NEW EVIDENCE ON THE COSTS AND BENEFITS OF GOING TO UNIVERSITY
What matters are degree subject and degree result

The dominant determinant of the returns to future students from investing in higher education will not be higher tuition fees. Rather, it will be the subject they choose to study and how hard they study it.

These are the central conclusions of new research by Professor Ian Walker, reported in the latest issue of Research in Public Policy, published by the Centre for Market and Public Organisation (CMPO).

With higher tuition fees imminent, potential students will more than ever need to assess the costs and benefits of pursuing a degree. This study presents evidence that wage growth for graduates is stronger than for non-graduates but with significant differences across degree subjects and degree results, and between men and women:

- Studying Law, Economics or Management (LEM) delivers very fast earnings growth for men early in their careers.
- Under current fees, lifetime net income for men is doubled with a good LEM degree. But a combined degree offers only half that, while a degree in Science, Technology, Engineering and Maths (STEM) only offers about one quarter.
- Women do very well in all subjects.
- The returns gap between graduates and non-graduates is large for most men – the exception being Arts, Humanities and Social Sciences (excluding Economics), where the difference is small and gets smaller with age.
- A higher class degree gets quite a lot more than a lower class degree – across all subjects.

The research confirms that graduates earn more – and some much more – than non-graduates. But to evaluate whether a degree is a good investment it is essential to factor in the cost (fees, the forgone income while studying and the extra expenses of studying) and it needs to be remembered that earnings are taxed and that tax is progressive.

Putting all these factors into the pot, it is possible to simulate earnings net of fees, tax and other costs across the lifecycle, taking on board the loans and grants that are on offer, and calculate the rate of return that would yield an equivalent level of lifetime income – the ‘internal rate of return’ (IRR).
The average IRR for a good (2.1 or better) LEM degree for men is 28%, while for a good Science degree it is only 7%. Women do very well across the board – in all subjects the IRR is close to 17%.

The focal point for fees in the Browne report is £6,000. Redoing the arithmetic using the Browne proposals (with a higher interest rate, bigger threshold, etc.) suggests that students from a low income background are getting 29.8% on their pound invested in LEM (they get a slightly better deal than students from a higher income background who earn 29%) and under Browne they will be making 29.2% (28.6%).

Ian Walker says:

‘The overwhelming conclusion is that higher fees would not have made much difference – the dominant determinant of the returns to your investment is the subject you study and how hard you study it.

‘This will still be true under the Browne proposals, which reduce returns but not by very much.’

ENDS