IS MORE EDUCATION REALLY A GOOD THING?

Richard Shearmur

If education really is the way to improve one's productivity and income, then the post-baby-boom generation should have the highest incomes of any generation in Canada's history. But it doesn't. In fact, the incomes of young people have been falling for the last two decades. It is time both to reconsider governing shibboleths about education and to re-cast social and economic policies in ways that help those who are hurting most.

S'il est vrai que l'instruction est le meilleur moyen d'améliorer la productivité des travailleurs ainsi que leur revenu, la génération issue du « baby-boom » devrait bénéficier des revenus les plus élevés jamais connus dans toute l'histoire du Canada. Mais tel n'est pas le cas. En fait, les revenus des jeunes ont décliné au cours des deux dernières décennies. Il est donc temps non seulement de réviser nos idées toutes faites au sujet de l'éducation, mais aussi de repenser nos politiques sociales et économiques de façon à aider ceux qui sont le plus durement touchés.

In the 1850's, Howard Greeley — founder of the *New York Tribune* — is reputed to have advised young fortune-seekers: "Go west, young man." As John Steinbeck so eloquently demonstrated, this advice may have been valid for a given time and place, but could not usefully be generalized. Today, in a widely vaunted "knowledge economy," in which we are told that "Canadians must collectively and individually face the challenge of becoming more qualified or of accepting lower salaries," Greeley's advice would probably be "Get educated, young person." And he would be wrong again! Young people entering the work force today — who are the most highly educated generation in Canadian history — face real incomes lower than their older siblings did starting out, and in many cases lower than their parents.

In this paper I will set out some quite widely available data which will support this claim, and propose a few answers to the following questions: Why are these data not more widely discussed? Who benefits from a highly educated and low paid young work force? And, finally, what are the consequences for this generation of young workers?

Prosperity and economic growth, we are told, are increasingly dependent on human capital. Robert Barro, Paul Krugman and other eminent proponents of the "new growth theory" have advanced econometric and other evidence that support this. For its part, *The Economist* (16/10/99) recently claimed that "we live in a knowledge economy where success depends increasingly on brain not brawn."

Not all evidence points this way, however: A recent study of Canadian urban regions finds that the link between education levels and employment growth is substantially weaker than theory suggests, and that it varies considerably according to the period studied. In fact, there is an on-going debate between proponents of the knowledge economy — who emphasize the link between increased education and training and higher productivity and economic growth — and skeptics who argue that as the number of highly qualified people increases, education and training certificates are increasingly used as credentials to obtain jobs for which they are not really required.

These debates have very important policy implications. If there is a link between education and productivity, then more education should lead to economic growth, which may be good for society in general, and is certainly good for the people investing in the education. But if, despite rising educational attainment, people's productivity (as measured by their income) is declining, then a number of overlapping possibilities arise:

- the credentialist hypothesis may be correct;
- an oversupply of educated people may be driving wages down;
- productivity increases may not be reflected in incomes but rather are being channeled elsewhere;
- other factors, such as the driving down of aggregate demand through monetary policies and excessive corporate belt-tightening, may be keeping the full potential of this "educated generation" from being realized.

Depending on which hypothesis is correct — and I don't propose to decide that here — then governments need to re-consider their education, macroeconomic, or labour policies, and corporations should consider the long-term social implications of their labour-management and remuneration practices.

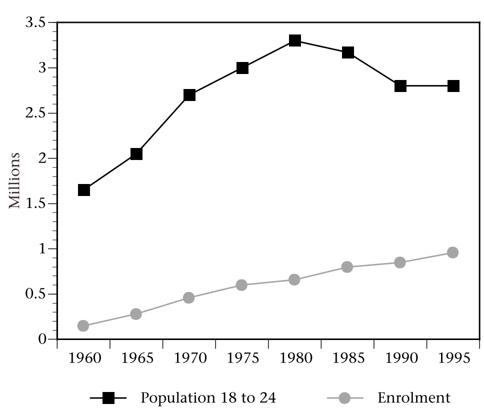
Turning now to the evidence, Figure 1 shows that over the 1960-95 period, despite decreases in the number of 18-to-24-year-olds, the number of students registered in college and university has climbed each year (and, though this is not shown, there has not been an increase in drop-out rates). The current generation really is more highly educated than previous ones.

Given the increased educational qualifications of the younger generation, and in keeping with the rhetoric surrounding the value of knowledge, it would be only reasonable to expect a rise in real incomes — especially for the young — over the same period. But Figure 2, which covers the years 1982-92, a full economic cycle, shows that, not only is this not the case for the three age groups considered, it is most particularly the younger, most educated generations that have been suffering from the fastest drop in earned incomes. (Between 1993 and 1996 average real incomes rose slightly, but did not return to 1982 levels. Income polarization continued to climb, although transfer payments mitigated the effects of polarization.)

Figure 2 can, of course, be criticized. The drop in earnings for 20-24-year-olds probably reflects the fact that increasing numbers of such people are enrolled in post-secondary education. This argument becomes substantially weaker when the 25-34-year-olds are considered, however. One would expect an increase in the real earnings of these formidably educated young people as they enter the job market and begin to reap the benefits of their educational investment. But this group, too, has suffered from falling real earnings. Only the "baby boom" generation has benefited from an (albeit small) increase in real earnings.

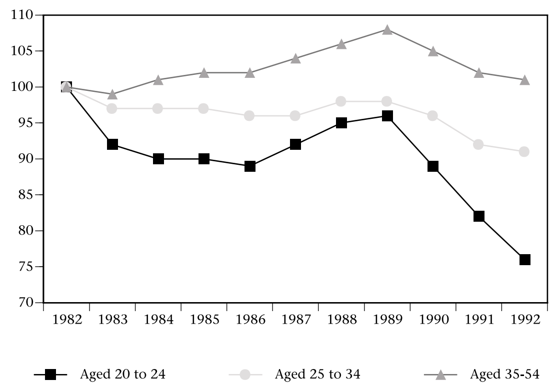
It might also be argued that while earned incomes may have fallen, unearned income — or transfer payments — have replaced this lost income. If so, this is a sure sign of economic mismanagement: Cohorts of highly educated young people should not be relying on transfer payments to survive. There is no doubt that such payments have blunted the effects of the widening differences in earned income. But

Figure 1
Post-secondary enrolment and the population of 18-24-years-olds, Canada, 1960-95



Source: Guppy and Davies, "L'éducation au Canada: tendances récentes et défis à relever" (Ottawa: Ministère de l'Industre, 1998).

Figure 2
Real earnings by age group, 1982-92



Source: *Canadian Economic Observer* (October 1997), catalogue no. 11-010-XPB.

While earned incomes may have fallen, unearned income — or transfer payments — have replaced this lost income. This is a sure sign of economic mismanagement: Cohorts of highly educated young people should not be relying on transfer payments to survive.

transfer payments have been a prime target of budget-cutters. After-transfer polarization will increase further if tax cuts do not target lower- and middle-income groups and if students are burdened with higher fees and larger debts (because of longer time spent in the education system).

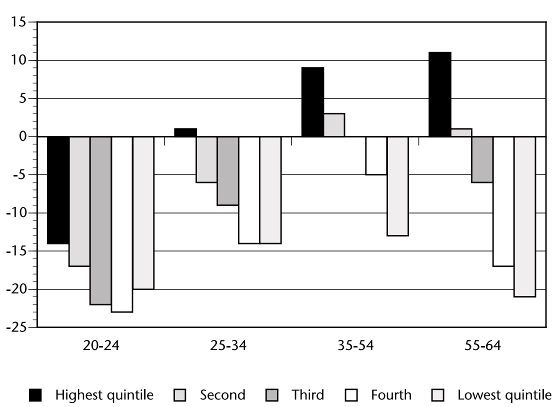
Not only do the rich seem to be getting richer and the poor poorer, but it is younger people, who are already earning the least, who have suffered from the sharpest and widest-ranging earnings drops.

Figure 3 clearly shows that the younger, most educated generation has been suffering the brunt of the decrease in real earnings. Again, decreases in earnings in the 20-24 year age group are understandable — up to a point — since labour force participation rates for that age group were lower in 1992 than in 1982. Still, it is surprising that each quintile in the 20-24 year old class has suffered large decreases in real income: Even the top 20 per cent of earners in that age group — who are presumably employed full-time — were earning substantially less in the 1990s than the same group did in the 1980s. (Finnie and Garneau, from whose work this figure is taken, also present earnings data for women. The general pattern — decreases for younger workers and for the lower quintiles — is the same, although less marked than for men.)

In the next age group up — consisting of those people who have put off entering the work force in favour of further education — all but the top quintile have suffered substantial losses in real earnings, and even in the top quintile income gains were modest, not even keeping pace with the growth in per capita GDP over the period. Note that this group's participation rates were higher in 1992 than in 1983, which should in fact have lead to higher earned incomes.

Figure 3 illustrates the earnings polarization that is occurring in Canada. It is occurring along at least two dimensions. Age-wise, the successful members of the baby-boom generation seem to be ensuring that their real incomes keep growing, while younger generations, who do not control any economic or political levers, are finding it harder and harder to earn anything approaching a decent wage. Income-wise, across all age groups, it is the highest-earning quintiles that have secured the highest earnings increases (or lowest decreases). In sum, not only do the rich seem to be getting richer and the poor poorer, but it is younger people, who are already earning the least, who have suffered from the sharpest and widest-ranging earnings drops.

Figure 3
Change in mean earnings for men ($1992) by age and quintile, 1983-92

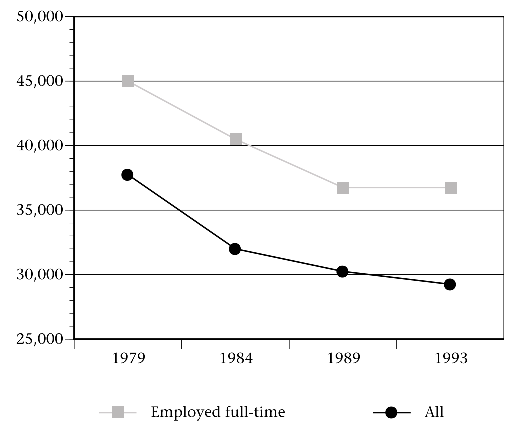


Source: Finnie and Garneau, *Canadian Economic Observer (October 1997), adapted from Table 3.*

To return to education, it can still be argued that if educated young people could be singled out, then they would emerge as "winners" despite the decreases in real earnings for other people their age. But in 1991 only 21.2 per cent of 20-24-year olds had no post-secondary certificate, against 37 per cent of 45-54-year-olds. (The percentage rises monotonically with age.) If productivity and economic growth were linked to education, then the fact that so many more younger people have achieved higher levels of education would surely translate into real earnings growth, at least in the top quintiles.

In any case, it is not necessary to speculate. In their comprehensive 1998 review of *Education in Canada*, Neil Guppy and Scott Davies present data on the earnings of young degree holders. Figure 4 illustrates the rapid drop in real earnings of young degree holders — precisely those who have put off their entry into the work force and have contracted substantial debt in order to get educated. Two points emerge from this figure. First, even for degree holders employed full-time, real earnings have fallen substantially. Second, the faster drop in earnings when part-time employment is included reflects the increasing prevalence of this type of work: In 1978, 13 per cent of all employment in Canada was part-time whereas in 1994 about 18 per cent was, and it is especially young people who are experiencing non-standard work arrangements such as this. Whatever the precise reasons, it is clear that the arguments related above — that declining earnings can be explained by increased reliance on transfer payments, that educated people are the "winners" — should at the very least be heavily qualified. It seems very unlikely that excessively generous transfer payments would deter university graduates from seeking employment, while if

Figure 4
Real annual earnings ($1993) of 25-29-year-old male degree holders



Source: Guppy and Davies, "L'éducation au Canada: tendances récentes et défis à relever" (Ottawa: Ministère de l'Industre, 1998).

educated people are winning out in today's economy, then the word "win" must be understood in a very narrow way. Despite the oft-repeated advice "Get educated, young person," education has been of no evident benefit to Canada's younger generation.

In fact, that is too harsh. Education probably has helped. It has helped young Canadians climb the mast of a sinking ship. It is still true that the more educated people tend to have higher earnings and less unemployment. But with real earnings dropping for all young people and with unemployment and underemployment rising, this is scant consolation. It would seem that all the young generation will drown in the end, with the most educated having the dubious honour of being last to wave good-bye to the highest quintile baby-boomers sailing by in their private yachts.

This pessimistic conclusion should be put in a wider context. Young people now begin work later than their parents did, earn less, and start out with more substantial debt loads. When they are lucky enough to find a job, they are taxed at far higher rates than their parents were at the same point in life — in part to pay off a deficit from which they did not even benefit. Finally, the attack on young people's disposable income is accompanied by newspapers and TV ads that constantly emphasize the need to contribute to RRSPs, the need for which is made increasingly acute by baby-boomers' imminent retirement and demise, and by a return of conspicuous consumption by the wealthy — the members of those high-earning, aging quintiles.

What does all this mean? At all levels of education, the living standard of the younger generation has declined substantially over the last 15 to 20 years. It is increasingly difficult for this generation to save or to invest. The first retirement crisis — linked to rising CPP payments and declining participation rates as baby boomers retire — will be paid for by the current young, thus further reducing their capacity to save for themselves. The second and more serious crisis will come when this young and substantially poorer generation hits retirement without having been able to save, to invest in a home or even, in many cases, to raise a family in order to ensure another — even worse off? — generation. In effect, whereas the baby boom generation has been able to save and will benefit from the CPP and the public health care system, the current young generation, without savings, will in all likelihood have to fend for itself.

I have not revealed any secrets here. All the data I have quoted are widely available. So why have they not been widely discussed? One explanation is that the baby-boom generation — whose more successful members currently dominate corporations, the media, and the universities — have little incentive to rock the yacht. The younger generation has been brought up with individualism as the dominant social ethic. The invisible hand is replacing more important social values and priorities. Baby-boomers may remember a time when alternative forms of social organization were at least considered but, whilst themselves benefiting from the remnants of this bygone age, they have no incentive to refresh the memories of the younger generation.

To be somewhat more charitable, the education mantra seems to have worked well for the boomers: Until recently it was probably true that incomes and growth were associated with better education. Thus, the "get educated, young person" advice may be being passed on to the younger generation by well-meaning parents and grandparents. But just as Greeley's advice did not help Steinbeck's Okies, so current advice is clearly not working for today's younger generation.

Who benefits from a highly educated and low-paid young work force? If higher education does lead to higher productivity, then the extra productivity gain produced by the current

Young people now begin work later than their parents did, earn less, and start out with more substantial debt loads. When they are lucky enough to find a job, they are taxed at far higher rates than their parents were at the same point in life — in part to pay off a deficit from which they did not even benefit.

young and highly educated work force must be going somewhere. Most is clearly not going into higher incomes for the younger generation. Part apparently is being channeled to baby-boomers, and part to corporate profits and stock-market gains.

Or, it may be that the new economic growth theories and their emphasis on human capital are incomplete. A more highly educated population may not enjoy higher productivity in all cases. It may be that beyond a saturation point the human capital/economic growth link disappears. If Canada has reached this point, which would appear likely, then education is now merely a competition for credentials, which is a waste both of public funds and of students' time and money.

Beyond a point the human capital/economic growth link may disappear... Then education is merely a competition for credentials, which is a waste of public funds and of students' time and money.

What can be done? In the short term tax, EI and CPP reductions aimed at families and low- to middle-income earners would be of some help. But longer-term solutions are needed. Corporations should begin to consider the long-term societal consequences of their seemingly rational belt-tightening, especially when it squeezes remuneration. Private interests should also reconsider the pressure they exert on governments to follow certain narrow macroeconomic policies. Indeed, over the last 20 years macro level policy has tended to concentrate on suppressing demand and ensuring enough slack in the labor market to avoid inflation — a policy that succeeded beyond all expectations. Unemployment is now inching down, but the gap in real incomes is still widening around a stagnating average, while underemployment and precarious employment are commonplace. The younger generations are those most likely to have little employment security and therefore little incentive to save or plan.

Lean corporations and monetarist governments have effectively written off a generation which, even if the current recovery continues, will be ten or 15 years behind where its parents were at the same stage of life in terms of retirement savings, mortgage payments, starting a family and so on. It is high time to loosen the economic reins and unleash some of this pent-up demand. The focus should be on increasing real incomes for low- and middle-earning Canadians — particularly the young — for whom every dollar coming in will translate into a dollar of spending, instead of on corporate profits which merely contribute to the speculative stock market bubble.

Finally, it is time that the younger generation itself began to address these issues. Either all the education that it has received has been of no use whatsoever, or we now have a generation of highly trained individuals capable of critical thought and analysis. These qualities may have little value in today's labour market, but they should ensure that the young generation is able to grasp the complexities of its own difficult position, and to articulate its concerns in ways that may eventually cause even the baby-boomers to listen.

Richard Shearmur is assistant professor of urban and regional economics at INRS-Urbanisation, Université du Québec à Montréal.

Being overqualified hurts financially The International Adult Literacy Survey ... measures each person's skills, using three tests focusing on literacy and numeracy. We first took each individual's average score across the three tests and allocated them to one of four skill bands. We then used responses to the survey's questions about how often participants needed to use certain reading, writing and arithmetic skills at work. We used the responses to these questions to measure the skills required on the job, and again allocated the results to one of four required skill bands. We then arbitrarily defined an individual as "overskilled" if their skill level was two or more levels higher than their job requirement, and similarly "underskilled" if their skill level was two or more levels below that required by their job. A significant number of participants fell into one of these two categories, particularly the former.

Even in spite of our rather arbitrary classification of actual and required skills to the four bands, the extent of over- and under-skilling can be shown to have real effects on individuals' earnings, similar to that found amongst the over- and undereducated. We found that, even taking into account the gender, age, education level and full- or part-time status of workers, individuals with good skills who work in jobs which only require low skills earn much less than their peers who find jobs that do match their skill level. For example, a worker with very high skills (level four) working in a very low level job (level 1) earns £7000 a year less than a similarly skilled individual working in a level four job. Not using one's skills can therefore have very real effects on earnings.

Francis GREEN, Steven MCINTOSH and Anna VIGNOLES, writing in *Centrepiece*, Spring 2000