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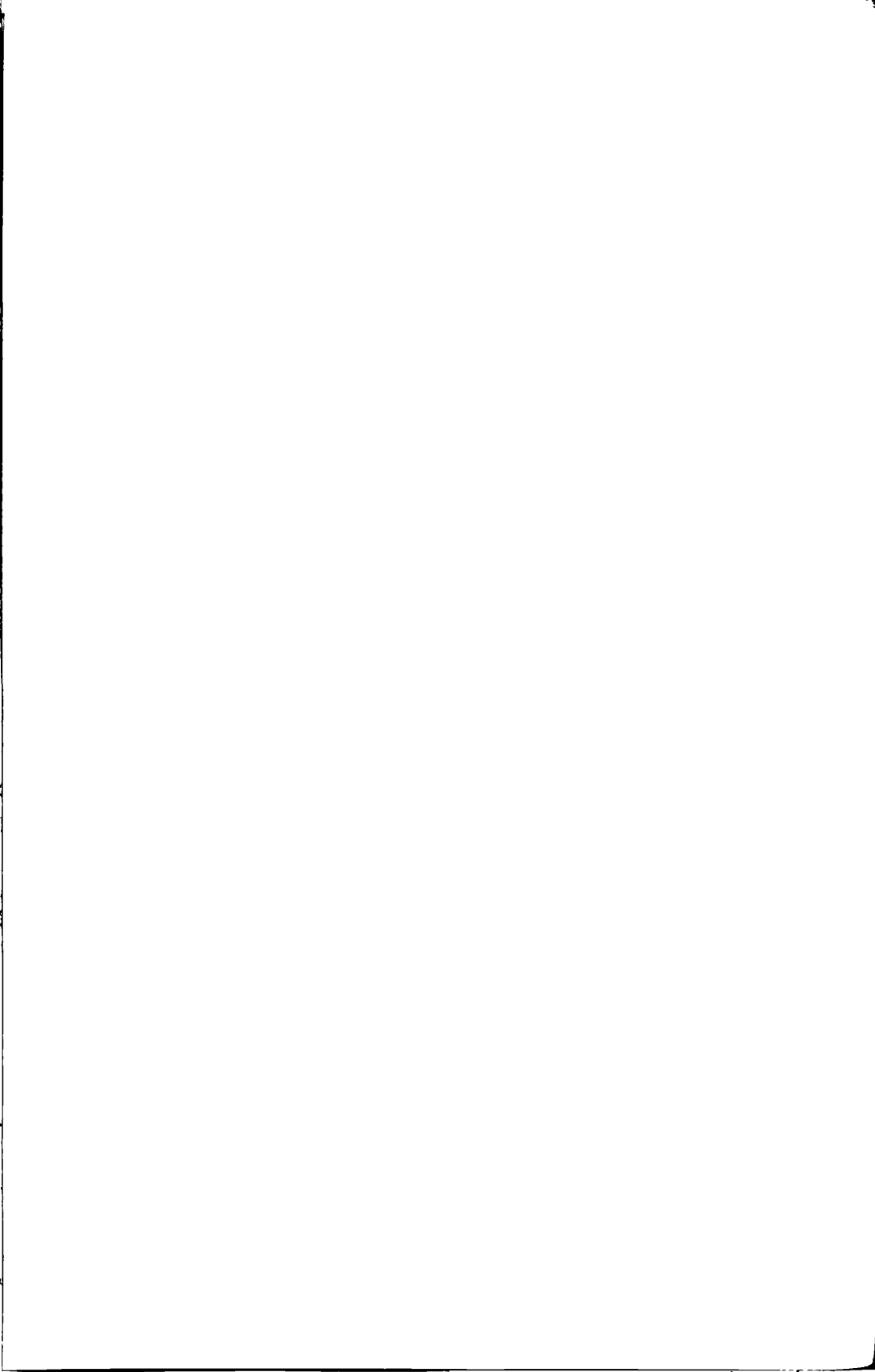
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*Higher Education
and Earnings*



Higher Education and Earnings

COLLEGE AS AN INVESTMENT AND A SCREENING DEVICE

by *Paul Taubman*

*Professor of Economics
University of Pennsylvania*

and *Terence Wales*

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College as an Investment and a Screening Device

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A STUDY OF COMPARATIVE INSTRUCTIONAL
COSTS FOR DIFFERENT WAYS OF ORGANIZ-
ING TEACHING-LEARNING IN A LIBERAL
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AN ESSAY ON HIGHER EDUCATION IN THE
UNITED STATES**
Eric Ashby

**THE NEW DEPRESSION IN HIGHER
EDUCATION:
A STUDY OF FINANCIAL CONDITIONS AT 41
COLLEGES AND UNIVERSITIES**

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AN ANALYSIS OF ALTERNATIVE POLICIES
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Contents

List of Figures, xvi

List of Tables, xvii

Foreword, by Clark Kerr, xxi

Foreword, by John R. Meyer, xxv

Acknowledgments, xxvii

Relation of the Directors to the Work and Publications of the National Bureau of Economic Research, xxix

National Bureau of Economic Research, xxxi

1 *Earnings: Higher Education, Mental Ability, and Screening, 1*

The NBER-TH sample • Regression analysis of the NBER-TH data • The role of mental ability • Other variables • Quality of schooling • The rate of return to education • The Wolfe-Smith sample • Education as a screening device • Conclusions

2 *The Human-Capital Approach to Higher Education, 25*

The human-capital approach to education • The marginal-productivity theory of income determination under perfect competition • Education as a monopoly device • Education as a screening device • Estimation problems

3 *Effects of Education and Mental Ability on Income: The Evidence from the Wolfe-Smith Data, 37*

Summary and conclusions • Data • Return to education: Minnesota males • Interaction of ability and education • The bias from omitting IQ • Rank in class • Occupational regressions • Minnesota females • Final comment

4 *The NBER-TH Sample: A Description, 57*

The sample • Earnings, education, and ability

5 *The NBER-TH Sample Regression Results, 69*

Summary of results • Definition of the variables • Results for 1955 • The bias from omitting ability, 1955 • Comparison of results with the Wolfe-Smith data • Earnings differentials in 1969 • The bias from omitting ability, 1969 • Individual effects persisting over time • Earnings on initial job

- 6** *Age-Earnings Profiles, 113*
Shape of profiles • Cross-section profiles
- 7** *Rates of Return to Education Based on the NBER-TH Data, 123*
Cost of the investment • Ex ante and ex post returns • The ex post rate of return in the NBER-TH sample • Rate of return to a bachelor's degree • Rate of return to college dropouts • Rate of return to graduate education • Ex ante returns to education
- 8** *Within-Occupation Regressions, 137*
Summary • Professional, technical, and sales • Managers and business owners
• White-collar, blue-collar, and service • Comparison with the Wolfe-Smith data
- 9** *Education as a Screening Device, 153*
Reasons for using education as a screen • Potential earnings • Screening: empirical results • Earnings differences due to screening • Screening and the rate of return to education
- Appendix A: Problems in Measuring Education, 175*
- Appendix B: Tables to Chapter 3, 179*
- Appendix C: Estimation of the Mean Income for the Open-Ended Class, 193*
- Appendix D: Grouping, 195*
- Appendix E: Response Bias, Test Scores, and Factor Analysis, 195*
The test scores and factor analysis • Success bias
- Appendix F: Success and Other Biases, 211*
- Appendix G: Questionnaires, 217*
- Appendix H: Data on Earnings in 1968 and 1958, 223*
Income differentials to education in 1968 • Returns to education in 1958
- Appendix I: Characteristics of the Residuals, 231*
- Appendix J: Interpolation Methods, 245*
Ex post profiles • Cross-section profiles
- Appendix K: Estimating Private and Social Costs of Higher Education, 253*

*Appendix L: The Effects of Education on Incomes of the Successful:
Evidence from the Lewellen Data, 255*

Characteristics of the sample ■ Results ■ Conclusion

References, 275

Index, 281

List of Figures

- 2-1 Supply and demand for doctors, 29
- 4-1 Hypothetical relationship between earnings and education, 58
- 6-1 Ex post age-income profiles, 1946-1969, 121
- L-1 Truncation of sample by income level, 259

List of Tables

- 1-1 Percentages by which earnings of those with higher levels of educational attainment exceed those of the average high school graduate, 1955 and 1969, 7
- 1-2 Percentages by which earnings of high school graduates of a given ability exceed those of the average high school graduate, 1955 and 1969, 9
- 1-3 Amount by which monthly earnings of those with higher levels of educational attainment exceed those of the average high school graduate, 1969 (in dollars), 14
- 1-4 Realized rates of return to education, NBER-TH sample, for people entering college in 1946 (in percentages), 17
- 4-1 Comparison of average income by education, NBER-TH sample and census data (in dollars), 64
- 4-2 Average yearly earnings, by ability and education, 1955 and 1969 (in dollars), 65
- 4-3 Average yearly earnings, by occupation and education, 1955 (in dollars), 66
- 4-4 Average yearly earnings, by occupation and education, 1969 (in dollars), 67
- 5-1 Increases in earnings for the average high school graduate, by education level, 1955 and 1969 (as a percentage of high school earnings), 71
- 5-2 Extra income per month for those above the bottom fifth in mathematical ability, 1955 and 1969 (in dollars), 75
- 5-3 Regressions for salary, 1955 (in dollars per month), 82
- 5-4 Percentage increases in earnings, by education level, 1955, 86
- 5-5 Percentage biases at various education levels from omitting different types of ability, 1955, 90
- 5-6 Average scores on Mathematics B test, by age and education, 93
- 5-7 Regressions for salary, 1969 (in dollars per month), 97
- 5-8 Percentage increases in earnings, by education level, 1969, 100
- 5-9 Percentage biases at various education levels from omitting different types of ability, 1969, 103
- 5-10 Initial annual salaries for selected years, by mathematical ability and education (mean income in dollars), 108
- 6-1 Income at various education levels, 1955, 1968, and 1969 (in dollars), 115
- 6-2 Percentages by which earnings of those with higher levels of educational attainment exceed those of the average high school graduate, selected years, 116
- 6-3 Percentage growth in earnings at various education levels relative to growth in the earnings of high school graduates, 1955 to 1969, 117
- 6-4 Percentages by which earnings of high school graduates of a given ability exceed those of the average high school graduate, 1955 and 1969, 118
- 6-5 Standard errors of annual earnings after removal of the effects of measured variables, by education level, 1955 and 1969 (in dollars), 119
- 7-1 Ex post rates of return to higher education, 126
- 7-2 Ex ante rates of return to higher education 1946 and 1949, 133
- 8-1 Average monthly earnings, by occupation and education, 1955 and 1969 (in dollars), 139
- 8-2 "Conditional" standard errors in monthly earnings, by occupation and education, 1969 and 1955 (in dollars), 140

- B-3** Occupational regressions, 1955 and 1969 (in dollars per month), 144
- 9-1** Expected and actual distributions of individuals, by education and occupation, 1969, 164
- 9-2** Expected and actual distributions of individuals, by education and occupation, 1955, 170
- 9-3** Earnings differentials attributable to education, for actual and expected occupational distributions, 1955 and 1969 (as a percentage of high school income), 171
- B-1** Median salaries of Illinois, Minnesota, and Rochester, N.Y., males who had different post-high school education, by rank in high school graduating class (in dollars), 180
- B-2** Median salaries of Minnesota males who had different post-high school education, with intelligence scores held constant (in dollars), 181
- B-3** Median salaries of Rochester, N.Y., males who had different post-high school education, with intelligence scores held constant (in dollars), 181
- B-4** Average salaries of Minnesota, Rochester, N.Y., and Illinois males, by rank in class and education (in dollars), 182
- B-5** Average salaries of Minnesota males, by rank in class and education (in dollars), 183
- B-6** Average salaries of Minnesota males, by ACE decile and education (in dollars), 184
- B-7** Average salaries of Illinois males, by rank in class and education (in dollars), 185
- B-8** Average salaries of Rochester, N.Y., males, by rank in class and education (in dollars), 186
- B-9** Distribution of Minnesota males, by occupation, for various levels of ability and education, 187
- B-10** Average salaries of Minnesota males, by occupation and ability (in dollars), 187
- B-11** Average salaries of Minnesota females, by ACE decile and education (in dollars), 188
- B-12** Distribution of Minnesota males by ability (ACE decile), education, and occupation, 189
- B-13** Average salaries of Minnesota males, by occupation and ACE decile (in dollars), 191
- B-14** Description of occupational categories, 192
- E-1** Comparison of education reported for 1955 and 1969 by those responding in 1969, 198
- E-2** Distribution of those with more education reported in 1969 than in 1955, by date of last year attended school, 199
- E-3** Distribution of education for the 1955 and 1969 samples, 202
- E-4** Factor loadings, 207
- E-5** Number of 1969 respondents in 1955-sample fifth for four ability factors, 209
- F-1** Equations to test for success bias and importance of pre-1946 education with 1955 income data: monthly income (in dollars), 212
- F-2** Average monthly earnings in 1955 for the lowest fifth before and after correcting for pre-1946 education (in dollars), 214
- H-1** Regressions for salary, 1958 and 1968: 1969 respondents (in dollars per month), 224
- H-2** Percentage increase in 1958 and 1968 earnings, by education level, 228
 - I-1** Estimated variance by education and ability, 1955, 232
 - I-2** Estimated variance by education and ability, 1969, 234
 - I-3** Test of equal variance in ability-education cells in 1955 and 1969, 238
 - I-4** Percentage distribution of errors for $\ln Y_{55}$ and Y_{68} , 242
- J-1** Estimates of yearly earnings of high school and college graduates, 1946-1955 (in dollars), 247
- J-2** Mean income and earnings for 33- and 48-year-olds in 1955 and 1968: *Current Population Reports* (income) and NBER-TH (earnings) (in dollars), 248
- J-3** Nationwide mean earnings of age groups over time, by education level (in dollars), 249

- J-4** Ex post age-income profiles, 1946–1969 (in dollars), 250
- J-5** Bias corrections by age and education levels, 1946, 1949, and 1968, 251
- K-1** Estimated social and private costs of higher education, 1946–1954, 254
- L-1** Distribution of top executives by education, 1940–1963, 257
- L-2** Percentage distribution of nonfarm proprietors, managers, and officials, aged 45 to 64, with at least a high school education, 1940, 1950, and 1960, 258
- L-3** Annual income-education regressions, 1940–1963, 268
- L-4** Annual income-education regressions (with positions held constant), 1940–1963, 270



Foreword

by Clark Kerr

Chairman, Carnegie Commission on Higher Education

This is the third volume resulting from studies conducted by the National Bureau of Economic Research for the Carnegie Commission. It presents the full report by Taubman and Wales of their detailed analysis of the results of a 1969 follow-up survey of a large sample of men who were accepted for a special Army Air Corps volunteer program in 1943. A brief summary of the findings was also included in the recently published volume of essays edited by Juster (*Education, Income, and Human Behavior*).

The Taubman and Wales study is based on what is in some ways the most valuable source of data that has as yet been available for human-capital analysis. Most earlier studies of the rate of return from education have been based on decennial census data that have yielded information on educational attainment and earnings, but not on individual ability. Thus, it has not been possible to determine how much of the variation in earnings associated with education might be attributable to differences in ability, although some analysts have devised methods for attempting to measure the influence of ability. But the Army Air Corps volunteers included in the Taubman-Wales study had all participated in a battery of 17 tests designed to measure various aspects of physical and mental ability. The results of these tests were available for analysis, along with the information on earnings and work histories provided by the respondents.

Another valuable feature of the data is their longitudinal character, in contrast with the cross-sectional data used by most human-capital analysts. The men included in the 1969 follow-up survey had also been respondents in an earlier study conducted by Thorndike and Hagen in 1955. Thus, Taubman and

Wales were able to analyze how education, ability, and other factors affected actual changes in earnings of these men between 1955 and 1969, rather than having to rely on variations in earnings at a given point in time to draw inferences about the interaction between age and other influences on income.

The study owes its importance, also, to the high degree of technical skill the authors have brought to the analysis.

The findings indicate that there was an upward bias of about 25 percent in their measures of the impact of education on earnings in 1955, if the influence of ability was omitted. The bias was somewhat smaller in 1969, reflecting the fact that differences in earnings associated with ability did not increase as rapidly as those associated with education between 1955, when the men were aged about 33, on the average, and 1969, when their average age was 47. Variations attributable to ability did not differ greatly according to educational attainment, with the important and interesting exception that by 1969 differentials associated with high ability were relatively large for men with graduate training.

An important qualification, however, is that it was only the results of the mathematical aptitude test that were reflected in these impacts of ability—none of the other tests had a significant effect on earnings differences. This is at variance with the findings of Hause (based on the same data and reported in the Juster volume), who used a composite measure of ability and found it had a significant effect on earnings. In evaluating the ability results, it is also important to keep in mind the fact that the average ability of the men in this sample was high—they all had to pass an initial aptitude test with a score equivalent to the median for high school graduates before qualifying for the battery of 17 special tests. Clearly, we need more experimentation with alternative measures of ability and with samples representing a broader spectrum of the population before achieving definitive results on the relative impact of ability and other influences.

In other respects, the Taubman-Wales results will add "grist to the mill" of both the supporters and the critics of human-capital theory—probably especially the latter. On the one hand, if allowance is made for differences in methodology and for the special characteristics of their sample, their rates of return to investment in education do not appear to differ strikingly from

those of earlier investigators. On the other hand, their findings lend support to those who argue that education accounts for only a relatively small proportion of variations in earnings. Yet Taubman and Wales provide some evidence that casts doubt on the implication of Christopher Jencks and his coauthors that much of the variance is attributable to "luck."¹ For example, they find that the difference between excellent and poor health in 1969 was worth about \$7,000 a year. They also made use of a composite "background" variable that had a significant effect on earnings differences.

Potentially even more damaging to human-capital theory is the Taubman-Wales finding that, for those with some college or a B.A., a substantial part of the earnings advantage associated with education was attributable to "screening," that is, the requirements or preferences of employers for those with a college education. But their method of measuring the effect of screening is crude, as they admit. Even so, the issue of screening and of its relationship to employment discrimination is becoming increasingly important and calls for much more research.

We are also approaching a stage in the evolution of human-capital research, I believe, when more attention needs to be paid to occupational differences in rates of return, as Eckaus has shown. Perhaps even more fundamental is the need to look less exclusively at money income as *the* measure of the economic results of education. Virtually all human-capital theorists pay lip service to the role of the consumption benefits of education and then ignore them as not susceptible of measurement. Similarly, most researchers, including Taubman and Wales, admit that there are social benefits that cannot be measured by the usual conventional methods, but then proceed to confine their efforts to measurement in the conventional manner. Finally, there is accumulating evidence that job satisfaction is often an extremely important component of the benefits of higher education. It would be a great step forward if someone were to devise a method of adjusting measures of pecuniary benefits to allow for the contribution of nonpecuniary rewards.

¹C. Jencks and others: *Inequality: A Reassessment of the Effect of Family and Schooling in America*, Basic Books, New York, 1972, p. 8.



Foreword

by John R. Meyer

President, National Bureau of Economic Research

In this volume Taubman and Wales report on their study of the determinants of earnings. This work was supported by the Carnegie Commission on Higher Education as a part of the National Bureau of Economic Research's study of the benefits of higher education. The larger study was directed by F. Thomas Juster, and much of the research is summarized in the CCHE-NBER volume *Education, Income, and Human Behavior*, edited by Juster.

In their study Taubman and Wales make extensive use of the NBER-TH data set, a longitudinal sample of some 5,000 men born in the decade 1916-1926, surveyed in 1943 (by the U.S. Army), in 1955 (by Thorndike and Hagen), and in 1969 (by NBER). The sample consists of men who volunteered for certain Army Air Corps training programs during World War II. The data set, which is described in detail in Chapter 4, is a unique and important one. The authors of this volume were instrumental in bringing its potential availability to the attention of the National Bureau. They participated in planning the 1969 survey, and this volume contains much of their analysis of these data. (The sample was again surveyed in 1970 and 1971, and Taubman, as well as others within and outside NBER, are continuing to study the behavior of these men.) Here, Taubman and Wales use single-equation regression techniques to investigate the influence of formal schooling, measured ability, age, family background, and personal characteristics on the level of observed earnings in 1955 and in 1969, and on the growth in earnings over the working life through 1969.

This volume complements other recently completed and ongoing studies at NBER. It is one of several projects which contribute to an understanding of the relationship between for-

mal schooling and measured ability as determinants of the level of and lifetime growth in earnings, of the influence of family background variables on earnings, and of the mechanisms through which schooling affects earnings.

This question of mechanisms, of how schooling affects earnings, is a difficult and complex one. It is also one on which those subscribing to human-capital theories and those skeptical of such theories are likely to differ. For adherents of the human-capital approach, many of the "other" influences on income often cited by critics as contradicting or undermining their theory are seen as easily incorporated into the human-capital model. To the critics, such incorporations often seem artificial, or at least unnecessary if one starts with a broader, less constricting set of relationships among income and human qualities, institutions, and environments. These differences are discernible at several points in this manuscript, but perhaps most noticeably in the discussion of the possible use of colleges as a "screening" device by employers.

The larger issue, though, in determining the benefits of education remains that of measuring social and nonpecuniary returns rather than just the private monetary returns. On this point, both those who adopt and those who criticize the human-capital approach agree. As a consequence, an ever-increasing portion of our human-capital studies at the National Bureau are devoted to these issues—the relationships between education and household's consumption behavior; the relationships between the preschool environment and the later school performance and the extent to which this preschool environment is conditioned by the income and education of the parents; the relationship between education and the taste for leisure (or, its obverse, labor force participation); the relationships between education and health; and the relationships between education and demographic behavior. Some of the preliminary findings of this research is to be found in the recent volume *Education, Income, and Human Behavior*, published jointly by the National Bureau and the Carnegie Commission; the rest has, or will emerge, in formal publications of the National Bureau itself.

Nevertheless, the unanswered questions about the value of education beyond the purely pecuniary remain and loom large. I am sure that they will challenge scholars at the National Bureau and elsewhere for years to come.

Acknowledgments

The research delineated in this book has benefited greatly from the assistance of many individuals at different institutions over the past few years. To achieve the goals of this study, it was necessary to have much better data than those previously available. Fortunately, Robert L. Thorndike at the Teachers College of Columbia University retained much of the data that he and Elizabeth Hagen had used in the fifties and made them available to us. Similarly, Dael W. Wolfe at the University of Washington allowed us to use the data that he and Joseph Smith employed in their analysis of earnings, also in the fifties. We wish to express our gratitude and to acknowledge our debt to both men for permitting us to share their data and for providing us with useful comments and warm encouragement.

We are greatly indebted to F. Thomas Juster and John R. Meyer at the National Bureau of Economic Research for providing overall guidance for our research effort and for helpful comments and insights. In addition, we have benefited from general discussions with the others at the Bureau engaged in closely related research—Jacob Mincer, Lewis C. Solmon, and Finis R. Welch. Suggestions of the Bureau's reading committee, Gary S. Becker, John C. Hause, Christopher Sims, and Melvin Reder, resulted in a number of changes that improved the manuscript considerably.

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A study such as this relies heavily on the ability of research assistants to implement empirically the various hypotheses of interest. Consequently, we are deeply indebted to a number of excellent assistants, including Marc Freiman, Peter Gottschalk, Abe Haspel, Edward Villani, Keith Wales, and Janet Young. We also wish to thank Florence Barrow, Shelley Orloff, Patricia Purvin Good, Marie Resanovic, Machilla Roberts, Catherine Grant, and Diane Haspel for typing the many drafts of this volume. The services of the computer centers at both the University of British Columbia and the University of Pennsylvania were used extensively in carrying on the empirical analysis. At the National Bureau of Economic Research, Ruth Ridler did the editing and H. Irving Forman was the chartist.

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Paul Taubman
Terence Wales

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