Stephen Gordon: Canada doesn't have a Harvard, and that's a good thing

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Stephen Gordon

Speaking to an audience at Western University last week, Prime Minister Trudeau earned a round of appreciative applause by referring to it as the "Harvard of Canada." It's a harmless enough conceit: "Harvard of the North" t-shirts are sold at university souvenir shops across Canada. But of course, there is no Canadian equivalent of Harvard, with its prestige, limited enrollment and its $60,000 tuition. And really, it's just as well.

When it is remarked that Canada does not have a university with the international stature of a Harvard or an Oxford, it is usually with an air of wistful regret. Or perhaps it's used as another example of how Canadians are in thrall to the "tall poppy syndrome": a tendency to disparage the achievements of those who have excelled. And sometimes the lack of an elite university is seen as evidence of how Canadians under-appreciate the benefits of higher education.

It would be odd for a professor to downplay the benefits of a university education, and there's a considerable body of evidence documenting the link between a university degree and higher salaries. But the mechanics behind the link are still open for debate.

One fairly intuitive explanation is the "human capital" story of education. If going to university gives students a higher skill set, and if employers pay higher wages for workers with higher skills levels, then this theory predicts the same correlation seen in the data: people who went to university (generally) have higher salaries.

But there are some facts that don't easily fit into the human capital theory. For example, a worker who has some university education but did not graduate with a diploma should have higher skills and higher wages than someone who never attended university, but this doesn't seem to be the case.

An alternative explanation is based on the idea that employers value workers with certain characteristics: things like intelligence, diligence and so on. Since these are not directly observable, employers are obliged to make inferences about candidates' abilities from what they can see. According to this theory, the role of education is to provide a signal to potential employers that the candidate has the intelligence and diligence required to obtain a university degree. To the extent that these are also the qualities valued by employers, the signaling theory of education also predicts that workers with a university degree will (generally) earn more than those who don't.

Of course, for someone trying to decide whether or not to go to university, it doesn't really matter why a degree leads to a higher salary; the only relevant fact is that it does. But from a public policy perspective, the stakes of the human capital versus signalling debate are quite high. From society's point of view, the role of signal is to transmit information, and it is in society's interest to minimize the costs of the signal. Spending extra time and effort to transmit the same information is a wasted investment from society's standpoint, even if it still makes sense at a personal level.

It's hard to tell which theory is correct: human capital models and signalling models both make the same basic prediction about the salaries of university graduates. Researchers are obliged to leverage information from natural experiments to distinguish between the two theories, and it's usually the case that evidence that seems to support one side can be re-interpreted as supporting the other as well. A reasonable conclusion is that both stories have support in the data, and that each may play stronger roles in different contexts.

This brings us back to Harvard. The lengths to which people will go in order to obtain a Harvard degree are easier to

understand if you think if a Harvard degree as a signal, and not a measure of human capital. To be sure, Harvard's faculty deserves its reputation, but to the extent that teaching assistants and contract lecturers are responsible for much of the teaching at the undergraduate level (as is the case at so many other universities), the amount of human capital on offer at Harvard is unlikely to justify the prestige a Harvard degree conveys.

A more plausible story is that a Harvard degree conveys a signal: it shows that you have what it takes to get into Harvard in the first place. And indeed, the signalling story would also explain the trend to grade inflation at Harvard and other Ivy League universities. The grade most frequently awarded at Harvard is an A, and the median grade is A-. If students (and their parents) are paying for a signal, elite universities are going to be expected to provide it.

Signalling — and the wasted effort that goes with it — is much less pervasive in the Canadian university system. While some universities and some programs may have relatively higher entrance standards, getting into a "top" Canadian university is nowhere near as difficult as entering an elite U.S. college: the entire undergraduate population of the Ivy League is roughly equivalent to that of the University of Toronto. Moreover, the consequences of not getting into a top Canadian school are relatively minor: those who graduate from a Canadian undergraduate program are on a much more equal footing than they are in the U.S.

The U.S. has a rigid hierarchy of universities: the fact that they have a certain number of high-prestige schools has to be set against the fact that access to them is extremely limited, and that those who don't make it into the top are at a permanent disadvantage. And since children from high-income families have greater access (elite universities typically offer "legacy" admissions to children of alumni), post-secondary education in the U.S. is at best a weak force for social mobility.

If — as available evidence suggests — Canadian social mobility is significantly greater than it is in the U.S., then much of the credit goes to the fact that there is no Canadian university that plays the prestige-signalling game that Harvard does. A "Harvard of Canada" is the last thing we need.

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