

Private returns to tertiary education: How does New Zealand compare?

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Private returns to tertiary education in New Zealand:

- ***Why is it important?***

The OECD index of Private returns to tertiary education:

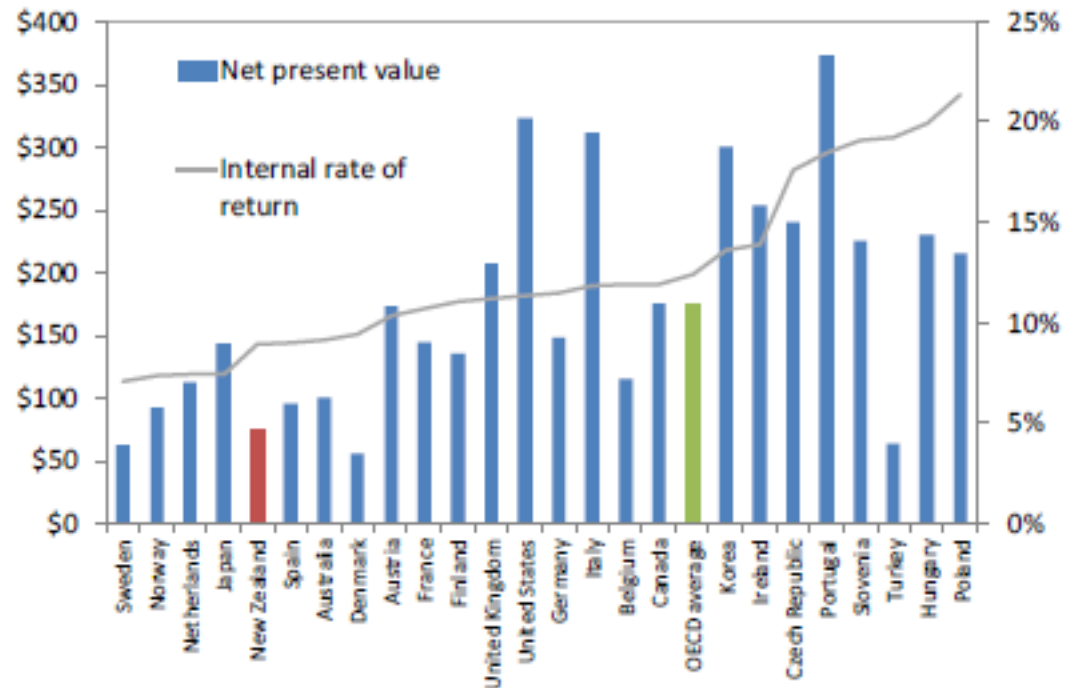
- New Zealand's current / historical positioning*

OECD IRR 12.40%

NZ IRR 8.95%

Rate of return to investment in tertiary education

Primary axis: NPV of returns to a man obtaining tertiary education, 3% discount rate, thousands of US\$ (PPP). Secondary axis: Internal rate of return to a man obtaining tertiary education.



Source: OECD

Measurement issues:

- ***Comparability of qualifications***
- ***Mix of qualifications and lower proportion of post-graduate degrees (ranked 22nd in OECD with 6% compared to 18% OECD average)***
- ***Other factors***

About half of the 3.45% IRR gap is explained by out-dated measurement.

How is the indicator constructed?

Measured benefits:

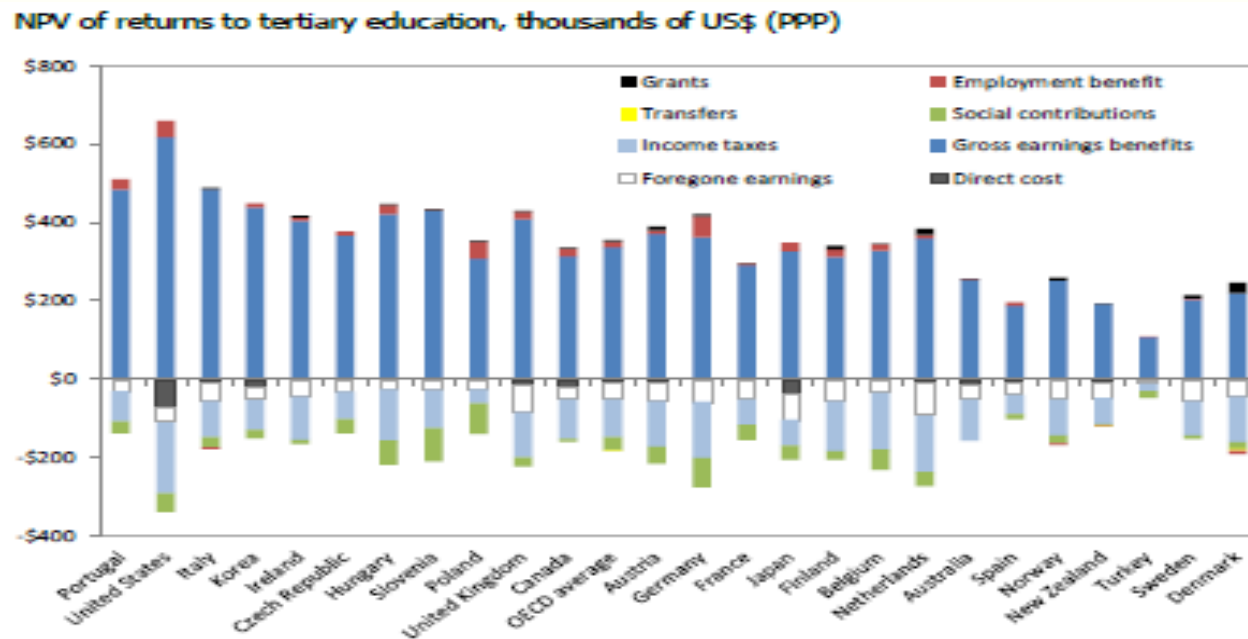
- *gross earnings benefit*
- *employment outcomes*
- *student grants*

Measured costs:

- *direct costs*
- *foregone earnings*
- *income taxes, transfers and contributions*

Which components explain NZ's relative position in the OECD?

- *The lower gross earnings is the main factor in explaining the gap*



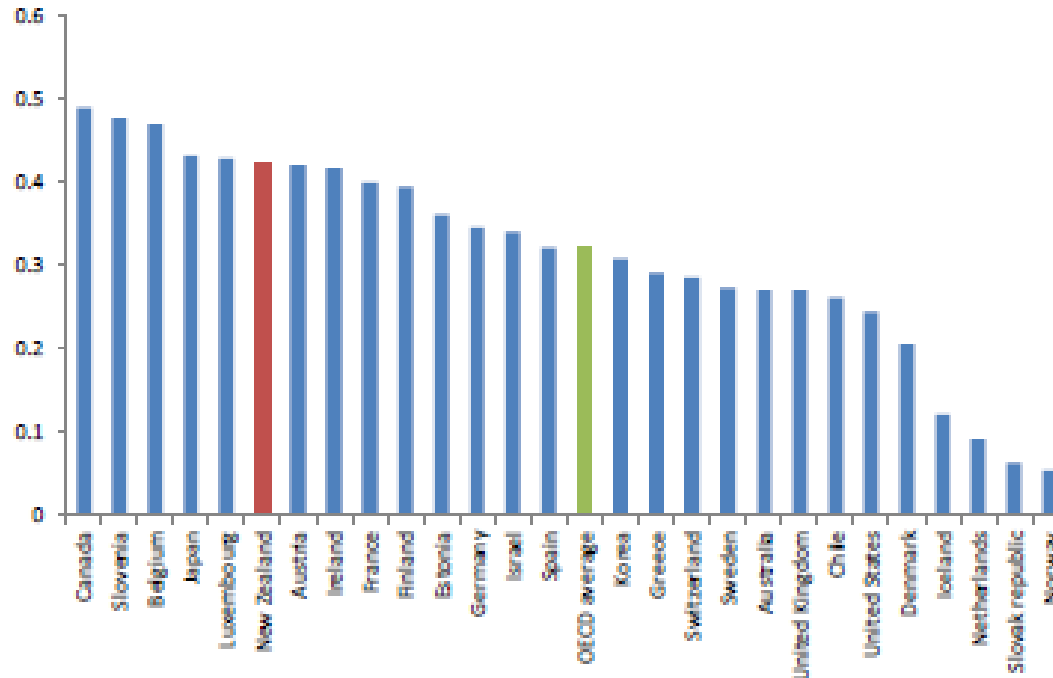
Source: OECD

Influences on NZ private returns

- *Mix of tertiary qualifications*
Type A and Type B degrees
- *Supply of graduates*
- *Workforce proportion and earnings of immigrants (3rd highest among OECD)*
- *Income tax changes*
- *Student loans*

Share of tertiary qualifications that are Type B

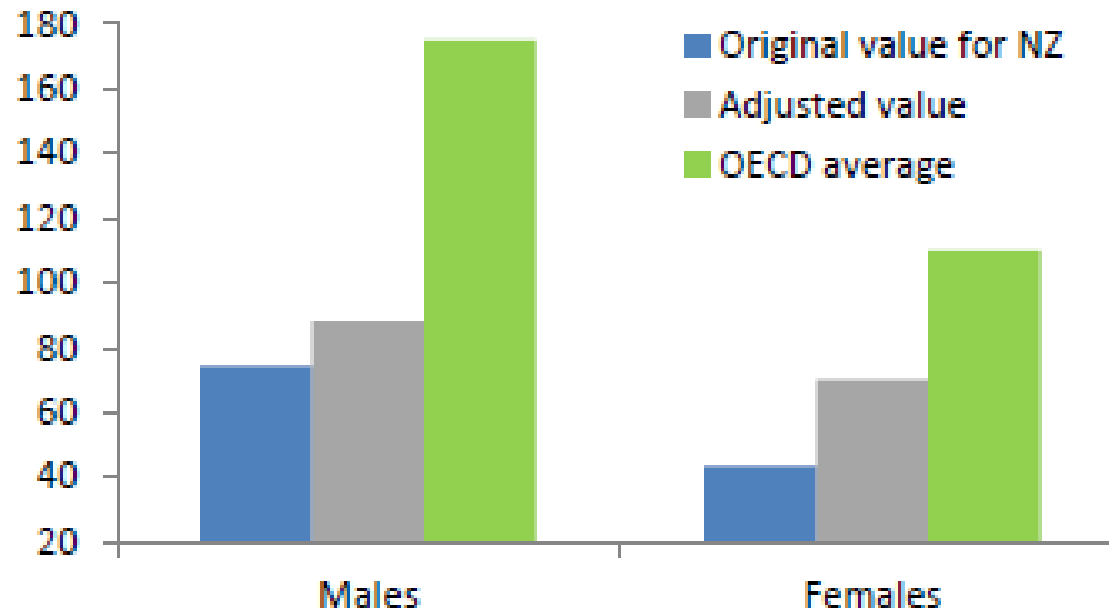
Percentage of ISCED 5/6 qualifications attained by adult population that are ISCED 5B (2009 data)



Source: OECD

Contribution of Qualifications mix to the difference between NZ returns and the OECD average

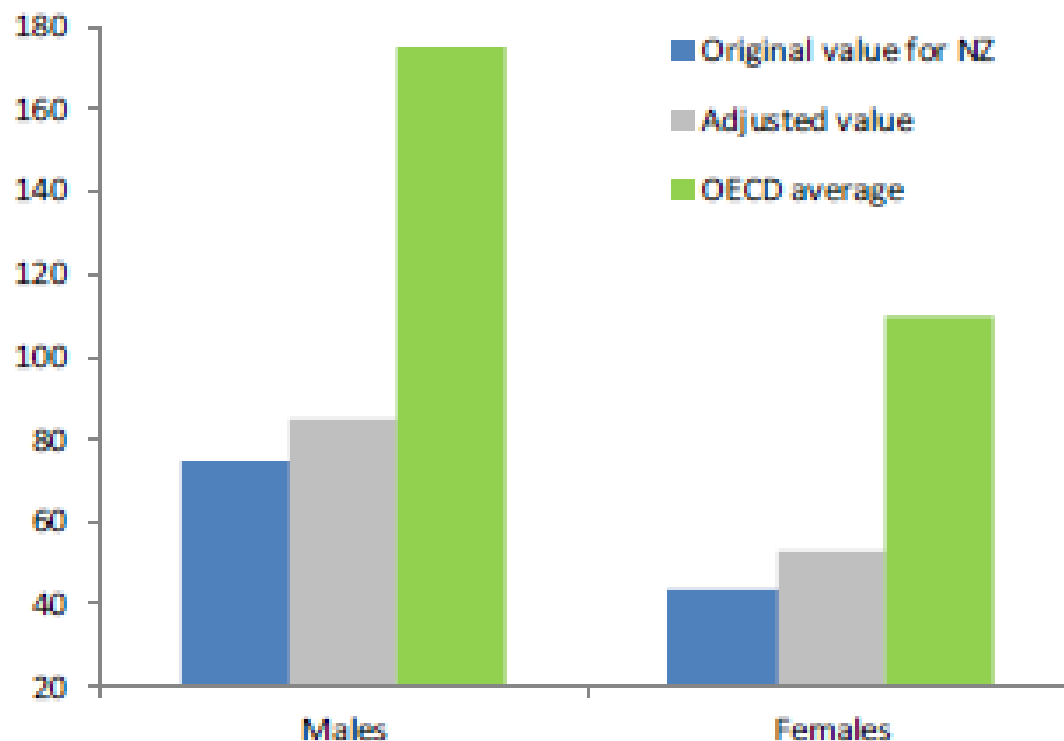
NPV of returns to tertiary education, thousands of United States dollars (PPP)



Source: OECD, NZIER

Contribution of migrants to the difference between NZ returns and the OECD average

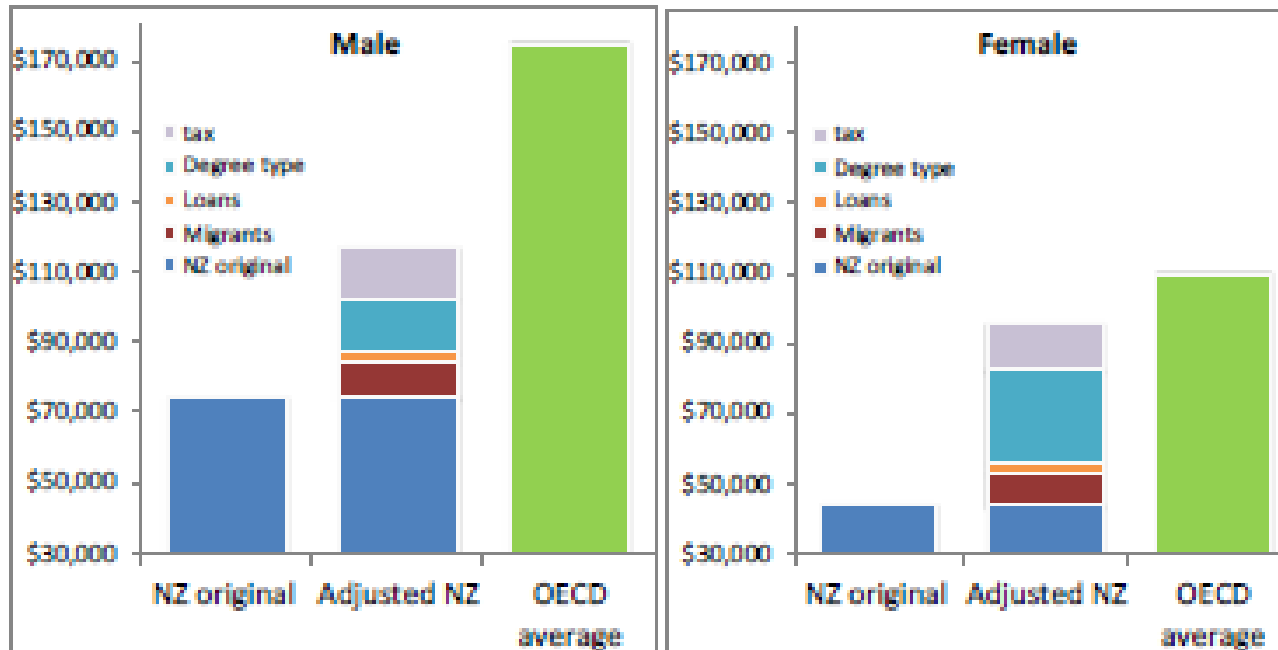
NPV of returns to tertiary education, thousands of United States dollars (PPP)



Source: OECD, NZIER

Contribution of combined effects to the difference between NZ returns and OECD average

NPV of returns to tertiary education, thousands of United States dollars (PPP)



Source: NZIER

- ***These combined adjustments close about 60% of the New Zealand OECD private returns gap for males and more than 90% of the gap for females***

Other influences and policy effects

- ***Industry structure***
- ***Qualifications mismatch***
- ***Level of innovation***
- ***Firm size***

- ***Filtering of ‘problems’ , ‘policy-related influences’***