2. THE ECONOMIC BENEFITS OF EDUCATION

What are the incentives for societies to invest in education?

- The benefits to the public purse are higher when people complete tertiary rather than upper secondary education.
- On average among the 19 OECD countries considered, obtaining tertiary education at the typical age – late teens or early 20s – generates a return of 11% for men and 9% for women.
- For people who obtain tertiary education at age 40, the public rates of return for men fall to 9.5% and for women to 6.6%.

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 societies gain from raising levels of education.

Findings

Across the 19 OECD countries for which relevant data are available, public rates of return are substantially higher for tertiary education than for upper secondary education, both when it is undertaken at the usual age (late teens and early 20s) and at age 40. On average, tertiary education generates a return of 11% for men and 9% for women as part of initial education; at age 40 the public returns are 9.5% for men and 6.6% for women. Tertiary education as part of initial education yields returns of close to 10% or more in Belgium, the Czech Republic, Hungary, Ireland, Korea, Poland, Portugal, the United Kingdom and the United States.

Some of these benefits will typically be shared among lower income groups, but depending on the will to redistribute wealth, it would make sense in most countries for the government to step in and improve access and incentives to invest in education in mid-career. This is particularly true for Hungary, Korea, New Zealand and Poland where rates of return reach 15% for males. There thus seems to be room for addi-

tional expansion of higher education through either public or private financing.

It should be noted also that the social benefits of education extend beyond providing additional income to the government in the form of taxes. For instance, better educated individuals are generally healthier, which lowers public expenditure on provision of health care. As earnings generally rise with educational attainment, there is also more consumption of goods and services, and this gives rise to fiscal effects beyond income tax and social security contributions. However, because of their complex nature, it is all but impossible to include these indirect effects in calculations on rates of return from education.

Definitions

The economic returns to education are measured by the internal rate of return (see Figure 2.2). Because of changes in some assumptions, results presented here and in *Education at a Glance 2008* are not comparable with those in previous editions of *Education at a Glance*.

Going further

For additional material, notes and a full explanation of sourcing and methodologies, see *Education at a Glance 2008* (Indicator A10).

Areas covered include:

- Public internal rates of return for an individual obtaining higher education, as part of initial education and returning to education at age 40.

Further reading from OECD

Understanding the Social Outcomes of Learning (2007).

2. THE ECONOMIC BENEFITS OF EDUCATION

What are the incentives for societies to invest in education?

Figure 2.5. **Public internal rates of return (IRR) for a young person attaining tertiary education, 2004**

This figure shows the benefit to the public purse (calculated on the basis of the public IRR) from men and women attaining tertiary education at the typical age (teens and early 20s).

Source: OECD (2008), *Education at a Glance 2008*, Chart A10.4, available at <http://dx.doi.org/10.1787/401828118341>.

Figure 2.6. **Public internal rates of return (IRR) for a person aged 40 attaining tertiary education, 2004**

This figure shows the benefit to the public purse (calculated on the basis of the public IRR) from men and women attaining tertiary education at age 40.

Source: OECD (2008), *Education at a Glance 2008*, Chart A10.4, available at <http://dx.doi.org/10.1787/401828118341>.

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