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Do Law and Economics, Young Woman

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British parents, listen up.

If you want your offspring to earn lots of money after university, you should encourage them to do a degree in Law, Economics or Maths. This is especially good advice if you have daughters rather than sons.

Doing humanities degrees, by contrast, is dangerous financially. Such degrees tend if anything to lower a person's earnings later in life compared to just leaving school immediately and taking a job. There is a further twist, a dutiful parent might bear in mind, which is that entry requirements are lower in lots of mathematical and science subjects. Sometimes you need 3 As at A level to get into a top humanities course. Yet often, parents, you will do your youngster a good financial turn by guiding them away from such courses.

Very probably this will overturn Senior Common Room teacups and upset my colleagues who are professors of arts subjects rather than science ones. Nevertheless, these are the messages from new statistical research.

Let us start at the beginning. It is now standard knowledge in economics textbooks that there are two competing ideas about what education does.

One possibility is that a degree raises what you might call a person's human capital. This notion is just like other sorts of capital: it is akin to a company spending some of its profits on a faster new machine to make its product more effectively. According to this theory, a university degree is just another form of investment. It is a type of investment in oneself.

But there is another, and more worrying, possibility. Perhaps education is intrinsically useless – a waste of time. According to this theory, a university degree is a form of artificial signal. Clever, talented people go to college. They compete to get in, and the best get accepted. Degrees are valuable merely because, when the student arrives at a job interview, the interviewer looks down the CV and realizes that only talented people ever get taken on to degree Y at university Z.

Rest easy. The dominant view among the world's economists is now that the first theory is the correct one. Education really matters, in other words. It improves a person's productivity. It is not a signal or illusion.

In Britain, new work has just been completed following particular graduates in their later lives. What this analysis does is to take information on huge randomly sampled numbers of young men and women. It averages across all these folk, because of course some people have luck in life and others do not, and we are interested in the typical effect of education.

So what are the patterns that pop out from the computers?

The first conclusion, of course, is that a degree really does have a genuine and sizeable effect on pay. Each extra year of education improves a person's earnings by about 7 per cent, which is a lot. It means that a three-year degree acts to boost lifetime earnings by about a fifth.

Second, however, there is a striking difference between men and women. A university degree is more valuable if you are female. Women get about 24% extra income later in life by going to university compared to simply doing 2 A levels at high school and then going into the workforce. Men get about 16% more.

We do not know why women gain particularly from a university education. Perhaps it is because there is gender discrimination in our country and having a degree somehow helps women overcome some of the discriminatory bias. This would certainly be my own hunch. But nobody knows for sure.

Third, this high rate of return to education has in Britain stayed pretty much the same through the last few decades. Actually that is quite surprising -- because a much bigger slice of the population goes to university now. It must be that the demand from companies for highly educated workers has gone up a lot, because we know the supply has shot up. A third of young people now go into higher education; it used in 1980 to be little more than one person in ten. Demand for graduates must have kept up with supply of them or the rate of return to going to college would have dropped.

Fourth, it is now understood that the subject you study at university makes a really big difference.

Here are the key findings. Doing an arts degree is actually slightly worse than leaving school directly into a job. Taking an education degree is little better; it leaves later earnings pretty much unchanged. Social studies and architecture degrees lift later income by around 10%. General science and nursing degrees are better. They make people around 15% better off. Engineering improves lifetime cashflow by nearly 20%. Maths, economics, health and law degrees top the money table. People who do these subjects will go on to rake in nearly 30% more a year than people who left school with 2 A levels.

Of course this does not mean we should close down humanities departments in universities. Absolutely not. There is much to life that cannot be folded within a wallet, and a decent and interesting society needs more than narrow money-making degrees.

Still, if you care more about Mammon than Monet, you know where to head.