

2. THE ECONOMIC AND SOCIAL BENEFITS OF EDUCATION

What are the incentives for people to invest in education?

- Rewards are typically higher for individuals who attain tertiary education than those with upper secondary education or post-secondary non-tertiary education.
- Tertiary education brings substantial rewards in most countries, generating a net financial return over a man's working life of close to USD 175 000 on average in OECD countries.
- Rewards for investing in tertiary education are typically lower for women by close to USD 65 000 less, on average.

Significance

The efforts people make to continue education after compulsory schooling can be thought of as an investment with the potential to bring rewards in the form of future financial returns. People invest in education in two ways (these are the “costs”): directly, for example through the payment of tuition fees, and indirectly, by sacrificing potential income when not in work and studying. As with any investment, a rate of return can be calculated. In this case, the rate is primarily driven by the reality that people with higher levels of education earn more and are more likely to be in work (“benefits”). Where the rate of return is high, it implies a real financial incentive for people to continue their education.

Findings

On average across OECD countries, the private net present value of investing in tertiary education is close to USD 175 000 for men and USD 110 000 for women. For upper secondary or post-secondary non-tertiary education, this falls to USD 78 000 for men and USD 63 000 for women.

But behind these averages lie big variations between countries. For men, the rewards from tertiary education (in terms of net present value) vary from just under USD 56 000 in Denmark to just under USD 374 000 in Portugal (for women, the figures are, respectively, just under USD 52 000 to almost USD 211 000). However, in Denmark as in New Zealand and Sweden, student loans and grants may lower investment costs and make tertiary education a more attractive proposition, especially for students from less affluent backgrounds. In Denmark alone, over 55% of the total private investment is covered by government grants. Overall, however, the returns

on tertiary education – as with upper secondary and post-secondary non-tertiary education – tend to be driven by the earnings premium; other components are less important in explaining differences among OECD countries.

With the exceptions of Australia, Spain and Turkey, the private net present value of investing in tertiary education tends to be higher for men than for women (see Table A9.3 in *Education at a Glance 2011*). Nonetheless in Ireland, Korea, Portugal, Slovenia, the United Kingdom and the United States, an investment in tertiary education generates over USD 150 000 for both men and women; this gives a strong incentive to complete this level of education. In some countries, relatively weak returns from upper secondary education mean that women need to continue their education to tertiary level to fully reap the benefits of going beyond compulsory schooling.

Definitions

The economic returns to education are measured in terms of net present value, or NPV. In the calculations, private investment costs include after-tax foregone earnings adjusted for the probability of finding a job (unemployment rate) and direct private expenditures on education. The discount rate is set at 3%, which largely reflects the typical interest on an investment in long-term government bonds in an OECD country. The rate used in this edition is below the rate of 5% used in *Education at a Glance 2009*. This change has a substantial impact on the net present value of education and needs to be taken into account if the results for these two years are compared.

Going further

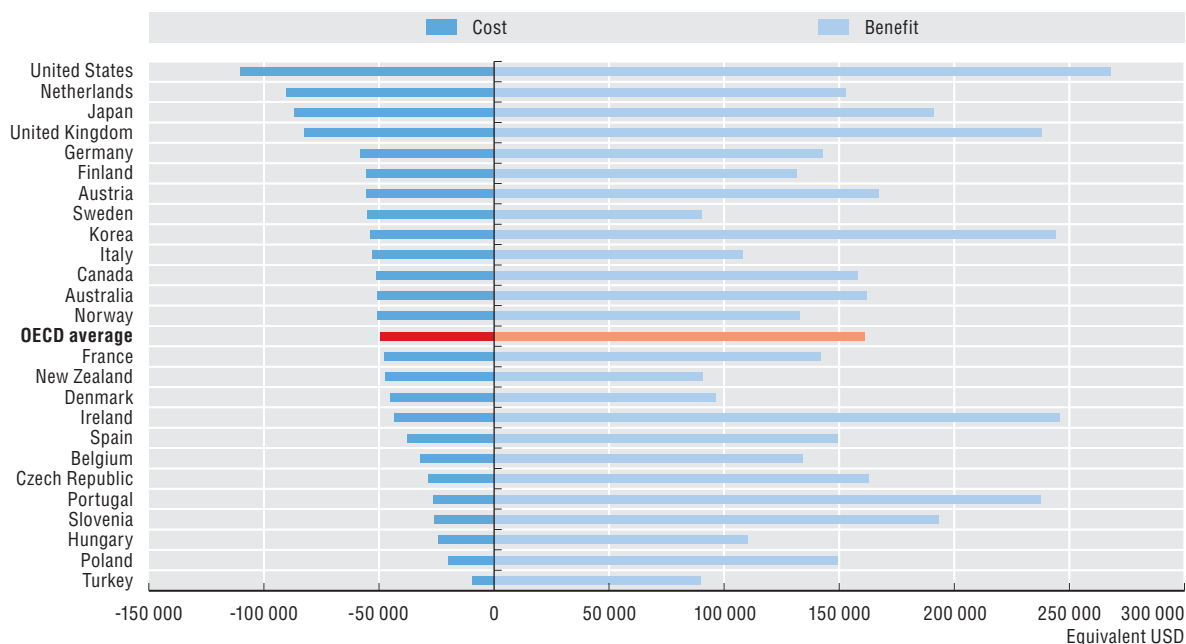
For additional material, notes and a full explanation of sourcing and methodologies, as well as a technical explanation of how the NPV is derived, see *Education at a Glance 2011* (Indicator A9).

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Figure 2.5. **Distribution of private costs and benefits for women obtaining tertiary education as part of initial education, 2007**

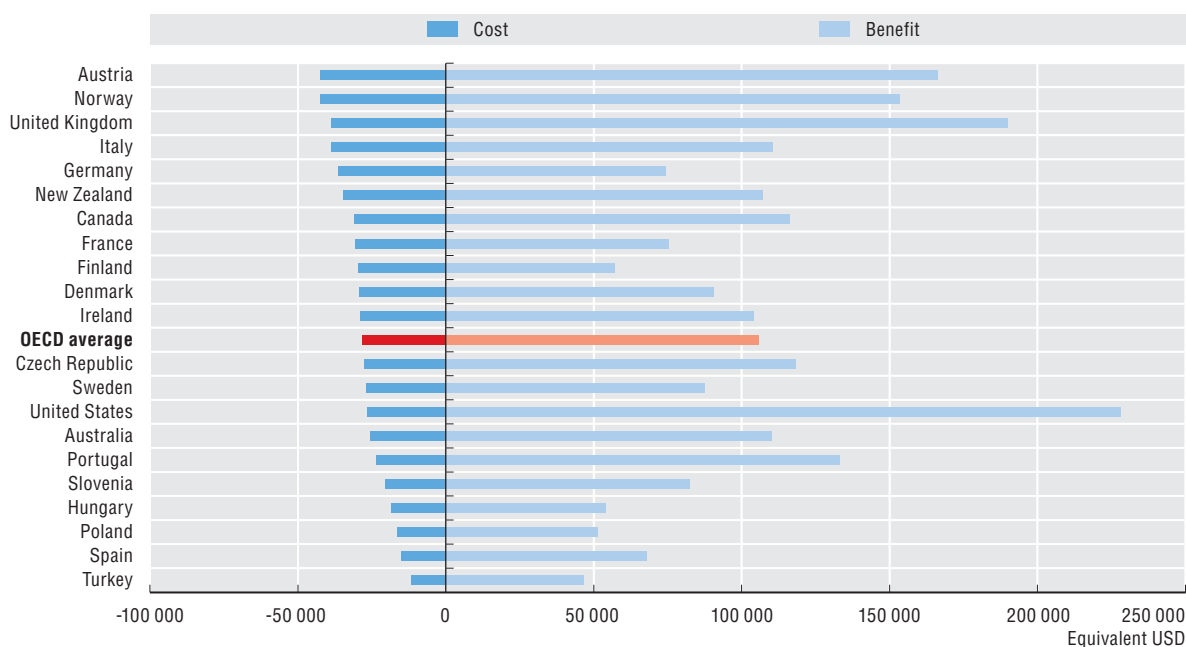
This figure shows the distribution of private costs (tuition fees and foregone earnings) and private benefits (increased lifetime earnings) for women obtaining tertiary education as part of initial education. On average across OECD countries, a woman investing in tertiary education can expect a net gain of USD 110 000.



Source: OECD (2011), Education at a Glance 2011, Table A9.3, available at <http://dx.doi.org/10.1787/888932463327>.

Figure 2.6. **Distribution of private costs and benefits for men obtaining tertiary education as part of initial education, 2007**

This figure shows the distribution of private costs (tuition fees and foregone earnings) and private benefits (increased lifetime earnings) for men obtaining tertiary education as part of initial education. On average across OECD countries, a man investing in tertiary education can expect a net gain of close to USD 175 000.



Source: OECD (2011), Education at a Glance 2011, Table A9.3, available at <http://dx.doi.org/10.1787/888932463327>.



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