. These so-called **selection effects explain** a notable share of the wage advantage associated with ISM. Somewhat less important are what we refer to as competency effects: Our results suggest that a small share of the observed wage advantage results from specific competencies acquired abroad. As such competencies, we considered language skills and an increased likelihood to complete a PhD after graduation.

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We have also tested two **further explanatory mechanisms** that were so far largely disregarded in the literature: employer change effects and company structure effects. We can show that even controlling for selection and competency effects, graduates who spent part of their **studies abroad are more likely to change their employer and to realise wage increases** through this strategy. Linked to this, they are more likely to work in large and multinational companies, which can pay higher wages than small and nationally oriented companies. They do not only have better access to multinational companies. They also receive a wage premium within multinationals. Furthermore, we found that internships abroad pay off slightly more than periods of enrolment abroad. Our conclusions on the relevance of the explanatory mechanisms are robust across the two examined types of ISM.

We contribute to existing research by examining both already substantiated and new explanatory mechanisms in an integrated conceptual framework. We thereby also try to separate selection effects from different possible causal effects and assess the relative importance of these different explanatory mechanisms. Unlike previous studies, we also examine returns to different types of ISM from both a cross-sectional and a longitudinal perspective. Clearly, our study also leaves behind a need for further research. Further research could test the generalisability of the suggested conceptual framework. Do returns to ISM, for instance, depend on graduates' field of study and profession, on the scarcity value of ISM in a given country and on the characteristics of a national economy?

What do our results mean for higher education policy? They imply that the political claim of ISM having a positive impact on students' employment prospects can be upheld. At first glance, this justifies the large public investments in the expansion of mobility programs. At second glance, however, our findings have to be set in relation to research on access to ISM. Previous research has amply demonstrated that spending part of the studies abroad is highly dependent on students' background characteristics. Most prominently, it has shown that students from high social backgrounds are more likely to go abroad than students from low social backgrounds. High-background students could therefore also be more likely to reap the benefits of ISM. Public funding for ISM could thus inadvertently transfer inequalities from the education system to the labour market.

Reference

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