

Review of “Labour Market Returns to Higher Education in Vietnam”

Author: Mr. Tinh Doan, University of Waikato, Hamilton

Mr. Tinh Doan has written a careful analysis of the impact of college education on workers' earnings compared to workers with only a high school education. He has used both instrumental variables (IV) and ordinary least squares (OLS) to allow for the fact that some portion of higher earnings of college graduates may not come from education itself but from intelligence, family background, or other favorable qualities that would boost earnings with or without the additional years of schooling. Since college graduate earnings are 68% higher than high-school-only earnings, it is not surprising that college education is found to pay off, even when correcting for confounding factors. (He used the 2008 Living Standards Survey for his data. There were 651 individuals out of 9,186 households that had either a college only or high school only education.) The difference between OLS and IV estimated gains is not large and the wage gains from education have been growing over time.

The analysis is good but the data are suspect, though the best available. The total consumption recorded in the Survey¹ amounted to 65% of GDP-estimated private consumption, suggesting major omissions in the Survey. Indeed, some economists suggest that the GDP data themselves understate true activity by 10-20%, and if this were true the shortfall would be closer to half of all consumption rather than a third. Unless the understatement were proportional, the income findings may not be a reliable guide to understanding the true productivity of education. (Consumption is normally viewed as a more reliable variable than income in these surveys and is used here as a proxy for income.)

The paper correctly notes that most educated workers end up in the state sector while most high school only workers are in the private domestic sector. (Foreign investment took 8% of college-educated workers and 11% of high school workers.) Yet an analysis of the Enterprise Surveys from 2004 to 2008 show that while state enterprises accounted for 41% of capital growth, they accounted for only 18% of sales growth – or a quarter if the partially “equitized” firms are included in 2008. This suggests that state enterprises take a disproportionate share of both physical and human capital but yield little in output. It may be that college educated workers earn more, but do they produce more? If they do not, then the study has found not so much an expected microeconomic benefit to education, but a glaring macroeconomic and market (or government?) failure.

There is also the issue, again alluded to in the paper, of the quality of education. If most college graduates work in the state sector and have low productivity but high wages, it may be connections or political ability to “work the system” that are rewarded more than actual productivity. Formal education in the sense of a quality academic curriculum would not be very valuable in that case. Most measures of Vietnamese education, even at the grade level, are hampered by an unwillingness to submit students to international tests of competence. In terms of science and technology university papers published in international journals, Vietnam has less than one-fifth as many journal articles as Thailand, even though

¹ That is, if the Survey estimate of per capita consumption for the whole of Vietnam is multiplied by Vietnam's population, the result is 35% below the national accounts-based estimate of private consumption for 2008.

Vietnam's population is 28% higher². The desire of Vietnamese families for a quality education is obvious, yet the domestic choices provided lag behind those in the region. Foreign study is greatly preferred but not available to most. It would require a separate study to compare foreign and domestic college educated workers' salaries.

In spite of these issues, the basic findings of the paper are likely to be correct: there is a substantial and growing benefit from college education in Vietnam. However, with the fiscal troubles of Vietnam, it may be that the past and the future will differ. If government support for state enterprises diminishes or even levels off, it may be that new jobs for the educated will have to be found largely in the private sector, foreign or domestic. If educational quality is low, and if pay follows productivity, then there may be "wage compression" and a diminishing relative advantage of university wages over high school, especially if the latter pick up valuable technical skills useful in the rapidly growing factory sector. Even now, wages for factory workers are increasing quickly – a surprise when three-fifths of the workforce is still in the primary sector. In other words, this paper is a valuable contribution to an ongoing research project that will have to unravel the relationship of education, productivity and pay in an economy that is being transformed at a considerable pace.

David Dapice, Professor
Tufts University, Department of Economics
Vietnam Program, Kennedy School of Government, Harvard University

² It is true that Thailand has more university students, but its lead in science and technology is much less. Thailand has only twice the research and development workers of Vietnam. (World Development Indicators, 2010, Table 5.13.)