

# Higher education and income literature review

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## **INTRODUCTION**

Throughout the world, education is linked with income in the minds of many, particularly as they arm their children for the challenges of life. Getting a college degree is often equated with getting a better job and making more money; this is often the impetus behind pursuing higher education for many people in industrialized countries throughout the world. However, is this true? Is there a correlation between the level of education one has and the amount of money they make? The following examines the literature available on the subject to gain an understanding of the pervading wisdom of academic professionals on the correlation between education and income.

## **INCOME INEQUALITY IN WORLD NATIONS**

In order to see if education and income are correlated, it is necessary to look at the global picture to see if it is a universal trend among countries. De Gregorio and Lee's (2002) findings indicate there was a large role of education distribution and attaining higher education in a more equal income distribution among the populations of countries. At the same time, the income inequalities still had some unanswered questions, leaving the question open as to what causes those lower incomes in the face of higher education. O'Neill (1995) discusses cross-country inequality of income, wherein different factors in the income levels of the populations of several countries were examined. One of these factors, education level, turned out to have a significant say in income distribution – “convergence in education levels has resulted in a reduction in income dispersion” (p. 1289). This is in

support of De Gregorio and Lee's assertion that higher education has a tendency to diminish income inequalities.

Van de Werfhorst (2011) directly investigates whether or not varying countries have the same cultural incentives and mechanisms to drive people to go to college. In his findings, it was revealed that actual skill earned through education has a lower level of impact on earnings when the country's educational institution is more vocation based. He also posits the existence of a credentialization model, wherein education does not reward based on the skills it provides to a student, but on other factors instead (namely the aforementioned reputational capital). Instead, the role of education is to get an individual into a particular social group, and the skills they have upon reaching that group will determine their wages.

Van de Werfhorst then furthers this study with Barone (2011), wherein they study the extent to which education rewards individuals through the skills that it imparts. They study both the overall aptitude of the individual and the skills needed for a specific vocation in order to determine the usefulness of education in granting vocational abilities that earn higher income. In their findings, it was revealed that nearly 50% of the education effect was through the cognitive skills needed for the vocation of their choice, meaning that college affected these traits the most. The degree to which this education effect takes place depends on the country, and the role education plays in their culture. In Germany, for example, a higher education effect was found than in the United States, as they place a higher emphasis on education and hard work.

## **SOCIAL STATUS AND EDUCATION**

One determining factor involved in higher education is the income required to attain it – it is much more difficult for people in the lower class to afford more schooling, thus making it harder to attain a higher education and by extension earn more money. The demographic variation found in institutions of higher learning skews much more highly toward members of higher-income families. Blaug (2001) finds an extremely positive correlation between the amount of education received by an individual and their personal earnings. He examined 30 countries in his study, where he found three different explanations for this correlation. The first was economic – the level of education allows people to learn more useful skills that are more sought after (and thus better paying). The second was sociological – there is an interesting correlation between amount of education and higher social status, and there is the thought that the ruling class imparts their values onto those attending higher education. The third is psychological – the ability to achieve higher education is found in those who are more able to succeed in higher paying jobs anyway. Blaug also posits that these three varying aspects are not necessarily in conflict with each other; the labor market requires able people with the social values of the ruling class in order to continue, and those people naturally earn more money due to the sought-after jobs they occupy.

Baum and Ma (2007) investigate the varying benefits of attending higher education institutions, including economic success. They state that “ There is a positive correlation between higher levels of education and higher earnings for all racial/ethnic groups and for both men and women” (p. 2), lending

further credence to this idea that more school equates to more money. Part of this is attributed to a larger-than-before wage gap between high school graduates and college graduates, which widens with each passing year. There is even further corroboration of the idea that those who are already in possession of a higher income will be more likely to get a higher education; nearly 25% of the lowest socioeconomic class just get a high school education, while nearly all of the top 25% go to college.

Zhang (2008) examines directly how college education provides an economic return to those who utilize it. What's more, the factor of working hours is integrated into the study, revealing that those who attended "high-quality private institutions" work longer hours than their other peers, as do men in general, business majors and those from high-income families (p. 199). The purpose of this study is to provide added factors into the role of education in people's lives; often, longer hours are associated with more pay, and so the degrees of education people receive in higher education (e. g. business school) can often make the difference in overall pay, despite all the subjects involved having gotten the same basic level of education.

## **RETURN ON INVESTMENT FROM HIGHER EDUCATION**

Card (1999) details this relationship between education and income in four different areas, among them tracking the earnings of twins who have different education levels. He corroborates previous literature by stating that the difference in return on investment for schooling is a lot higher than the average return. Card states that "the average return to education is not much below the estimate that emerges from a standard human capital

earnings function fit by OLS” (p. 1801) – this means that, when a person attends higher education, they can earn income as a result of their education at a level consistent with the average earner.

Smyth and Strathdee (2010) performed research on how much of a return on investment individuals who got Bachelor’s degrees from New Zealand universities received once they entered the working world. According to their findings, there is a significant level of difference in income generation between disciplines, particularly between sciences and liberal arts. However, there is still an overall trend towards higher income based solely on having a higher education. The researchers used this data to demonstrate how important education was to maintaining social orders in economies and societies, especially in regards to “reputational capital” – namely, the clout one receives having attended college (particularly reputable colleges).

## **INCOME THROUGH PHYSICAL APPEARANCE**

Tao (2008) takes a different approach to examining income levels by comparing how people got them – higher education or physical appearance. Given the findings that people from colleges of varying reputations make about the same amount of money, the researchers turn to physical appearance as a barometer for income. It was found that, for the most part, people with the same level of education saw income disparities when one of them was more physically attractive than the other. This and other studies point to other factors that contribute to income independent of education, and significant factors to keep in mind when making such correlations. There is considerably little research to challenge this assertion, which this

upcoming research may provide, as physical appearance will be considered as an alternate factor in correlating income levels.

## CONCLUSION

Given the literature and research that already exists on the subject, the question remains as to whether or not having a higher education means earning more money. The findings seem to indicate that this is so, but the extent to which education plays a role is still unconfirmed, and far too many factors (existing social class, physical attractiveness, type of major) still weigh heavily on the level of income an individual reaches, despite having attained a college education. As such, further investigation and research is necessary in order to gain a more measured insight into the correlation between education and income.

The importance of the correlation between education and income lies within determining the role of education within earnings, and how that education is received. Associating education with income, considering the trend of higher-class individuals receiving higher-quality income, can shed light on disadvantages present in the lower class stemming from a systematic denial of access to higher education. If these factors were explored at length, potential solutions for a more equitable class system could be gleaned from the findings. This study will examine the same question as the previous literature (whether or not higher education leads to higher income), comparing that factor with level of physical appearance to determine which is the higher determiner. The return on investment of higher education and social status will also be examined, in order to determine how much of a

factor higher education serves in getting a high-paying job as opposed to others.

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