

More education won't necessarily make you richer, new research reveals

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Credit: George Hodan/public domain

New research presented this week at the Royal Economic Society Conference from our Department of Social & Policy Science questions the commonly held belief that more education is 'good for you' and results in higher wages and better life outcomes.

The new study, by Dr Matt Dickson, with collaborator Dr Franz Buscha, examines for the first time in the UK, the relationship between wages and [education](#) over the entire life-cycle.

Its finds that:

- An additional year of schooling from the 1972 education reform in England and Wales resulted in a lifetime earnings loss of up to £45,000 over a 35-year period.
- Experience matters. Minimum school leaving age reforms might increase education but they also lead to a loss of potential labour market experience.
- The effect of experience lost is not overcome until individuals are in their mid-30s.

- When only the 'pure' education effect is examined, results suggest a positive return of approximately £60,000 over a 35-year period.

The report raises important questions about why education and investment in human capital are important and whether more education implies that people earn higher salaries. In addition it challenges when such effects are felt over a life-course and how might our current generation of children be affected by the recent raising of the participation age to 18.

Measuring the long-term effects

By carefully examining individual lifelong data from the Office of National Statistics (ONS) New Earnings Panel Dataset, the study for the first time provides an insight into the year-by-year effects of the 1972 reform that raised the school leaving age. This reform increased the compulsory minimum school leaving age from 15 to 16, substantially increasing the average length of schooling and qualification outcomes for many children.

But when comparing the lifetime wage trajectories of individuals who were born shortly before and shortly after the reform, the authors find that those with additional education suffered significantly lower wages in the first part of their working lives. On average, men with additional education suffered lower earnings until they were aged mid-30s. Post mid-30s wage differentials were non-significant.

Previous work on this question generally suggested that the effect of 1972 school leaving age reform was positive; more recent estimates have challenged the magnitude of such effects suggesting a downward revision from 15% to 5%. But none of these studies examined the early parts of the life-cycle, concentrating only on the later working years.

The new results show that the overall effect of an additional year of schooling on hourly wages was at best 0% and at worst -5%, which equates to a lifetime loss of £45,000, assuming full-time work.

Importantly, the authors argue that this negative effect is induced by the loss of early labour market experience and that previous studies did not adequately deal with this phenomenon. When correcting for this, the authors identify that the effect of education remains positive and significant.

Balancing opportunity costs of education

In other words, the results of this research show that school leaving age reforms must consider not only the benefit of additional education that children might receive but also the opportunity cost that the loss of experience might incur.

Dr Dickson from the Centre for the Analysis of Social Policy explains: "When teenagers leave school and enter the labour market they are competing with others from the previous school year who will always have had a year more experience. In the case of this reform, staying longer in school meant that the affected young people were two years behind. This is really important at the start of a career and made it more difficult to compete for jobs, meaning that they began on lower wages and took more than a decade to close the gap."

Dr Buscha added: "Our research shows that it is important that when designing school leaving age reforms, such as the recent Raising of the Participation Age, that children are not only made to learn useful skills during this additional education but that practical arrangements are made to smooth integration into the labour market such that the negative effects of lost work experience are kept to a minimum."

Provided by University of Bath

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