

Ask: NUS Economists

Fixation on academic qualifications will be hard to break

**Kelvin Seah
Kah Cheng**

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Q *It is a person's ability that counts, not his academic qualifications. How true is this?*

A Labour economists have, for a long time, sought to understand how schooling affects people's labour market prospects. There is much agreement now that schooling has a large positive impact, with most research indicating that each additional year of schooling increases one's future earnings by between 7 per cent and 10 per cent. This is perhaps one reason more people are aiming to be graduates. While only 8.1 per cent of Singapore residents aged 25 to 29 had a degree in 1990, 54.1 per cent in this age bracket have a degree today.

The academic literature has identified two possible explanations for why education might help a person earn more.

The first is that schooling provides skills and knowledge

which enable people to be more productive on the job.

The second explanation is that employers might perceive people with more schooling to be more capable. Hence, they may make hiring and salary decisions, at least initially, based on educational credentials. The second explanation implies that, even if two people have exactly the same skills and knowledge, the person with the higher educational credentials will enjoy better earnings and employability.

It is natural to ask why employers don't hire people based on their true skills and knowledge but instead based on educational qualifications. Surely, it's skills and knowledge that matter, not educational credentials. The latter is, after all, just a piece of paper.

The key to understanding this is to realise that employers often find it very difficult to tell a person's true ability at the point of hiring.

Many skills are unobservable, including how capable the person is, whether he works well with others, whether he is hardworking, or whether he pays attention to details. Employers will learn these things eventually, but may do so at substantial cost, since the costs

associated with firing, rehiring, and retraining another person for the job can be substantial. Because of these concerns, employers often want to find the best workers upfront for the job, and they try to find characteristics which signal a candidate's productivity.

This is where academic qualifications come in. Albeit imperfect, academic qualifications do convey something about a person's ability. Because attending classes and learning new things is intellectually challenging, workers who go for higher education and are able to pass the requirements, are more likely to be capable.

Indeed, many studies have found that people are rewarded in the labour market simply for having a credential. One of the most influential studies is that by professors John Tyler, Richard Murnane and John Willett, published in *The Quarterly Journal of Economics* in 2000.

They exploit differences in the passing standards of a high school-equivalent examination across different states in the United States, and compare the earnings of individuals who attempted the examination in states with low passing requirements (these

individuals therefore managed to acquire the certification) with individuals with the same examination scores in states with more stringent passing requirements (these individuals therefore did not manage to acquire the certification), to estimate the effect of obtaining the certification.

Because individuals have the same examination scores, any difference in earnings must be due solely to the effect of acquiring the certification itself rather than skills and knowledge. They found that certification increased the earnings of young white individuals substantially, by between 10 per cent and 19 per cent.

Another way to tell if educational credentials matter is to examine whether there are larger jumps for obtaining another year of schooling that includes a certification than for obtaining another year of schooling that does not include a certification.

For instance, if the wage increase in progressing from the second to the third year of polytechnic education (assuming people graduate in the third year) is larger than the wage increase in progressing from the first to the second year, this would be

indicative that a diploma itself helps to increase earnings.

Researchers David Jaeger and Marianne Page employ essentially such an approach. Their study, published in *The Review of Economics and Statistics* in 1996, found that obtaining a high school diploma increased earnings by 18 per cent while obtaining a bachelor's degree increased earnings by 33 per cent.

The fact that educational credentials matter is probably a key reason Singaporeans have placed so much emphasis on education. Indeed, in recent years, the Government has explicitly urged Singaporeans not to be too fixated on paper qualifications and to focus instead on mastery of skills. The message is clear: Acquire an education, not because of the certification it gives you, but because of the skills and knowledge you receive.

This message, however, will be a tough one to bring across as long as people have an incentive to acquire a credential for its own sake.

The only way to tackle this fixation is to get companies to avoid hiring primarily based on academic qualifications. But this is easier said than done.

Credentials are a convenient way of predicting a person's productivity – however imperfect it might be. So companies often rely on them when selecting employees.

If companies rely less on paper qualifications, they would need other measures, such as case-based or task-oriented assessments to differentiate between the more and the less capable candidates. The problem is that many companies, especially the smaller ones, may lack the resources and knowledge to implement these alternative assessments.

Unless more innovations that reduce the cost of conveying information about individual skills are introduced, people will therefore unfortunately continue to fixate on academic qualifications, because the financial rewards are high for doing so.

• Kelvin Seah Kah Cheng is a lecturer in the Department of Economics at the National University of Singapore (NUS). This is a monthly series by the NUS Department of Economics. Each month, a panel will address a topical issue. If you have a burning question on economics, write to stopinion@sph.com.sg with "Ask NUS" in the subject field.