

# Supply and demand in the skills market

Aidan Kane \*

Sunday Business Post 23rd August 1998

By the time students who received Leaving Certificate results this week eventually get offers from the CAO, they will be experts on the economics of supply and demand.

The points system for entry to third-level certainly looks like the sort of well-run market dreamt of by economists, at least at first sight. Students as consumers rationally express their preferences for products laid before them by third-level firms, hawking their wares.

Educators provide these consumers with glossy prospectuses worthy of the best flotation, and the media can be relied upon to break the latest market news, especially stock prices.

The currency is points not punts, and the CAO stands above the hubbub as impartial stock exchange, matching buyers with sellers and ensuring there's no insider dealing. At one level it's less Wall Street, and more Moore Street: 'One for 600 the medical degrees—last of the law degrees, luv?'

But is the points system an efficient market? Does it do the job we want it to do, of allocating resources well? The resources in question are the talents and abilities of students—their human capital—and the resources of the educational system, especially the third-level sector, overwhelmingly funded by taxation.

Policymakers are worried that the system doesn't help much in meeting skills shortages in the economy, which are seen as the main threat to continued economic growth.

---

\*Department of Economics, NUI Galway.

Working out what society really wants from the system is complex. Most people would accept that there are broader goals to education than economic development, and would reject the market analogy in the first place. Nevertheless, it's worth pursuing—up to a point.

In the first place, the CAO in acting as a clearing-house, simply greases the wheels of trade, and it does so efficiently and impartially.

But beyond the mechanics of the system, the deeper question is ‘should second-level education hinge so much on a selection exercise?’ The points system is the means to this end of selection, a symptom rather than the source of problems.

The points system highlights the peculiar nature of markets for human capital. This is best seen by looking at what happens when people leave third-level.

Graduates, as suppliers of human capital, know more about their own abilities than do potential employers. In economists’ jargon, there is an ‘information asymmetry’ in the market.

Where a degree is not directly relevant to a specific job, the degree itself doesn’t increase productivity. All it does is allow a graduate to signal productivity. So the information problem in the market is solved.

In other words, at least some graduates are educated because they are productive, rather than being productive because they are educated.

The role of the third level sector in such situations is to act as an elaborate screening mechanism for employers, especially for the multi-nationals driving much of the current concern with skills shortages.

The policy question is whether the taxpayers’ generosity is justified, given that the benefits of the system are private, not social. They accrue to the graduate, to the employer, and to employees in third-level, and not to society in general, unless education adds to productivity in a way which spills over to those who do not participate in it.

A similar argument would then apply to the transition from second to third level. On this view, the Leaving Certificate is not about equipping students with learning skills or the capacity to benefit from further education. It is an early screening device.

As more people use the same mechanism, it loses its value as a signal. So we see the move to grade school-leavers more finely (A1s and A2s, rather than As) and at the other end, more students capping third-level careers with yet more advanced qualifications.

Some courses do directly increase productivity, rather than merely signalling it. One study in the United States found a positive social return for training school-leavers as engineers, partly because it prevented them from becoming lawyers.

The ‘screening’ argument is difficult to test, but if relevant, would mean that concern with particular subject choices—or the content of Leaving Certificate courses—is partly mis-placed.

If all that employers want ultimately is a selection mechanism, a publicly-funded system of rote learning, cramming, predicting whether Yeats will come up this year, three-hour terminal examinations, and ‘points means prizes’ is about as good a way for them as any, whether at second or third level. It ain’t education though.

Some broader concerns are raised in the over 120 submissions made so far to the government’s Commission on the Points System and available on the web site of the [Department of Education and Science](#).

A personal submission by the CAO Secretary, Martin Newell, notes that two-thirds of students with six A1s or higher seek admission to medical degree courses. Is this really the best allocation of talent from society’s point of view? Do high points send distorted signals as to the social value of courses?

What is the opportunity cost in terms of entrepreneurship, or cultural endeavour, or participation in public life, in having so many obviously talented and hard-working people diverted so early to ‘professional’ courses?

Part of the problem here is that the supply side of the market for places is distorted. Points cannot act as price signals for resource allocation in providing courses; you can’t buy labs, lecture halls or lecturers with points.

The alternative is a system of economic fees which would signal resource costs, and means-tested grants to reflect society’s preferences for providing particular opportunities for students.

Without that, government and industry engage in an elaborate process of

forecasting skill requirements at national level, ignoring the principle adopted in Britain, that those who benefit from higher education should meet the cost.

In reviewing *how* the points system works, the government may have raised the question of *why* we want it to work in the first place.

That's a review which is long overdue.

[http://www.aidankane.net/writingsetc/1998\\_kane\\_skills.html](http://www.aidankane.net/writingsetc/1998_kane_skills.html)