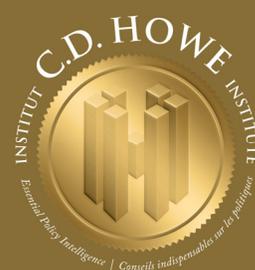


Intelligence MEMOS



From: Ross Finnie, Richard E. Mueller, and Arthur Sweetman

To: Concerned Canadians

Date: October 27, 2017

Re: **DEBUNKING THE BARISTA FALLACY: A NEW WAY OF MEASURING EARNINGS OF UNIVERSITY GRADUATES**

An extraordinary amount of ink has been spilled in Canada over the value of university degrees. That value is almost always defined in economic terms and assessed according to individuals' earnings soon after graduation. Popular wisdom has it that many graduates – especially those in the humanities, social sciences and the arts – are stuck in minimum-wage jobs as baristas.

But all existing measures of graduate earnings have serious shortcomings, likely leading to poor university choices and the misallocation of human talent. To help fill this information gap, our [Education Policy Research Initiative](#) (EPRI) teamed up with Statistics Canada and 14 post-secondary education institutions from across the country to link administrative data on students held by the schools to tax records.

We then tracked the labour market outcomes of graduates on a year-by-year basis for each graduating cohort from 2005 to 2013. Hence, uniquely, we were able to identify initial earnings, increases over time and cross-cohort patterns, all of which matter.

The full set of findings can be viewed at www.epri.ca/tax-linkage. We focus here on the main results for bachelor's graduates, but we also analyzed community college graduates.

It turns out that degree holders have been faring rather well. For all 2005 bachelor's graduates, average annual earnings were \$45,200 in 2006. Their earnings then grew steadily, increasing by an average of \$4,200 a year in 2014 terms, to reach \$75,000 eight years after graduation: a 66 percent rise.

Similar outcomes hold for other cohorts, debunking the popular fallacy that university graduates are not doing well in the labour market. That said, starting salaries and earnings growth vary substantially across fields. At the top end, engineering graduates began their careers earning about \$60,000, rising to \$100,000 seven years later. Next were graduates in mathematics and computer science, followed by those in business and science/agriculture.

Graduates in the visual and performing arts had the lowest average earnings, but their figures should also be seen in context. While it is not easy to come up with a good estimate of what baristas make (or how many graduates are working as baristas), a reasonable approximation might be in the \$12 an hour range. If we assume that they work full-time, that yields an annual salary of \$22,150. By contrast, the average graduate in the visual and performing arts earned \$28,800 right after graduation, and \$45,100 within eight years. Graduates in humanities and the social sciences were earning even more by then: in the range of \$60,000.

In short, our research suggests that the barista story does not hold up when tested against the actual data on university graduates' earnings. This means that decisionmakers – students, institutions, policymakers – are being misinformed to the degree this myth guides their decisions.

Work on this tax linked data continues. Statistics Canada is building files of this type for all graduates from all post-secondary institutions on a province-by-province basis. Work is also beginning to link post-graduation earnings to the wide range of student characteristics and schooling experiences captured in these files – which can be augmented with additional data held by schools on a project-by-project basis.

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