# Graduate earnings premium shrinks as job market tightens and overqualification rises



Noah, an economics and finance graduate, thought that obtaining a 2:1 degree would mark the beginning of a successful career. Ten months and over a hundred fruitless job applications later, he finds himself grappling with a profound sense of disillusionment. Speaking about his struggle, he references the Chinese term "neijuan," which encapsulates the notion of striving tirelessly yet achieving little. This sentiment is shared by many recent graduates who are increasingly questioning the value of their higher education.

As record numbers of 18-year-olds prepare to begin undergraduate courses this autumn, the discontent among graduates reaffirms a troubling trend within the UK's labour market. Compounded by a protracted slowdown, employers are prioritising existing staff over new hires, resulting in a sharp decline in available positions for recent graduates. Data from the job search platform Adzuna highlights a particularly steep decrease in vacancies aimed at this demographic, illustrating the challenging landscape they face.

James Hilton, group finance director at recruitment agency Hays, observed that professional services firms are cutting their intake of trainees, opting instead to outsource roles or allow their current workforce to remain in position for longer. The digital hiring processes themselves have also become increasingly complex and impersonal, fraught with multiple online assessments and a deluge of AI-generated CVs saturating the recruitment landscape. For Jamie, a recent philosophy graduate, finding employment required serendipity—an encounter with a small business owner while working in a bar ultimately led to a job that otherwise seemed inaccessible through traditional application methods.

While university degrees traditionally held a strong correlation with enhanced earning potential, current data suggests this link is weakening. The gender wage gap among graduates has narrowed significantly; in 2013, women aged 21 to 30 earned approximately 40% more than their non-graduate counterparts, but by 2023, this premium had dropped to less than 23%. Male graduates have experienced a similar decline, albeit less severe, with their earnings premium diminishing from 35% to 27% over the same period.

Several factors contribute to this stagnation. The sustained rise in the national minimum wage has outpaced overall earnings growth, adversely affecting degree-holding professionals, including teachers and NHS workers, who have faced prolonged pay squeezes. Moreover, a notable portion of graduates find themselves in roles that do not utilise their qualifications, especially those whose studies focused on the humanities and lacked a clear vocational direction. Jamie recounted his assumption that a philosophy degree would guarantee job prospects, only to face the reality of needing to take a pay cut to leave his bar job for a position he had not anticipated.

Despite these challenges, advocates like David Willetts, a former universities minister, argue that graduates still derive significant long-term financial benefits from their degrees, potentially accumulating hundreds of thousands of pounds over their careers. Willetts likens the trajectory of higher education to that of a more gradual career ascent compared to the rapid advancement seen with vocational apprenticeships. However, the value extracted from degrees can fluctuate dramatically depending on the subject of study.

Recent research underscores the disparity in lifetime earnings associated with different fields of study. Data indicates that men can earn as much as £1 million over their lifetime with a degree in medicine or economics, while degrees in creative arts can leave graduates worse off than if they hadn’t attended university at all. A 2023 Harvard study further emphasises the enduring wage premium for graduates in STEM fields, contrasting with declining returns for those in law, finance, and management outside London.

To optimise graduate employability, experts argue for better alignment between academic offerings and labour market needs. Willetts suggests that improved information on the value of various courses, alongside industry "kitemarking" of those delivering necessary skills, could aid students in making informed choices. However, even as employers voice concerns about skills shortages in their sectors, many still offer insufficient compensation to attract desirable candidates.

Data reveals a growing trend of graduates working outside their fields of study, with over a third of graduates reporting they are overqualified for their roles. New research from the CIPD indicates that the proportion of graduates in low-skilled jobs has doubled over the past thirty years. As a result, there is an urgent need for a comprehensive reevaluation of skills policy, improved careers advice in schools, and strategies that advance the development of a robust industrial framework that creates more high-skilled job opportunities.

Ultimately, the current landscape paints a complex picture. While the long-term benefits of a degree remain significant, the immediate path to rewarding employment for many recent graduates has become increasingly fraught with obstacles. With demographic shifts predicted to favour graduates in the longer term, navigating the current economic climate requires relentless effort and innovative approaches, suggesting that resilience may be just as vital as the qualifications themselves.

### Reference Map

1. Paragraphs 1, 2, 3, 4, 5, 6, 7
2. Paragraphs 1, 2, 3, 4, 5, 6
3. Paragraphs 3, 5
4. Paragraphs 2, 5
5. Paragraphs 4, 5
6. Paragraph 2
7. Paragraphs 2, 5, 6

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

* <https://www.ft.com/content/cd134613-367c-4070-a02a-6f2ca359642a> - Please view link - unable to able to access data
* <https://www.ft.com/content/cd134613-367c-4070-a02a-6f2ca359642a> - The UK is facing a growing concern over the value of university degrees, as graduates struggle to secure well-paid employment. Despite obtaining strong academic credentials, many graduates like Noah and Jamie find the job market highly competitive, hindered by a slowdown in recruitment and impersonal digital hiring processes. Statistics show a sharper decline in graduate vacancies and a shrinking wage premium for degree holders, especially for early-career women. The lifelong financial return on a degree remains significant on average, yet varies widely by subject and background. Graduates in STEM and high-demand vocational fields continue to see stable wage premiums, whereas those in arts and humanities often face underemployment. A shortage of graduate-level jobs and limited access to decision-makers in the hiring process further exacerbate the issue. Experts suggest improving student access to labor market information and aligning education with employer demand could help. Additionally, some graduates are entering unrelated but higher-paying fields, indicating a mismatch of skills and economic needs. While the degree’s long-term value holds, the path to career success has become increasingly uncertain for UK graduates.
* <https://www.ft.com/content/c3abb769-f281-4c36-92f5-6f01b868031d> - Graduates are facing significant challenges in finding employment despite initial post-pandemic advantages such as older employees retiring and an expanding job market. Recent economic conditions have created a surplus of graduates and fewer job vacancies, with companies consolidating and showing a preference for current staff. Moreover, there is often a mismatch between the academic skills of graduates and the technological proficiency demanded by employers. The average UK employer receives 140 applications per graduate vacancy, a substantial rise from previous years. Additional factors include increased national insurance costs and tepid economic growth, which have made companies cautious about hiring new staff. Some graduates, like Joe who graduated in biochemistry, have applied to numerous positions without success, highlighting a wider struggle among peers. Employers are also cautious about providing the necessary training for new graduates. Graduates are advised to enhance their employability by leveraging part-time jobs, volunteering, or hobbies to demonstrate skills like communication and leadership. Innovation in job application strategies, such as the selective use of AI and improving CVs to stand out, is essential. Although the market is expected to eventually favor graduates due to demographic trends, the current economic scenario requires persistent effort and creative approaches to navigate.
* <https://www.ft.com/content/f7b31c10-d0f3-4af2-a678-0a0bb8e235ab> - Workers in England are the most likely in advanced OECD economies to be overqualified for their jobs, with over a third reporting higher education levels than their roles require, a significant rise from about 30% in 2012 to over 37% in 2023. This discrepancy highlights the UK's struggle to create enough graduate jobs outside London, particularly in high-growth sectors, and emphasizes the importance of the government's upcoming industrial strategy. The Labour government plans to support critical industries like advanced manufacturing and clean energy to mitigate this concentration in London. Despite the increased number of graduates, the resulting mismatch affects earnings and raises questions about the value of university degrees. The OECD notes the financial pressure on the UK university system due to degrees not aligning with the labour market's demands. However, figures like Nick Hillman argue that degrees offer broader benefits and employers should better utilize graduate skills. Despite improvements in numeracy, literacy, and skills among younger adults, the overall discussion points to a need for better matching education outcomes with job opportunities to increase productivity and value.
* <https://www.cipd.org/uk/about/press-releases/041122-graduate-overqualification-cipd-report/> - Over a third (36%) of UK graduates are overqualified for their roles, with a rising proportion ending up stuck in low-skilled jobs, according to new research from the CIPD, the professional body for HR and people development. The CIPD’s new report What is the scale and impact of graduate overqualification in the UK? looks at how graduate outcomes have changed over the past 30 years, and the job quality of overqualified graduates. The research highlights that the proportion of graduates in low/medium-skilled jobs has doubled over the past three decades and finds overqualified graduates have lower levels of job and life satisfaction, are less enthusiastic about their work and are more likely to want to quit, compared to well-matched graduates. In response, the report concludes there is a need for a major rethink on skills policy, including improvements to the quality of careers advice and guidance in schools. It also calls for reform of the Apprenticeship Levy, to incentivise employers to provide more apprenticeships to young people, and for a renewed focus on the development of an industrial strategy to create more high-skilled jobs.
* <https://www.theguardian.com/money/article/2024/aug/29/uk-graduates-struggle-job-market> - Even respondents who had graduated with a first class degree, often from prestigious universities, and even in subjects such as engineering, computing, cybersecurity or other STEM sectors thought to be crying out for skilled workers, said they had been sending dozens or even hundreds of applications without getting an interview. Although most UK students find jobs not long after leaving university – with 61% of those who graduated in 2022 having gained full-time work 15 months later – many of them will find non-graduate work only: according to the Office for National Statistics, last year just 60.4% of graduates living in England aged 21-30 were in “high-skilled” work, while 26.4% of this group were in medium or low-skilled employment and 5.5% unemployed. About half of the recent graduates who got in touch said they had taken non-graduate jobs in hospitality, retail, administration, call centres, supply teaching or in temporary positions on the minimum wage to keep afloat. Many said that jobs labelled as “entry level” positions usually require at least one, and often several, years of professional experience. Various people reported that they had been unaware how important practical experience was to recruiters, or that they had simply been unable to find a placement in a relevant industry or lacked the funds to support themselves through an unpaid internship, citing the high cost of living as a significant factor. “It’s all based on referrals,” Gabriel said. “There’s just too many people looking for entry-level jobs.” Despite recruiters’ claims that there is strong demand for highly skilled workers, employers on average received 86 applications for each graduate vacancy in 2023, up 23% on the previous year, according to a report by the Institute of Student Employers. Yet, 54% of employers told the survey that they found it difficult to recruit at least one of their graduate roles – an 11% increase – suggesting that there is an oversupply of graduate workers lacking relevant skills. Employers also appear reluctant to take on or train young staff amid a fragile economic climate. Total UK employer investment in skills has been in steep decline, having fallen 19% for each employee, in real terms, between 2011 and 2022. There have been even sharper declines in larger businesses (-35%) and primary (-44%), and public (-38%) service sectors, leading to an underequipped workforce and employers struggling to fill vacancies, despite steady growth in graduate numbers. With graduate jobs increasingly concentrated in London, 42% of university-educated workers outside the city now work in a job that does not require a degree, up from 31% in 1993. The share is highest in Lincolnshire and Cumbria, where more than half of graduates work in non-graduate jobs (58% and 52%), according to the Institute for Fiscal Studies.
* <https://www.timeshighereducation.com/news/record-competition-lower-salaries-tough-graduate-job-market> - Graduates of UK universities are facing an increasingly tricky job market, with falling starting salaries and artificial intelligence contributing to record competition, according to an annual survey. The Institute of Student Employers’ (ISE) survey also found that many employers have been reporting problems hiring international students as a result of changes to visa rules. Respondents to the annual Student Recruitment Survey received more than 1.2 million applications to just under 17,000 graduate vacancies in the last year – around 140 applications per job. This is a 59 per cent increase on the year before and the highest number of applications per job recorded since the ISE first started collecting the data in 1991. And the ISE says that, although graduate vacancies have grown by 4 per cent in the last year, employers are estimating a growth of just 1 per cent next year as a result of economic pressures. “The current jobs market is tough for graduates, with a considerable jump in applications per vacancy,” said Stephen Isherwood, joint chief executive of ISE. “While this marks a positive move from employers encouraging applications from a broader pool of candidates, the downside is that this amounts to millions of rejection messages to students in the last year.” The digital and IT sector was found to be the most competitive of all, with 205 applications per vacancy, followed by the financial and professional services, which had 188 applications for every position. Fewer than half of companies require graduates to have a 2:1 degree, which the ISE said was contributing to the increased competition. It also warned that the use of artificial intelligence (AI) in job applications – half of employers said some candidates had used it – was also contributing to a “vicious circle” in recruitment. “As AI makes it easier to apply for jobs, volumes are pushed up and quality down, creating more rejections,” said Mr Isherwood.