

### 3. THE ECONOMIC AND SOCIAL BENEFITS OF EDUCATION

#### What are the incentives to invest in education?

- People invest about USD 50 000 to obtain a tertiary degree in OECD countries, but men can expect to earn USD 350 000 more in their lifetime than those with an upper secondary or post-secondary non-tertiary education, and women USD 250 000 more.
- Education does not only pay off for individuals; it also contributes to the public good in the form of greater tax revenues and social contributions.
- The net public return on an investment in tertiary education is over USD 105 000 for men on average across OECD countries – nearly three times the amount of public investment – and over USD 60 000 for women.

#### Significance

Higher educational achievement benefits both individuals and society, not only financially, but also in terms of well-being. 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. Society, in turn, profits through reduced public expenditure on social welfare programmes and revenues earned through taxes paid once individuals enter the labour market.

#### Findings

Rewards are typically higher for those with higher levels of education. Gross earning benefits for a person with an upper secondary or post-secondary non-tertiary degree, compared to benefits for a person who has not attained this level of education, are particularly high in Austria, the Netherlands (for a woman), Norway and the United States. They amount to at least USD 260 000 for a man and USD 160 000 for a woman.

Higher education generates gross earnings benefits, compared with the income of a person with an upper secondary or post-secondary non-tertiary education, of USD 350 000 for men and USD 250 000 for women across OECD countries.

Individuals invest about USD 50 000 to obtain a tertiary degree in OECD countries. In Japan, the Netherlands and the United States, average investment exceeds USD 100 000 when direct costs such as tuition fees and indirect costs such as loss of earnings while studying are taken into account.

With few exceptions, net private returns are higher for individuals who attain tertiary education than those without. Only in Norway and Sweden does upper secondary or

post-secondary non-tertiary education bring higher returns, to men. Among those with tertiary education, net private returns are typically higher for men than for women. In Greece, New Zealand, Spain and Turkey, the returns are higher for women.

Investing in upper secondary or post-secondary non-tertiary education generates a net public return of USD 39 000 for men and USD 24 000 for women across their working life, on average across the 28 OECD countries with available data. The public benefits are twice as large as the overall public costs of upper secondary or post-secondary non-tertiary education, for both men and women. In the United Kingdom, public benefits are nine times larger than the public costs for a man with this level of education and nearly ten times larger for a woman.

On average across OECD countries, public investment in a person's tertiary education is USD 38 000 higher than that for an individual's upper secondary or post-secondary education (taking into account public direct spending and indirect costs). Public investment in an individual's tertiary education is highest in Austria, Denmark, Finland, Germany, the Netherlands, Sweden and the United States.

#### Definitions

The economic returns to education are measured by the 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. Public costs include lost income tax receipts during the school years, and public expenditures.

Information on data for Israel:

<http://dx.doi.org/10.1787/888932315602>.

#### 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 2014* (Indicator A7).

Areas covered include:

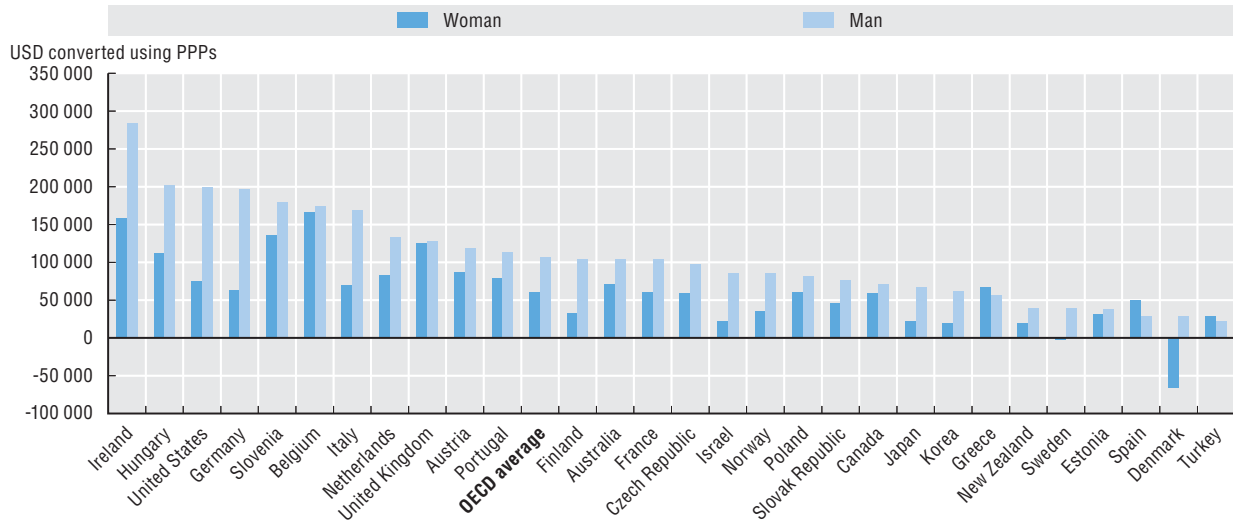
- Private costs and benefits of education, by education level and gender.
- Public costs and benefits of education, by education level and gender.

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#### What are the incentives to invest in education?

**Figure 3.5. Public return on tertiary education, by gender, 2010**

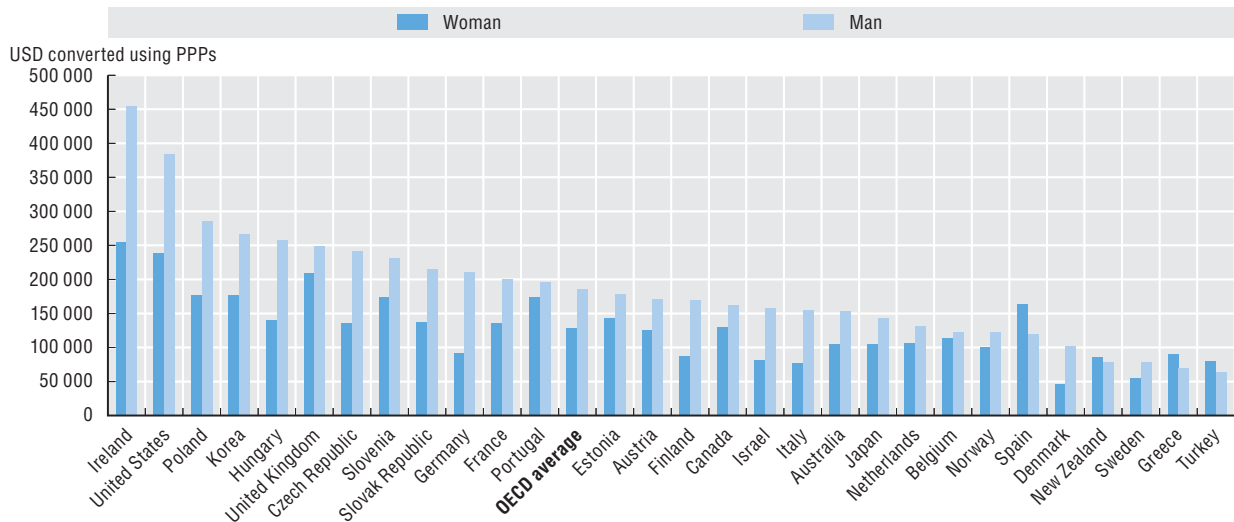
This figure shows the difference between public benefits (increased tax revenues and lower need for social transfers, among others) and public costs (direct spending and foregone tax revenues) for men and women obtaining tertiary education, as compared to those with upper secondary or post-secondary non-tertiary education.



Source: OECD (2014), Education at a Glance 2014, Tables A7.4a and A7.4b, available at <http://dx.doi.org/10.1787/888933116414> and <http://dx.doi.org/10.1787/888933116433>.

**Figure 3.6. Private return on tertiary education, by gender, 2010**

This figure shows the difference between private benefits (increased lifetime earnings) and private costs (tuition fees and foregone earnings) for men and women who successfully complete tertiary education, as compared to those with upper secondary or post-secondary non-tertiary education.



Source: OECD (2014), Education at a Glance 2014, Tables A7.3a and A7.3b, available at <http://dx.doi.org/10.1787/888933116376> and <http://dx.doi.org/10.1787/888933116395>.



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