

# IS LIFE-LONG LEARNING WORTH THE EFFORT?

Beware of further study,  
**Steven Schwartz** advises  
mature workers

**A**ccording to Brendan Nelson, Federal Minister for Education, Science and Training, Australians can expect to have up to seven different careers during their lifetimes. As the population ages, there will be an increasing need for older workers to re-train for each of these careers. Speaking at the launch of a paper on adult learning, Nelson urged Australians to ‘keep learning—beyond school, university, TAFE and private institutions—right through middle age and beyond.’<sup>1</sup> Is the Minister correct? Should you spend the next year or two or more improving your education? Will you benefit economically? Unfortunately, for many adult Australians, the answer to these questions is no. The problem is not with the Minister’s sentiments—education can bring substantial social benefits—but with the small salary premium paid for education and the high marginal tax rates that apply to relatively low salaries in Australia. Far from bringing economic benefits, in some cases, going back to school can produce an economic loss.

Let’s begin with some basics. Markets often provide incentives for people to gain extra skills by rewarding them with higher salaries. One way to look at it is that learning is an investment in one’s human capital. The higher the salary premium paid to those with more education the greater the return on the investment in education. In all developed countries, including Australia, there is a positive relationship between education and earnings. The longer you stay at school the more you earn (and the higher your probability of being employed).<sup>2</sup> Education looks like a good deal. But benefits are only part of the equation. To decide whether education pays off, you must also consider costs. These include the salary you forgo when you take time off work to study, the tuition fees you pay for

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extra schooling and the cost of any additional tax payments that result from the higher income that education produces.<sup>3</sup>

One way to compare the costs and benefits of additional schooling is to calculate the internal private rate of return—the net present value to the individual of benefits gained over a working life relative to the costs of gaining those benefits. The result is expressed as a percentage, more-or-less equivalent in meaning to the return you would get if, instead of investing in education, you simply put an equivalent amount of money in the bank.

In a recent publication, the Organisation for Economic Co-operation and Development (OECD) used the internal private rate of return to assess the value of life-long learning. Specifically, OECD researchers posed the following question: Is it economically worthwhile for a 40-year-old who dropped out of secondary education to take time

than in either the USA or Britain. Consider an average male worker aged 30-44 who left school without completing secondary education. If that person is an American, he will earn 30% less than an American male of the same age who completed secondary education. For British men of similar age, the difference is even larger, 33%. But in Australia, a male school-leaver makes only 17% less than a male who completed secondary education. For Australian women, the difference between school leavers and graduates is only 15%. Put simply, an adult Australian who takes time off to study has much less to gain than either an American or a Briton. Note that Australians also have more to lose by taking time off to study. The ratio of the minimum wage to the average wage in Australia is .58, the fourth highest in the OECD.<sup>4</sup> In comparison, the ratio is .36 in the US and .42 in the UK. This means that the salary that unskilled Australian adults forgo while studying is a higher proportion of average earnings than for adults in the US or UK.

The smaller premium paid for education makes further study less attractive in Australia than in American or Britain, but the return to education is still positive. It might still be worth going back to school if it were not for the second factor—the increased income earned because of additional schooling is significantly reduced by taxes and lost benefits. Precisely how much is lost depends on family circumstances. For example, someone with dependent children who receives a salary rise because of increased schooling would not only pay more income tax but may also lose eligibility for the family tax benefit, a double blow which significantly erodes the income benefits of extra schooling. And this is not the end of the story. We must also account for the tuition fees paid for extra schooling and the earnings forgone while studying. When these are added to the equation, the internal private return on investment becomes negative. In short, the combined effects of tax, tuition fees, forgone wages, and the relatively small salary premium paid for education in Australia makes extra secondary education not worth the effort.

The picture is not much better for people who completed secondary education when they were young and who return to education at age 40 to do a tertiary degree. The return is negative for females (who tend to be paid less than males doing the same

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off work to return to school to obtain a secondary or TAFE-type qualification? If the 40 year old happens to be American, the answer is resoundingly yes. Americans in this circumstance can expect a 14% return for this investment in themselves. The return to a British subject is somewhat lower, around 7%, but still better than a savings account. Unfortunately, the same is not true for Australians. A 40 year old Australian female, who takes time off work to do complete secondary education or a TAFE course, can expect to suffer a *loss* with a return of -18%. For men, the loss is even greater. In other words, Australians would be worse off financially by following the Minister's advice than by remaining un-schooled.

Why do Americans and Britons profit from extra learning while Australians do not? Several factors make Australia different from Britain and the USA. First, the salary premium paid to those who obtain additional education is lower in Australia

job) and only modestly positive for men (3.3%). Men would do about as well by putting their money in a savings account.

Clearly, the private benefits of education, at least for a hypothetical 40 year old Australian, are either non-existent or highly exaggerated—but what about the social benefits? Surely, society as a whole benefits from having a more educated adult workforce. The OECD looked at this as well. They called the benefits to society the ‘social rate of return’. To calculate the social rate of return, the OECD researchers began with the private costs and benefits that have already been mentioned. To these they added the additional tax receipts the government would receive from higher paid workers and then subtracted the taxes that would be lost while the person is in school and the cost to society for subsidising education.<sup>5</sup> The OECD found that a 40 year old who decides to complete his or her secondary education produces a significant social return in the USA and Britain, but not in Australia. If an Australian 40 year old decides to study full-time to gain a secondary or TAFE qualification, the social return is actually negative. Society loses more than it gains. The social return from studying for a tertiary degree is also very small for females but somewhat better for males.

Although full-time learning at 40 may not pay off in Australia, it would be wrong to conclude that all adult education is without economic or social value. The picture is better for those who study part-time because at least some productivity is maintained during study. However, the maximum benefit of education goes to those who complete school and university while they are still young. Specifically, the internal private rate of return for Australians who stay in school until the completion of secondary education is 40% for both men and women. Adding a tertiary degree directly after school adds another 7%. Staying in school also pays off for society. The social rate of return for finishing secondary school in Australia is 17% and 21% for girls and boys, respectively.

Of course the researchers had to make many assumptions to calculate rates of return. For example, they assumed that adults who went back to school at 40 would have the same income as those who completed their education when young (or, more precisely, that their incomes

would converge within a brief period of time). If this assumption is wrong—if experience in the workforce gives older workers a salary edge, for example—than the estimates for the value of schooling could be wrong as well. Indeed, the whole concept of stopping work at 40 to study full-time is rather artificial. Few people take this option in any country—most prefer to continue working and study part-time. Simplified assumptions and artificial examples are the price we pay to conduct comparative research. Fortunately for our present purposes, these assumptions and artificialities apply to all countries and do not differentially affect the Australian results.

So, to return to the original question: Is life-long learning worth the effort? The answer, for 40-year-old Australians considering full-time study, is no. They will not benefit economically and in most cases, society will not benefit either. Even part-time study is only marginally rewarding. If Australians want to benefit privately from returning to school as adults—as Americans and Britons do—then tax rates will have to change. Specifically marginal rates will need to be lowered or, at least, phased in at higher salary levels. Similarly, tax offsets, credits and subsidies will have to be phased out more gradually. Until that happens, Australia will remain one of few OECD countries in which adults benefit neither themselves nor their country by going back to school.<sup>6</sup>

## Endnotes

- <sup>1</sup> B. Nelson, *A Path To Skills And Knowledge Through Adult Learning* (Media release, 28 November 2003).
- <sup>2</sup> OECD, *Education at a Glance* (Paris: OECD, 2004). All data and quotations in this article come from Table A11 unless otherwise indicated.
- <sup>3</sup> Private costs = foregone earnings + direct private expenditures + increased future taxes. Private benefits = increases in earnings + higher probability of being employed.
- <sup>4</sup> D. Neumark and W. Wascher, *Minimum Wages, Labor Market Institutions, And Youth Employment: A Cross-National Analysis* (Washington, DC: Federal Reserve Bank, 2003), Table 1.
- <sup>5</sup> Public costs = lost tax receipts while studying + public expenditures. Public benefits = additional tax receipts. Social costs and benefits equal the total of private and public costs and benefits.
- <sup>6</sup> Only Australia, Finland and Sweden, all high marginal tax countries, have negative private rates of return.