

Causal Returns to Education: A Survey on Empirical Evidence for Germany

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Returns to education, potential outcome approach, instrumental variables, unconfoundedness, control function approach.

Summary

This paper surveys the empirical evidence on causal effects of education on earnings for Germany and compares alternative studies in the light of their underlying identifying assumptions. We work out the different assumptions taken by various studies, which lead to rather different interpretations of the estimated causal effect. In particular, we are interested in the question to what extent causal return estimates are informative regarding educational policy advice.

Despite the substantial methodological differences, we have to conclude that the empirical findings for Germany are quite robust and do not deviate substantially from each other. This also holds for the few studies which rely on ignorability conditions, regardless of whether they use educational attainment as a continuous treatment variable or as a discrete treatment indicator. Own estimates based on the matching approach indicate that the selection into upper secondary schooling is suboptimal.
