

The Post-Secondary Education Bubble

The Problem with Post-Secondary Education; Subsidies, Debt & Income

Andreas Korfmann

Research Intern, Atlantic Institute for Market Studies

7 February, 2012



AIMS is pleased to provide an opportunity for our next generation of thinkers to express their views to a public audience. Andreas Korfmann is a student in political science and economics at the University of Toronto. His comments about the diminishing value of post-secondary education and the rising student debt burden reflect his personal observations.

More and more students, parents, unions, and politicians are talking about rising tuition rates and the debt that many incur from pursuing a post-secondary education. There is no doubt that costs are going up, and debt is accumulating at an uncomfortable rate for many students. However, few have been calling into question the value of post-secondary education.

There have been several recent reports attempting to downplay (or some might say grossly understate) the benefit of post-secondary education, but most student advocacy groups agree that there are tangible benefits. Some estimate the income specific impact to be as low as \$20,000 over a lifetime, while a recent *Business Week* article has pegged the benefits of a university education at \$333,000. Just 20 years ago, however, organizations in Ontario were citing lifetime benefits of over one million dollars

and the TD Bank still describes post-secondary education as the single best investment you can ever make.

Most of these income return statistics have been attributed to the OECD (Organization for Economic Co-operation and Development), — but there appears to be little consistency. Statistics Canada reports different value-added numbers—all relatively higher than the lowest estimates cited above. One thing is consistent, however: the over-all trends of these reports appear to show the benefits of higher education as decreasing over time.

This may seem strange. According to politicians, economists, teachers and parents, the more we educate our populace, the greater our society becomes—and don't we see more people going to universities and colleges lately? Well, yes. In fact, Statistics Canada reports that over 79% of all Canadian youth ages 18-20 are participating in post-secondary education, and we are at a record high of enrolment in both universities and colleges. Moreover, university revenues have increased by 60% since 1980 - with the average institution showing that 60% of their operating budgets are reliant on government funding of

some sort - and only around 20% collected from tuition fees. Here's the part where people are likely to begin complaining. They will say this just means we have to get governments to spend more money on education. Many will say tuition fees need to be subsidized even more, but let's consider first just how heavily those tuitions are already subsidized.

Consider this: the closest possible figure you can get to an unsubsidized, real market tuition fee would be the rate charged to international students. The University of Toronto, Canada's largest university, charges international students around \$20,000 per year for a general Bachelor of Arts degree, versus the approximate \$6,000 fee for Ontario resident students. This suggests the immediate, year one, return on investment to an Ontario post-secondary student is around \$14,000 – the difference between the only market-set price of post-secondary study we have available to us, and the actual price charged.

Beyond this immediate boon, it is very difficult to assess the value-added benefit of obtaining a post-secondary degree these days; especially when one has to factor in non-monetary considerations. How do you put a dollar figure on an 'educated lifestyle'?

The most straightforward measure would be to look at the average income of members of the Canadian workforce without a post-secondary education, compared to the average income of those with post-secondary educations.

OECD figures suggest the average Canadian labour force participant with a post-secondary degree has a 38 percent earnings advantage over someone without post-secondary qualifications. So let's consider Statistics Canada's calculated average -after tax - salary per capita at \$31,750/year; a 38 percent advantage would be an added \$12,065- every year (note that the Statistics Canada figure is a very conservative estimate). This would mean that the average

salary of a degree-holding citizen in Canada would total \$43,815 per year. If we take the average number of years worked in Canada (40 years - between the ages of 25-65), we get a grand total (after tax) of \$1,752,600 earned.

If we want to make an accurate comparison, the average high school graduate begins working sooner, usually at the age of 19 - which would come at a short-run benefit of \$190,500 - or a 6 year head start in the workforce. So I think it is safe to say that over the average course of a high school graduate's working life, he/she would make \$1,460,500 - that is \$292,100 less than with a degree and over a longer time period than a post-secondary graduate.

This doesn't take into consideration the extra \$39,700 yearly average pension of University Graduates over the age of 65 (\$22,900 for College graduates, and \$18,300 for high school graduates) [Statistics Canada]. This means that, according to Statistics Canada, if the average Canadian has a total lifespan of 80.5 years (78 for males & 83 for females - 2011), university graduates will - on average - receive approximately \$615,350 in total pension revenue (\$354,950 for College graduates) - this is a total of \$331,700 more in pension income than a high school graduate (\$283,650). If we combine the net income revenue of a university graduate, we see that the average income over a lifetime totals \$2,367,950. This is \$623,800 more than the average lifetime salary of a non-post-secondary educated individual (\$1,744,150) - earned in 6 year's less time.

As it stands, the net benefit of an added \$623,800 over one's working life would appear to be worth it - however this number has significantly decreased over the past 50 years. It is still a significant monetary advantage; but recall that numbers calculated in the past have been at least double the \$600,000 mark. Tuition fees during those times were significantly lower, but so was government funding.

WHAT HAPPENED?

It's simple really; over the past few generations, more and more of us have been pursuing post-secondary education. To put this into perspective we can look at percentages of age-groups with those qualifications. The OECD reports that 47% of the Canadian workforce (25 to 64-year-olds) holds such qualifications. When broken down further, only 37% of 55 to 64-year-olds hold post-secondary qualifications - compared to a staggering 55% among 25 to 34-year-olds. All this is compared to a total OECD member-country average of 33% - significantly lower than the reported numbers in Canada.

This is where I would have to say something is up. Not because I believe we do not have enough students in post-secondary education. Not because I feel we need to get governments to fund post-secondary education more. No. I would have to say that looking at these numbers; we are in a post-secondary education bubble.

THE POST-SECONDARY EDUCATION BUBBLE

Let's look at it from a different perspective. Tuition rates have increased significantly over the past few decades, and government involvement has increased at an even greater rate. Overall post-secondary expenditure has increased 60 percent since 1980 and of that over 60 percent currently originates from some form of government. The number of students entering post-secondary institutions is increasing much faster than in other OECD countries. All this and we still haven't managed to keep the costs associated with tuition low.

As of 2005, 43 percent of post-secondary students in Canada still graduated entirely debt-free (down from 51% in 1995). But students holding debt are averaging more debt-per-graduate now than ever before. Furthermore, the

over-all benefits of post-secondary education in Canada are one of the lowest out of all 32 OECD member countries. So what's going on?

If we were to think about this one for a second, we would most likely revert to our current go-to answers/solutions: "fund more universities and colleges" or "lower tuitions through government intervention" or even, "make tuition free for all," because hey, "post-secondary education is a right!" Well I've got news for you: it's not. Worse still, the "solutions" based on that assumption could very well be the problem.

To see it more clearly, we could look at a post-secondary education as a feature, one that is added-on to a potential employee, because just as NHL goaltenders and NBA shooting guards get traded from team to team on contracts and for varied salaries, people are offering their expertise to employers everyday- and a degree makes them more valuable as an employee.

Just like in a regular commodities market, if too many goods (or degree-holding applicants) are produced (or graduated), there will be a surplus (or under/unemployment), the prices (or average salaries) will go down, and people will be more choosy when selecting their goods (because hey, they can afford to pick through them all).

QUANTITY OVER QUALITY

When we make it more affordable to go to a post-secondary institution (through government loans and subsidization), it floods the job market and ends up bringing salaries down, while ensuring there will be a greater number of underemployed or unemployed graduates. Not only are we flooding the market, we are watering down the quality of the education itself; requiring more students to go to school for even longer periods of time. Not only are student's tapping into time they could be spending gaining experience and income in the workforce, they are

spending more money on tuition fees (that only increase with the level of education pursued).

So why are we watering-down the quality of education? Well, because public funding makes it virtually impossible for a newer/non-public university to compete. How can more universities exist if a handful of the ones that have been around for the past half-century are getting millions, and sometimes billions, from the government? Students will sacrifice choice for a supposedly “cheaper” education. Does this seem like its working? I would firmly say no.

We are spending too much money on improving universities and colleges. I expect that observation to generate criticism. “Education fuels the economy,” and “how can you say this, education is the single most important thing ever,” will likely be some of the reactions. This is the problem: we are trapped in a half-century-old mindset, where the majority of the population was not educated on a post-secondary level, and where those that had a higher education made significantly more than those who did not.

The reasoning behind all of this is simple; there were not enough post-secondary graduates to fill the demand, so those who were able to receive the education were at a great advantage over those that couldn't. Institutions were also relying more on private funds, meaning it allowed for more competition and choices for students to receive higher-quality education. Politicians and citizens eventually recognized this and wanted a more “fair” system, where more people could have this level of income and lifestyle, because more money for more people generally translates to a better standard of living. This is all true; however they left one very basic yet important element out of the equation: supply and demand.

SUPPLY AND DEMAND

The reality is and was, if you put too many resources into producing a good because it is in high demand (because profits are expected to be made [i.e. higher salaries]), eventually production will surpass the demands, and if supply is then artificially created (through people pushing the importance of post-secondary education at an ever-growing rate) to the point where the demand catches up, then heavy inflation will ensue. Not only will there be a surplus of degrees, there will no longer be an incentive to enter that market. Private universities will not have the same resources as the big universities and will not be able to draw in quality professors and students.

Long story short: if we keep pushing post-secondary education and funding it at a faster rate, tuition fees will skyrocket and the benefits of graduating will shrink or cease to exist.

All this does not take into consideration how this education-funding culture affects the day-to-day operations of the universities and college's themselves. Because the federal and provincial governments (and sometimes municipalities) are willing to pump money into their institutions, they purposely spend more and aim to run close to deficits, (if not venture into the red ink completely) for the sole purpose of proving to government that they need even more funding.

Chances are, politicians will give it to them; voters tend to side with post-secondary funding. Quebec provides a perfect example. On average, their universities are consistently losing money, even though they receive the most federal funding of all the provinces [Statistics Canada]. It may seem strange, but it is a clever strategy put into practice purposely in order for them to have funding increases. If these institutions can show the government that their enrolment figures are increasing (which they are) and that their budgets are getting tighter and tighter (which they make

them do), then they will receive more money. Where have I heard of these patterns before? Oh yes! The United States, Greece, Ireland, Scotland, etc. have all traveled down similar paths.

If we take a look across the Atlantic, countries in Europe, once praised for their post-secondary education models of “free” tuition programs are suffering setbacks. Not only are their economies proving incapable of sustaining their previous levels of funding, their enrolment numbers and government balance sheets have turned ugly as well. EU member countries such as Austria and Germany are seeing increased calls on government to stop funding ‘free’ tuition. Other EU member nations such as Belgium, Holland and Italy are now charging students as much as 8,000 Euros for programs such as business and graduate school. We don’t need to look far for examples of countries with the heaviest-funded state schools becoming financially stressed. Scotland, Ireland and Greece continue to face austerity and cannot control spending programs that go far beyond their education systems.

With educational benefits slowing, sooner or later we will see a decrease in post-secondary enrolment and graduation rates, as the value-added becomes less a multiple of the cost, and more a marginal return on it. If we are not careful, we will end up facing the burst of this higher education bubble with all of the social and economic disruptions usually associated with such transformational events. We may even see a trend towards a less-educated society. Then where will we stand?

I am not suggesting this will happen tomorrow. It is still more likely for someone with post-secondary qualifications to secure full-time employment than someone who does not have that education. The lifetime benefits are still measurably better over the alternatives that require “less” education. However these statistics should be kept in mind when evaluating our approach to post-secondary funding going

forward.

The illusions of ‘free’ education and these mid-20th century mindsets need to be tossed aside, for we have already begun to see the effects of it: high tuition, lower salary benefits, and increasing levels of debt. Post-secondary education is most certainly a privilege; one that should certainly not be watered-down with lack of choice and quality; and one that should deliver a clear net benefit, not a cost, for both the individual and for society.



Atlantic Institute for Market Studies

**2000 Barrington St., Ste. 1302 Cogswell Tower,
Halifax NS B3J 3K1
phone: (902) 429-1143 fax: (902) 425-1393
E-Mail: aims@aims.ca <http://www.aims.ca>**