

2. THE ECONOMIC AND SOCIAL BENEFITS OF EDUCATION

What are the incentives for societies to invest in education?

- On average among OECD countries, the net public return for a man obtaining a tertiary qualification is USD 91 000 and USD 55 000 for a woman.
- Across OECD countries, the average total benefits for a man investing in tertiary education (USD 129 000) is almost four times the total costs (USD 34 000), meaning there is a strong incentive for governments to encourage higher education.
- As with returns to individuals, the benefits to the public purse are higher when people complete tertiary rather than upper secondary education.

Significance

The economic benefits of education flow not just to individuals but also to governments through additional tax receipts when people enter the labour market. These public returns, which take into account the fact that providing education is also a cost to governments, offer an additional perspective on the overall returns to education. At the same time, they must be understood in the much wider context of the benefits that economies and societies gain from increasing levels of education.

Findings

On average across countries, the net public return from an investment in tertiary education exceeds USD 91 000 for a man, accounting for the main cost and benefits at this level of education. This is almost triple the amount of public investments made in tertiary education across OECD countries, and thus provides a strong incentive for governments to expand higher education.

For the public sector, the costs of education include direct expenditures on education (such as paying teachers' salaries), public-private transfers, and lost tax revenues on students' foregone earnings. The benefits include increased revenue from income taxes and social insurance payments on higher wages as well as a lower need for social transfers. But in practice, rising levels of education produce a much wider – and more complex – set of fiscal effects on the benefit side. For instance, better educated individuals generally have better health, which lowers public expenditure on provision of health care. Also, their earnings premium

means they spend more on goods and services, leading to wider economic benefits.

Together with foregone public earnings in the form of taxes and social contributions, direct and indirect public investment costs for a man with a tertiary education is on average USD 34 000 among OECD countries and USD 33 000 for a woman. For both, the total public investment costs exceed USD 50 000 in Austria, Denmark, the Netherlands and Sweden, whereas in Korea and Turkey it does not exceed USD 15 000. Such public investments are large, but they are surpassed by private investment costs in most countries.

Definitions

The economic returns to education are measured by the net present value (see previous spread). Public costs include lost income tax receipts during the schooling years, and public expenditures. The benefits for the public sector are additional tax and social contribution receipts associated with higher earnings and savings from transfers (housing benefits and social assistance) that the public sector does not have to pay above a certain level of earnings.

Going further

For additional material, notes and a full explanation of sourcing and methodologies, see *Education at a Glance 2011* (Indicator A9).

Areas covered include:

- Public rates of return for an individual obtaining tertiary education, as part of initial education.
- Public rates of return for an individual obtaining an upper secondary education or post-secondary non-tertiary education, as part of initial education.

Further reading from the OECD

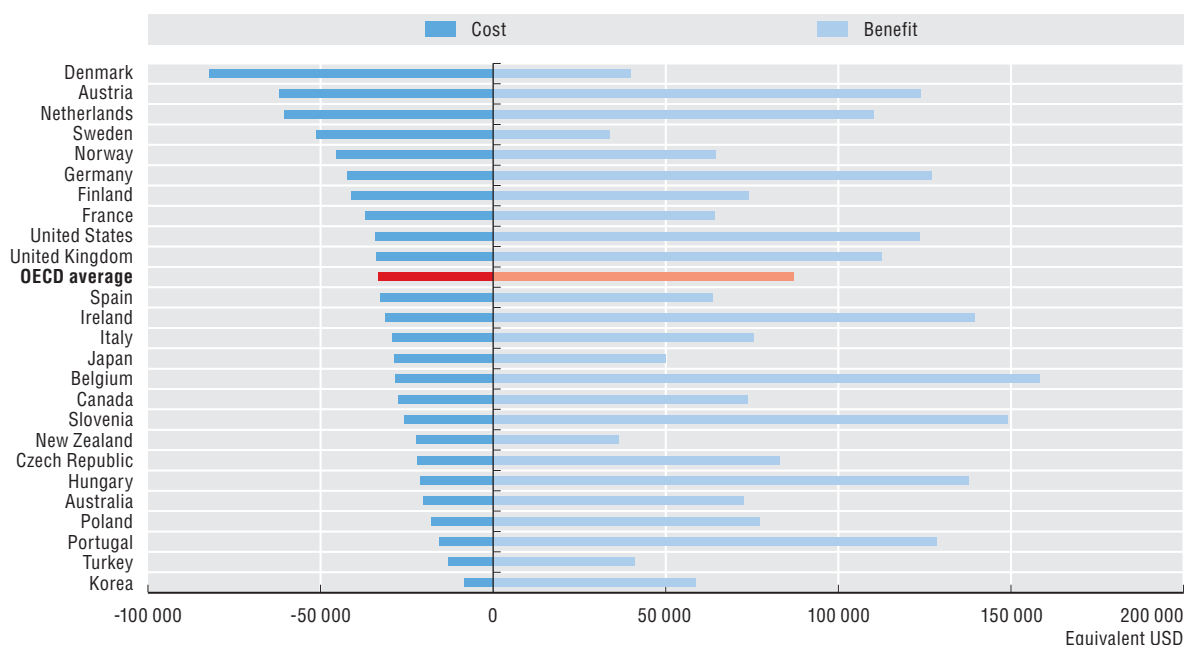
Understanding the Social Outcomes of Learning (2007).

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What are the incentives for societies to invest in education?

Figure 2.7. **Distribution of public costs and benefits for women obtaining tertiary education as part of initial education, 2007**

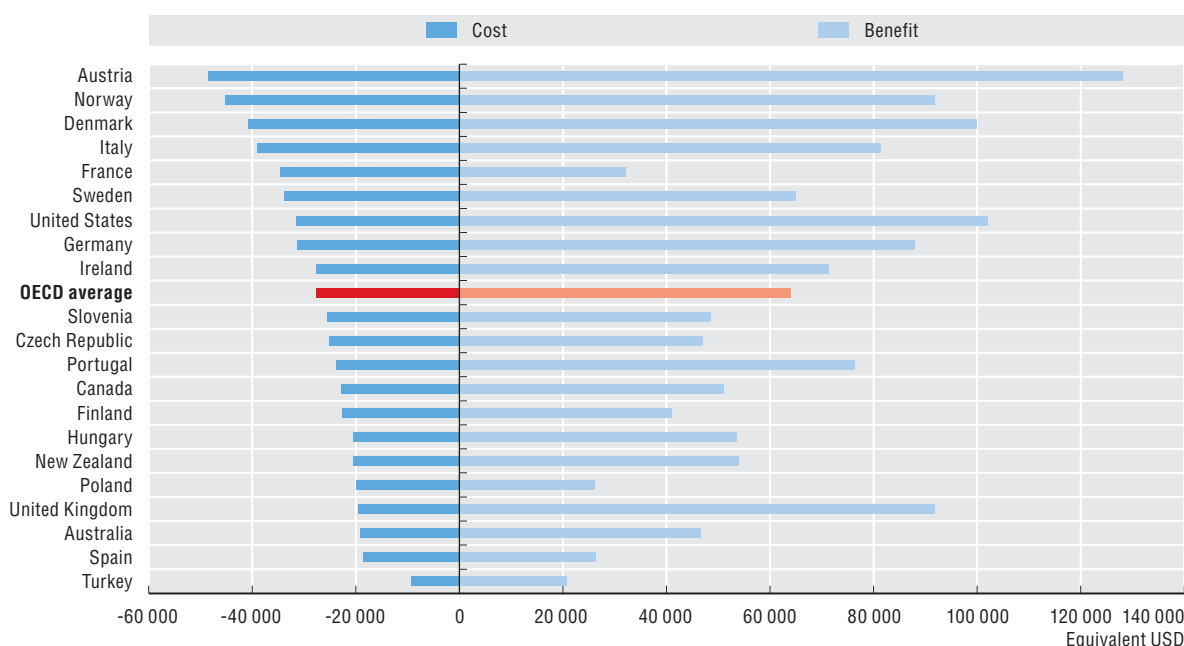
This figure shows the distribution of public costs (direct and indirect expenditure and forgone tax revenues) and public benefits (increased tax revenues and lower need for social transfers) for women obtaining tertiary education as part of initial education. On average across OECD countries, the net public return from an investment in tertiary education exceeds USD 55 000 for a woman student.



Source: OECD (2011), *Education at a Glance 2011*, Table A9.4, available at <http://dx.doi.org/10.1787/888932463346>.

Figure 2.8. **Distribution of public costs and benefits for men obtaining tertiary education as part of initial education, 2007**

This figure shows the distribution of public costs (direct and indirect expenditure and forgone tax revenues) and public benefits (increased tax revenues and lower need for social transfers) for men obtaining tertiary education as part of initial education. On average across OECD countries, the net public return from an investment in tertiary education exceeds USD 91 000 for a man.



Source: OECD (2011), *Education at a Glance 2011*, Table A9.4, available at <http://dx.doi.org/10.1787/888932463346>.



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