THE CORRELATION BETWEEN EDUCATION AND EARNINGS – A COMMENT

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ABSTRACT

In this note, Blaug's article in Volume 1, No. 1, is criticised on the grounds that the “economic” interpretation of the correlation between education and earnings is based on a mistaken view about the nature of capital; and hence “human capital” theories are logically incoherent.

Mark Blaug's article “The Correlation Between Education and Earnings: What Does It Signify?” (Higher Education, February, 1972) outlines three distinct explanations for the correlation between levels of education and earnings:

(1) the “economic” — “that better educated people earn more because education imparts vocationally useful skills that are in short supply”; 
(2) the “sociological” — “that they do so either because length of schooling is itself correlated with social class origins or because education disseminates definite social values which are prized by the ruling elite of a society”; 
(3) the “psychological” — “that education merely selects people in accordance with their native abilities and, obviously, abler people earn more than less able ones.”

The article argues that the contention that education contributes directly to economic growth by the formation of “human capital” is valid insofar as the “economic” explanation is powerful and that, on the available evidence, the “economic” explanation is preferable to the other two if we suppose that competition is at work in labour markets. The most important element of the evidence cited is the fact that better educated workers earn more not only at the outset, but throughout their working lives, and that this is true over the whole range of educational levels.

Blaug concludes that “there is a sense in which all three explanations hold simultaneously,” or more precisely, that “a proper appreciation of the economic explanation in fact assimilates the other two.” “Employers,” he writes, “pay educated people more, even when their education has taught them no specific skill (insofar as it has, the economic
explanation holds straightforwardly) because they are more achievement-motivated, more self-reliant, act with greater initiative in problem-solving situations, adapt themselves more easily to changing circumstances (broadly speaking, the psychological explanation), assume supervisory responsibilities more quickly (the sociological explanation) and benefit more from experience and on-the-job training (a deferred version of the economic explanation). “The weakness of the ‘sociological’ and ‘psychological’ explanation is,” Blaug continues, “precisely that the advantages of more educated people show up at every age throughout working life. Now we cannot have it both ways; either the educational system is a superb discriminant of the sort of abilities industry demands, in which case we must conclude that this is the economic role of education until such time that a better screening device is invented, or it is only a crude way of selecting people that misinforms as frequently as it informs, in which case it is not clear why employers do not correct their initial hiring mistakes.”

At least two objections may be raised here. Firstly, it is possible (and indeed likely) that education is neither a “superb discriminant” of ability, nor a “crude way of selecting people that misinforms as frequently as it informs,” but something in between the two extremes; in which case (even on Blaug's assumption of competitive labour markets) earnings differences will persist despite the fact that employers correct some or all of their mistakes. Whether these differences will increase or decrease over working life will depend on how they are defined and what the effect of age, regarded as a factor independent of original ability, is. What will certainly happen, though, is that the dispersion of earnings within educational categories will increase over working life, as re-selection takes place in the course of working experience. Blaug, however, offers no evidence on this, and indeed, it is not easy to see how such an effect could be disentangled from the effects of experience and on-the-job training.

Secondly, the fact that higher-educated people “assume supervisory responsibilities more quickly” does not necessarily entail that they are, in any sense, better at supervision: it may be that they are offered them more readily. Strictly speaking, to assimilate this version of the sociological explanation to the economic, one must suppose that the productivity of a given hierarchy is in general increased if, ceteris paribus, supervisory positions are filled by better-educated people. Again, Blaug offers no evidence on this score, or even the weaker but persuasive evidence that (it being assumed labour markets are competitive and earnings reflect productivity) similar supervisory and managerial posts pay more to the better-educated.

1 My italics in parentheses — A.W.