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## The value of a university education

As another university year begins, many current and potential students are wondering aloud about the value of higher education. Aware of the difficulty some graduates have in finding work, many ask: is there now any point in gaining a university degree? Others worry about the Higher Education Contribution Scheme [HECS] which imposes costs that seem to rise inexorably year after year. They ask: is it worth incurring a huge debt that may take me a decade to repay?

Presently taxpayers and students are spending almost \$5 billion on higher education. For its part the government seems to have serious reservations about the value of this investment. Major reviews are underway and voices can be heard asking 'are we getting a decent return?'

The answer to all these questions is: 'yes'.

Research by Professor Jeff Borland of Melbourne University makes it absolutely clear that students, society and the government all receive major benefits from higher education. On average students undertaking tertiary study will spend \$17 000 per year in direct costs, HECS fees and foregone earnings. A three-year degree will cost them around \$52 000. But Borland's study shows that net earnings for graduates are increased by more than \$430 000 in their working lives. That represents a return of 14.5 per cent per year for the whole of their careers. But for HECS fees, the return would be more than twenty per cent. Taking out HECS, the return has remained more or less constant for at least twenty years. Or, in other words, HECS has reduced the return on tertiary study by a third.

Within these averages there are, of course, variations between particular courses. Social science and Arts degrees, for example, return an average 11.5 per cent, while business and economics qualifications generate 18 per cent. Interestingly, it seems that those who undertake longer courses over four, five or more years experience diminishing returns, despite earning generally higher incomes. The additional wages do not usually offset the greater costs incurred by several more years of study.

Average private rate of return from Australian university degree

	Average annual return
<b>A. Base case</b>	14.5%
<b>B. By qualification level</b>	
Bachelor degree	13.5%
Post graduate degree	8.0%
<b>C. By qualification field</b>	
Business/admin	18.0%
Society/culture	11.0%
Science	11.0%
Engineering	19.5%

Source: University of Melbourne. Borland J 2002

From another perspective — that of income inequality — the value of education to individuals can also be confirmed. In his study of family income inequality, Nick Pappas from the Centre for Strategic Economic Studies, shows that about a third of the total increase in wage inequality over the past decade can be attributed to education. This results from the increased relative demand for workers with tertiary qualifications. The way to narrow the income inequality gap, says Pappas, is to adopt broader education and training programs to spread labour market skills more widely.

OECD research confirms there is abundant evidence that earlier national strategies or investing in training and education returned a handsome dividend in faster productivity growth and higher aggregate productivity levels. For government then, it should be obvious that, far from cutting spending on education, it would be sensible to increase it, for everybody's benefit — employers, workers, young people who will shortly enter the workforce and even the 'bean-counters' who focus on the [national] 'bottom line', providing they can put aside their characteristic short-term fixation.

For employees and students the message is equally clear. HECS debt may be a source of worry; jobs may still be hard to come by. But it true that nothing is more likely to improve their chances of finding work and increasing earning capacity than possession of a university qualification. ■

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