

Recent Dynamics of Returns to Education in Transition Countries

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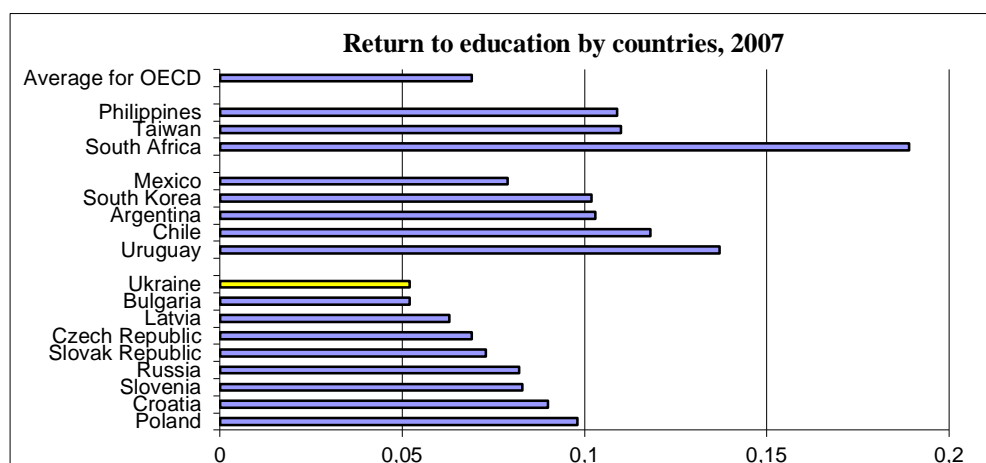
While, in an international comparison, transition countries spend a relatively large share of their GDP on education, and the population in transition countries is fairly highly educated, the returns to education in transition countries have been found to be relatively low, especially in comparison to other developing countries. In our paper, 'Recent Dynamics of Returns to Education in Transition Countries', we investigate whether the economic boom that transition countries experienced up to the 2008 financial crisis, increased the returns to education in these countries. Theories of skilled-biased technical change typically predict that periods of fast economic growth go together with an increase in the relative demand for skilled labor and hence an increase in the returns to education.

Using data from the 2007 wave of the International Social Survey Program (ISSP), the estimated return to an additional year of schooling in transition countries varied between a low 5.2 percent in Ukraine to a high of about 10 % in Poland (see Figure 1). Returns in transition countries were relatively low compared to developing countries in the ISSP sample, and on average not unlike OECD countries.

The estimated dynamics in returns to education in the period 2002-2007 further suggest that the economic boom that took place in that period did not affect people with different amounts of education in different ways. Returns to education increased slightly in some transition countries and decreased slightly in others, but overall returns to education remained relatively moderate. More

specifically, from table 2 we can see a decrease in returns in Bulgaria, Latvia and Poland, and an increase in the Czech Republic, Russia, Slovakia and Slovenia. Both increases and decreases are small in size however.

A more detailed analysis for Ukraine using data from the Ukrainian Longitudinal Monitoring Survey, confirmed that economic growth did not have a major impact on the returns to education. The analysis for Ukraine however does suggest that, while in 2003 a secondary degree resulted in a somewhat higher wage, just having secondary education was no longer a differentiating factor in 2007. Moreover, only academic education made a difference, possibly because less and less people were paid very small wages (i.e. less than the official minimum wage).

Figure 1 – Returns to Education by Countries, 2007 Wave – Basic Specification

Note: Coefficients of the years of schooling variable in earning regressions. Dependent variables are monthly earnings. *Specification includes:* potential experience (linear and squared), dummy for gender. Source: Ukraine – ISSP 2008, all other countries – ISSP 2007.

Table 1 – Dynamics of Returns, Basic Specification

Country / Basic specification	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2007
Bulgaria		0.047	0.052				0.053		0.05	0.049		0.072	0.052
Czech				0.036	0.044	0.07	0.076		0.054		0.087	0.066	0.069
Latvia					0.067	0.047		0.053	0.086	0.065	0.08	0.078	0.063
Poland	0.06	0.071	0.081	0.08	0.079	0.07	0.065	0.081	0.079		0.092	0.106	0.098
Russia	0.028	0.038	0.043	0.054	0.083	0.065	0.072		0.084	0.083	0.084	0.074	0.082
Slovakia				0.061				0.066	0.059			0.061	0.073
Slovenia	0.063	0.058	0.088		0.095	0.117	0.099	0.089		0.081		0.082	0.083
Ukraine 2008													0.052

Note: Coefficients of the years of schooling variable in earning regressions with few controls as specified in the text. *Source:* Estimates for 1991-2002 are from Flabbi et al. (2008); estimates for 2007 and for Ukraine are by the authors.

Table 2: To get ahead, it is essential, important or fairly important to

	Ukraine	Russia	Poland	Slovenia	Slovak R.	Hungary	Croatia	Bulgaria	Estonia	Latvia
At least Fairly important										
having good education	72.96	67.42	78.74	66.79	66.87	74.98	75.97	76.99	67.17	71.71
knowing the right people	73.8	72.28	87.19	74.41	72.37	65.07	75.89	83.03	83.33	75.21
hard work	93.99	92.73	98.64	93.93	94.01	86.11	93.88	95.78	97	97.19
having ambition	87.27	85.92	99.28	95.4	95.91	96.43	97.9	97.71	81.96	87.48
wealthy family	87.53	90.84	96.89	92.42	94.01	93.72	95.85	96.06	94.29	96.44
political connections	91.4	88.43	94.08	93.83	94.69	85.32	91.13	92.28	87.78	86.68
having well-educated parents	66.94	52.81	66	67.64	75.22	67.75	61.49	61.92	40.39	61.85
giving bribes	58.34	49.63	37.78	35.43	47.98	54.2	30.89	45.49	17.23	36.21
person's gender	23.18	24.41	24.94	30.68	40.7	58.65	25.15	36.02	26.9	19.64
person's religion	19.83	16.11	27.63	25.52	28.55	23.12	25.67	25.68	11	9.02
person's race	32.44	33.56	38.84	44	43.74	47.3	31.27	41.79	21.4	25.07

Source: Author calculations based on ISSP 2009

The relatively limited importance of education for success on the labor market does not only show itself in the low estimated returns to education, it is also clear from the opinions people express about the factors that are important to get ahead. Table 3 gives the percentage of people who say a given factor is essential, important or fairly important to get ahead in a given country (based on the 2009 ISSP).

In most transition countries in the sample, most people think that hard work and ambition is the key to get ahead. Ukraine is no exception with hard work being thought to be essential, important or fairly important by about 94 percent of the respondents. Having a good education is thought to be at least fairly important by only about 73 percent of the respondents, with four other factors, besides hard work, scoring better on this criterion: having political connections, having ambition, having a wealthy family and knowing the right people. Also for the other transition countries in our sample, good education ranks only 5th, 6th or 7th.

Optimists could interpret these results as implying that at least education does not create the same social inequalities in the transition countries as it does in some other countries. Pessimists, on the other hand, who see education as an important driver of economic growth, will argue that low returns to education mean there is a low incentive for people to invest in education and that it is better to have education as a source of

inequality rather than political or social connections, or having a wealthy family.

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