

2. THE ECONOMIC AND SOCIAL BENEFITS OF EDUCATION

What are the incentives for people to invest in education?

- Rewards are typically higher for individuals attaining tertiary education than 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 more than USD 145 000 on average in OECD countries.
- Rewards for investing in tertiary education are typically lower for women of more than USD 50 000 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, through the payment of tuition fees, for example, 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, it is driven mainly 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 net present value of investing in tertiary education on average is USD 146 000 for men and USD 92 000 for women. For upper secondary or post-secondary non-tertiary education, these fall to USD 68 000 for men and USD 47 000 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 21 000 in Denmark to just under USD 367 000 in Portugal (for women, the figures are, respectively, just under USD 12 000 to just under USD 207 000). 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 grants amount to USD 7 500 per year for a student not living at home. Accounting for these grants would reduce the invest-

ment cost by more than half and add about USD 28 000 to the overall value of a tertiary education. Overall, however, the returns to 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, Korea, Spain and Turkey, the net present value of investing in tertiary education tends to be higher for men than for women (see Table A8.2 in *Education at a Glance 2010*). Nonetheless in Korea, Portugal, the United Kingdom and the United States, an investment in tertiary education generates over USD 150 000 for both men and women (although, except for Korea, men's returns are higher than women's in these countries); 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

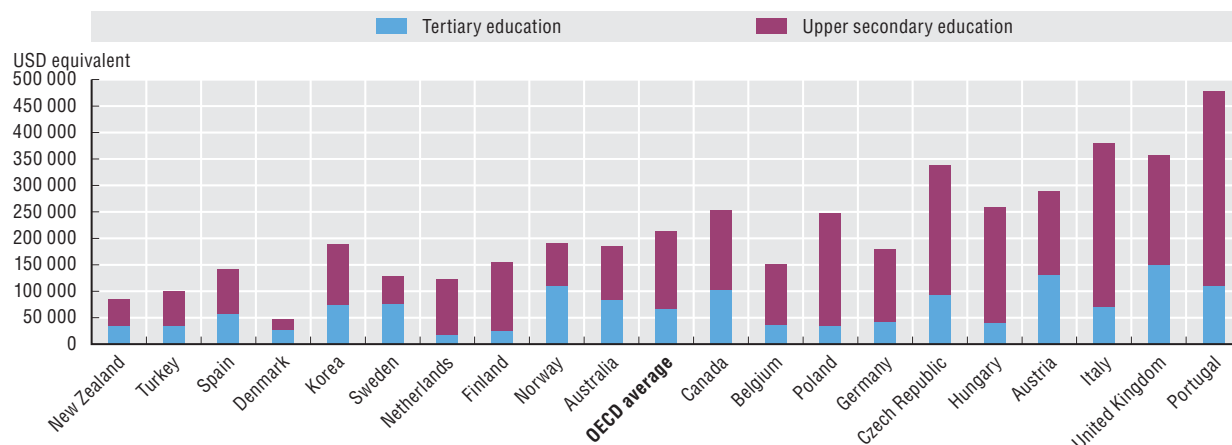
For additional material, notes and a full explanation of sourcing and methodologies, as well as a technical explanation of how the NPV is derived, see *Education at a Glance 2010* (Indicator A8).

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Figure 2.5. **Economic returns for an individual from obtaining higher levels of education, 2006**

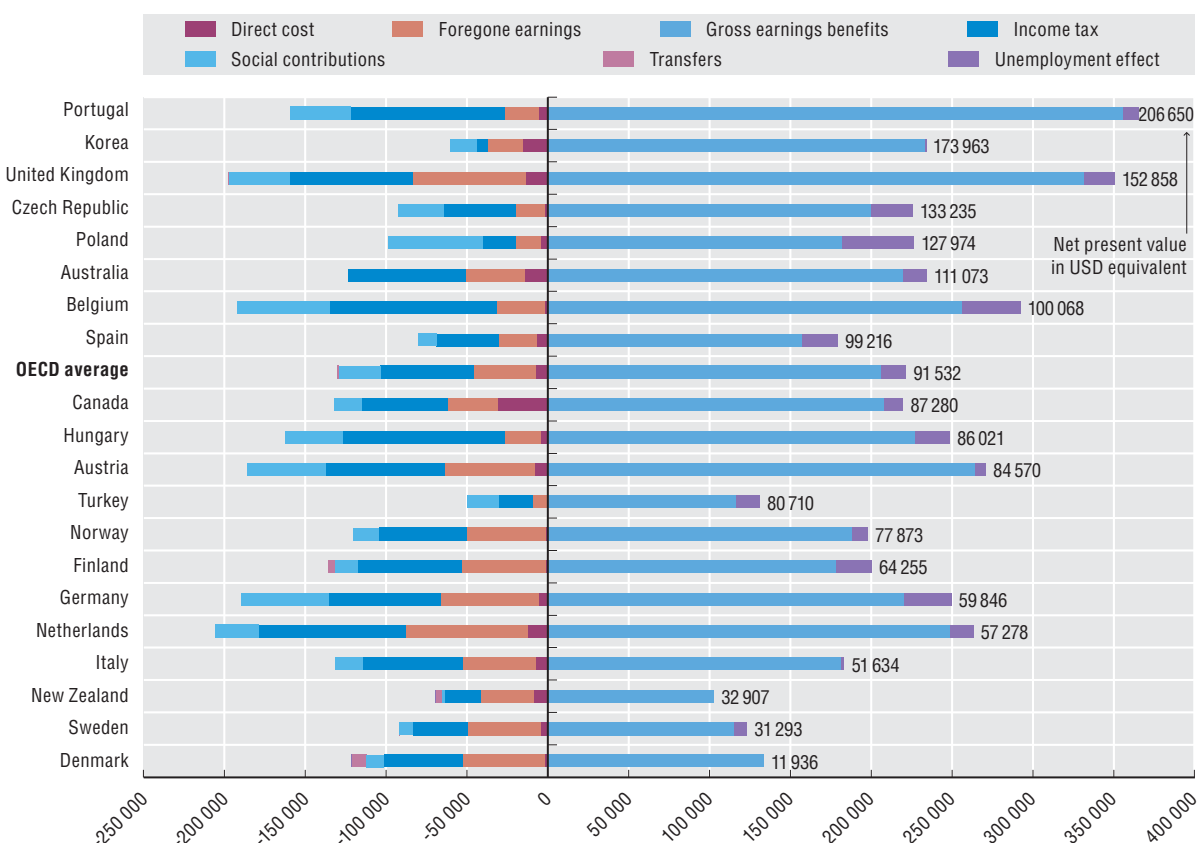
This figure shows the private economic returns – in the form of net present value – for men obtaining, firstly, an upper secondary or post-secondary non-tertiary education, and, secondly, a tertiary education as part of their initial education.



Source: OECD (2010), *Education at a Glance 2010*, Tables A8.1 and A8.2, available at <http://dx.doi.org/10.1787/888932310225>.

Figure 2.6. **Components of the private net present value for women obtaining tertiary education, 2006**

This figure shows the balance of costs and benefits that determine the rewards for women investing in tertiary education.



Source: OECD (2010), *Education at a Glance 2010*, Table A8.2, available at <http://dx.doi.org/10.1787/888932310225>.



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