

## 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 86 000.
- The net public return is almost three times the cost of investing in tertiary education, which means there is a strong incentive for governments to expand 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. Of course, they must also 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 86 000 for a male student, 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 as such, 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 give rise to 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, which has wider economic benefits.

However, data on these indirect effects of education are not readily available.

Together with foregone public earnings in the form of taxes and social contributions, direct and indirect public investment costs exceed USD 50 000 in Austria, Denmark, the Netherlands and Sweden for a man with tertiary education. In Korea and Turkey the total public investment cost does not exceed USD 15 000. On average among OECD countries, the total present value of public investment for a man obtaining a tertiary qualification is USD 33 000. Such public investments are large, but they are exceeded 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 2010* (Indicator A8).

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 OECD

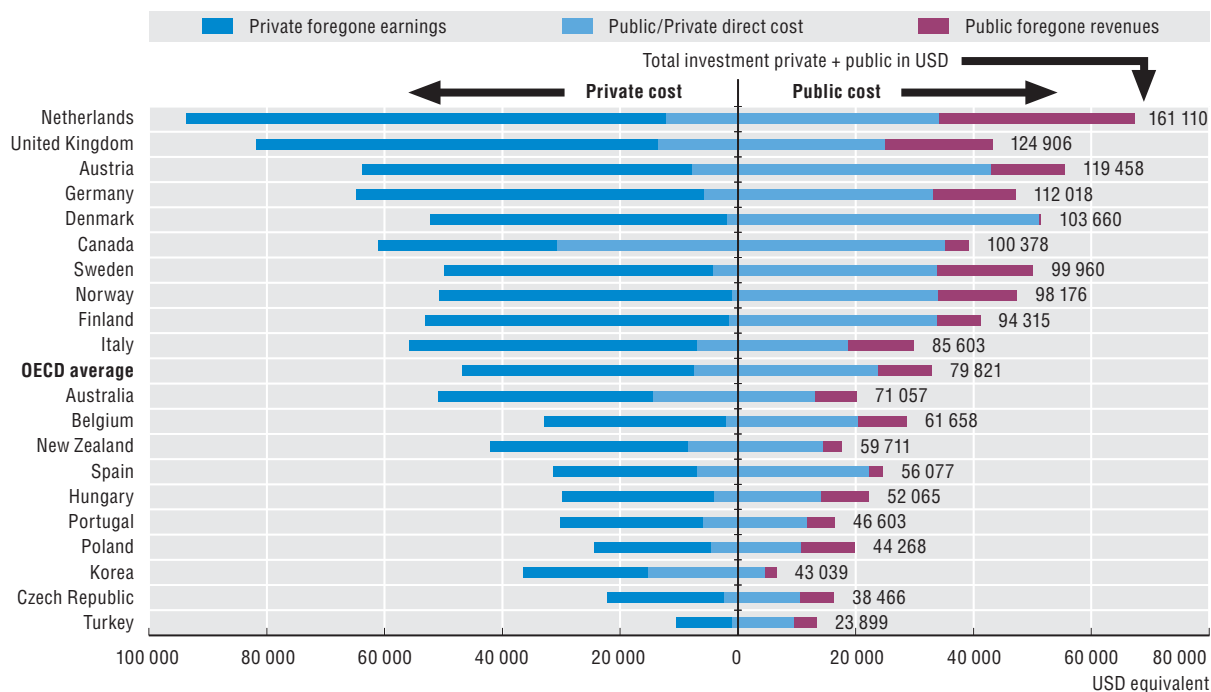
*Understanding the Social Outcomes of Learning* (2007).

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Figure 2.7. **Public versus private investment for someone obtaining tertiary education, 2006**

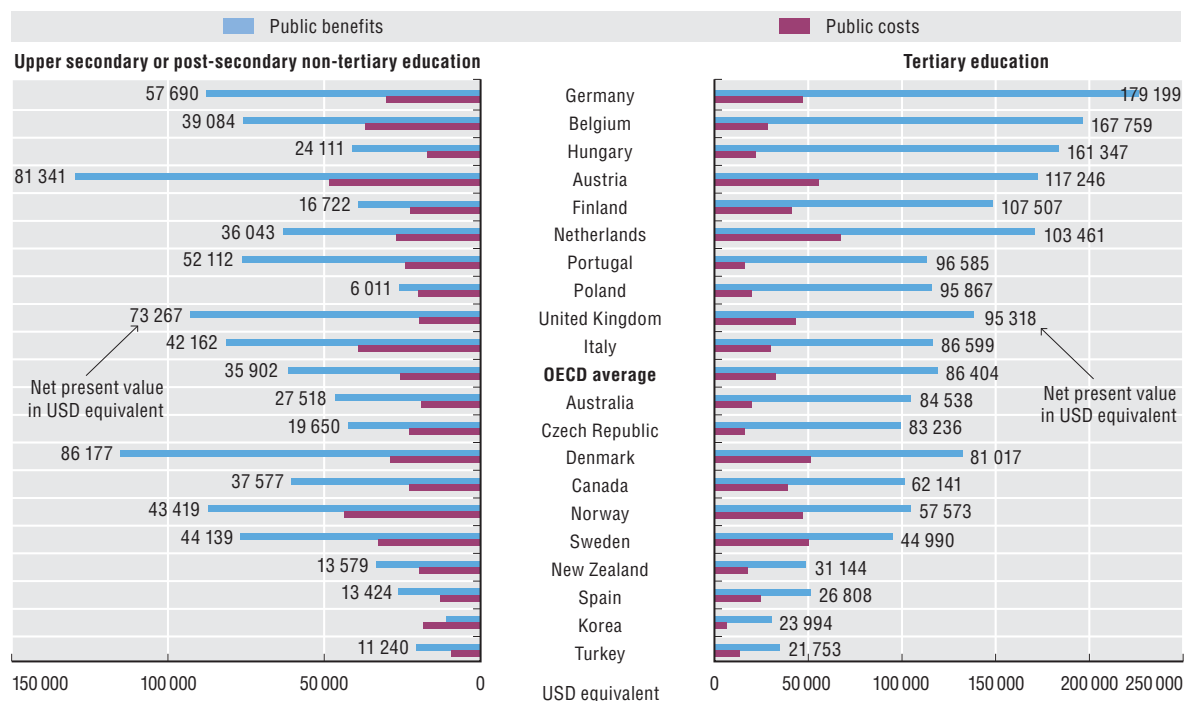
This figure shows the balance between the costs to the individual and the costs to the public purse for a male student pursuing tertiary education.



Source: OECD (2010), *Education at a Glance 2010*, Tables A8.2 and A8.4, available at <http://dx.doi.org/10.1787/888932310225>.

Figure 2.8. **Public costs and benefits for someone obtaining higher levels of education, 2006**

This figure shows both the costs and the benefits to the public purse from a male student obtaining upper secondary or post-secondary non-tertiary education and tertiary education.



Source: OECD (2010), *Education at a Glance 2010*, Tables A8.3 and A8.4, available at <http://dx.doi.org/10.1787/888932310225>.



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