How have the Returns to Schooling and Work Experience Changed over the Last 40 Years? Evidence from Panel Data

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Abstract

This study examines how the returns to wages of early work and schooling experiences changed for young men and women in the United States over the latter half of the twentieth century. Our analysis focuses on the experiences of young men and women from two different birth cohorts—one group that was of high school age during the second half of the 1960s and a second that began their transition from school to work in the late 1970s and early 1980s. We pay particular attention to how the differences across cohorts in these transitions vary by gender and race/ethnicity and how these differences affected their subsequent wage attainment. We estimate an econometric framework to consistently estimate the returns to youth's early schooling and work experiences, and determine the extent to which these returns varied across cohorts of young men and women, and across race. We examine returns based on several different estimation strategies, including one that attempts to deal with both the endogeneity of accumulated work and schooling experiences and selection bias in our wage data. Using these estimates, especially the ones that deal with the potential endogeneity and selection biases noted above, we investigate the relative importance of across-cohort differences in local labor market conditions, college costs, a youth's family background and an index of pre-market skills, in accounting for youth's schooling and work choices and the wages they subsequently attained.

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