

# The labour market effects of *Alma Mater*: Evidence from Italy

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## Abstract

We use data from a nationally representative survey of Italian graduates to study whether *Alma Mater* matters for employment and earnings 3 years after graduation. We find that the attended college matters, and that there are important college-related differences, both among and within regions of the country. These differences, however, do not persist over time and are not large enough to trigger substantial mobility flows from poorly performing to better performing institutions. We also find evidence that going to a private university pays off at least in the early part of a career. Only part of this gain can be explained by the fact that private universities have lower pupil–teacher ratios than public institutions. © 2007 Elsevier Ltd. All rights reserved.

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## 1. Introduction

Does the attended college affect the earnings and employment prospects of graduates? This question is particularly important for those households sending their offspring to college and paying part of the cost, and for the government, which often runs universities and needs to know whether and why some institutions are delivering better outcomes than others.

Spurred by the interest on the quality of education, a recent literature has investigated the labour market effects of college quality, mainly but not

exclusively in the US. Black and Smith (2004) and Brand and Halaby (2003) review the key contributions. The main focus in this literature has been on comparing elite versus non-elite colleges, and the degree of selectivity has been measured either with the average SAT score of the incoming freshmen—in the US—or with the average A-level score of the intake of students—in the UK (see Chevalier & Conlon, 2003). The basic finding of this literature is that college quality matters for labour market outcomes.

In this paper, we investigate the Italian case and study the effect of the attended university on earnings and employment prospects 3 years after graduation. The Italian case is interesting. Compared to the experience of other developed countries, the system of Italian universities has resisted

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differentiation—in terms of recognized prestige or curriculum.<sup>1</sup> While selective admission criteria are not forbidden, they are not the standard practice of most public universities, which charge relatively low tuition fees to admitted students.<sup>2</sup> Given this institutional framework, the natural expectation is that the college an individual has graduated from—her *Alma Mater*—should matter little for labour market performance.

Since we cannot measure unambiguously selectivity, we assess heterogeneity in the returns to college by focusing on college fixed effects, the public/private divide and on observable measures of college quality. We find that *Alma Mater* matters for the early labour market performance of Italian graduates, and that graduates of most universities located in the more developed Northern part of the country experience 3 years after graduation significantly higher employment weighted earnings than graduates from Southern universities.

In the absence of constraints to college choice, these significant inter-regional differences should be arbitrated away by the mobility of students from the South to the North. However, we find that such mobility is limited. One possible reason is liquidity constraints, but we find little evidence of their presence. Alternative explanations include: regional cost differentials, which reduce the rate of return gap between the North and the South; the possibility that the uncovered differences in returns are temporary, and therefore not sufficient to compensate the long run costs of studying in another area of the country.

We also find that graduating from a private university yields 18 percent premium in terms of employment weighted earnings with respect to graduating from a public college. Measures of college quality and size go some but not all the way in explaining the private college premium. We speculate that additional factors are at play, especially for privileged individuals: private schools provide valuable network effects, and the value of these networks is higher for individuals with a good

family background, because of the complementarity between family and school networks.

Our results have a number of interesting policy implications. First, we find that a 10 percent decrease in the pupil/teacher ratio should increase employment weighted college earnings by 2.4 percent. Therefore, reducing crowded classrooms is likely to improve the quality of graduates and increase private and social payoffs. Whether this increase is sufficient to compensate the costs of having a higher number of faculties remains an open question.<sup>3</sup> Second, many commentators<sup>4</sup> have argued that student mobility is an essential part of the much needed reform of the Italian higher education system. Our findings suggest that the actual dispersion of employment weighted earnings by college of graduation is not sufficient to trigger relevant inter-regional mobility flows, and that a more pronounced differentiation of colleges in terms of quality may be an important ingredient to attain higher student mobility.

## 2. The data

The National Statistical Office (ISTAT) carries out on a regular basis a survey—the “*Indagine statistica sull’inserimento professionale dei laureati*”—on the transition from college to work of a representative sample of Italian graduates. In the last available wave individuals who graduated from Italian universities in 1998 are interviewed 3 years after completion of the degree in 2001.<sup>5</sup> The interviewed sample corresponds to 16 percent of the population of graduates of 1998. The survey covers school curriculum, labour market experience in the 3 years after graduation, job search activities, household and individual information. We match these data to information on college quality disaggregated by faculty and provided by ISTAT for the academic year 1996–1997.<sup>6</sup>

<sup>3</sup>Italian universities are organized into faculties, and each faculty offers degrees in a well-defined field of study. For instance, the Faculty of Economics offers degrees in the field of Economics.

<sup>4</sup>See for instance Perotti (2004).

<sup>5</sup>The survey does not include Italian graduates from foreign universities, who, according to the Bank of Italy’s Survey on Households Income and Wealth, in 2002 covered only 2 percent of all graduates. We acknowledge that this exclusion could induce a sample selection issue; however, since these cases represent a relatively small proportion of the population, we believe that our estimates should not be affected too much.

<sup>1</sup>Arum, Gamoran, and Shavit (2004) classify university systems into unitary, binary and stratified, and allocate the Italian system to the small club of unitary systems.

<sup>2</sup>With few exceptions, access to Italian universities during the period covered by this study required only a leaving high school certificate. Since the liberalization of access in 1969, almost all high school graduates can be admitted to the faculty of choice. See <http://www.eurydice.org> for further details.

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