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NEPC Review: Increasing Education: What it Will and Will Not Do for Earnings and Earnings Inequality

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NATIONAL EDUCATION POLICY CENTER

Review of *Increasing Education: What it Will and Will Not Do for Earnings and Earnings Inequality*

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May 2015

Summary of Review

A recent report discusses three commonly held propositions about education's economic power: 1) education is the critical factor in creating economic prosperity; 2) college degrees increase earning power; and 3) increasing educational attainment will narrow income inequality. The report endorses the first two propositions but finds the third inaccurate, concluding that a significant increase in educational attainment is not likely to significantly decrease wage inequality. The use of an empirically based simulation to project what would happen if an additional 10 percent of the population suddenly received college degrees is illuminating. However, the analysis has important limitations. There is little evidence provided to show that increasing educational attainment is, as the authors contend, "the most effective and direct way" to improve economic prosperity. The data are drawn only from males and no attention is paid to how income gains differ across race, field of study, labor-market conditions, and institutional reputation. Critically, no analysis compares education with other approaches to economic problems. Claiming that the primary solution to important economic problems is to improve "human capital," the report perpetuates a problematic myth that undervalues alternative approaches to poverty and economic insecurity. Indeed the knowledge society narrative, assuming that everything depends upon more education, may itself be flawed.

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Review of *Increasing Education: What it Will and Will Not Do for Earnings and Earnings Inequality*

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I. Introduction

The centuries-long desire of Americans to use education to address economic issues such as poverty and economic inequality continues. The report reviewed here, *Increasing Education: What it Will and Will Not Do for Earnings and Earnings Inequality*,[1] seeks to engage in the current iteration of this discussion.

Written by Brad Hershbein, Melissa S. Kearney, and Lawrence H. Summers, the report is published by The Hamilton Project, which has issued a steady stream of reports designed to further long-term prosperity, economic growth, and individual economic security, through "public investment, a secure social safety net, and fiscal discipline."[2]

The authors take up the dual controversy over whether getting a bachelor's degree or higher education will increase economic prosperity and whether increases in the proportion of people receiving such degrees will reduce levels of economic inequality.

II. Findings and Conclusions of the Report

The report starts by noting that previous Hamilton Project reports concluded that "lifetime earnings of workers with a college degree are nearly twice as high as those without one" (p.1). This is closely related to the claim of another Project paper cited in the report, that widespread economic prosperity will depend upon increasing skill levels. *Increasing Education: What it Will and Will Not Do for Earnings and Earnings Inequality* finds it "imperative" to increase the population's skills, but also attempts to demonstrate that greater skills will not reduce economic inequality.

Three primary "takeaways" are offered (p. 2):

1. “Increasing the educational attainment of men without a college degree *will* increase their average earnings and their likelihood of being employed.” (The report’s focus on men is discussed below.)

2. “Increasing educational attainment *will not* significantly change overall earnings inequality. The reason is that a large share of earnings inequality is at the top of the earnings distribution, and changing college shares will not shrink those differences.”

3. “Increasing educational attainment *will*, however, reduce inequality in the bottom half of the earnings distribution, largely by pulling up the earnings of those near the 25th percentile.”

The authors add that increasing the numbers of people attaining a college degree and thus increasing skills is valuable apart from the question of its relationship to overall inequality, since “higher levels of skills will improve the economic position of those around and below the middle of the current earnings distribution” (p. 2). They suggest, in conclusion, “Our nation should aim to increase the educational attainment and, more generally, the skills of less-educated and lower-income individuals because in the long-run, this is almost surely the most effective and direct way to increase their economic security, reduce poverty, and expand upward mobility” (p. 5).

III. The Report’s Rationale for its Findings and Conclusions

The central rationale provided in the report is that expanding the proportion of people attaining higher education levels will provide greater opportunities for them to gain valuable skills that translate into greater lifetime earnings. This improved economic condition is proportionally larger among those “around and below the middle of the current earnings distribution” (p. 2). However, these higher earnings will not have much effect on the relationship between those at the upper end of the income earners and the rest. In addition to prior reports published by the Hamilton Project—which probably need to be read in order to fully understand the rationale of the current report—the authors use an “empirical simulation” to produce evidence for their findings, which is discussed below.

IV. The Report’s Use of Research Literature

Providing little in the way of a review of the research literature the report misses an opportunity to provide important context to the issues it raises. There are only a few references to other work published by the Hamilton Project and a small number of references to scholarly research. This is unfortunate as it reflects the report’s relatively narrow framing. If readers want a broader sense of the vital yet contentious debates on earnings and inequality, they will have to seek out other sources. Fortunately, those are numerous and easily accessible. There are three areas of relevant research that the report could have reviewed to place the relationship between education, wages, and economic inequality into a framework useful for informing policy:

- The causal relationship between education and income, which has been studied from the dueling perspectives of human capital[3] and schooling's role in the reproduction of inequality.[4]
- The causes of economic inequality.[5]
- The long-standing debate about whether education focused on the production of human capital is at odds with other approaches to education, such as a social justice approach that aims to include and produce democratic culture and citizens while directly interrogating systemic inequity.[6]

V. Review of the Report's Methods

The report's methods are straightforward and illuminating in some respects, but unclear and disconnected from their conclusions in other respects. The authors use what they refer to as an empirical simulation to examine "how the distribution of earned income would change if 10 percent of non-college educated men aged 25 to 64 were to immediately obtain a bachelor's or advanced degree" (p. 2). This is a way to assess whether education can increase wages without significantly impacting wage inequality. The focus on men to the exclusion of women is explained by the fact that low-skilled men have been more adversely affected by decreases in employment and earnings and are "considerably less likely to attend and graduate from college" (p. 1). The authors recognize that college attainment is an imperfect measure of economically rewarded skills, but suggest that the data are readily available and the proxy is a legitimate one (p. 1).

Wage data from 1979 and 2013 are drawn from the Current Population Survey. The college wage premium is adjusted downward for what is assumed to happen when more people get bachelor's degrees – that is, when the supply of college graduates increases, the wage that employers pay for college graduates is likely to decrease. In fact, the inflation-adjusted median wage decreased for men even as the percentage of men with a college degree increased between 1979 and 2013. The authors then compare what actually happened to earnings between 1979 and 2013 with a simulated scenario of an additional 10 percent of men in 2013 having a bachelor's degree or more.

Method for estimating the relationship between college attainment and wage inequality

The essential finding of the empirical simulation is that if one-tenth of the men currently without a college degree received one, earnings would increase for male workers at all levels of the income distribution (except for the lowest-earning 10th percentile). The largest gainers in percentage terms would be those at the lower 25th percentile. While this increase in earnings would lower the income differences between the 25th percentile and those above them, the change in levels of inequality would be limited. Using the Gini coefficient and the Theil index—two somewhat different measures of income inequality—"overall earnings inequality would hardly change . . . if the share of working-age men with a college degree were to increase by even a sizable margin" (p. 4).

> *The American faith that education can overcome inequality is longstanding.*

Finally, the authors examined what would happen when inequality is measured in a third way—through six wage inequality ratios—when an additional 10 percent of men without a college degree were assumed to have bachelor's degrees or higher. The findings remain the same. The group in the 25th percentile would narrow the gap relative to the higher-earning percentiles. In contrast, the differences between higher-earnings groups are minimal, leaving little change in inequality among the vast majority of men (pp. 4-5).

Method for determining the relationship between education and economic prosperity

The report has no real methodology for determining how more education produces greater economic prosperity overall or for those individuals who gain college degrees. Instead, it suggests looking at other Hamilton Project reports.

While the report's methods for calculating the relationship between education and inequality are fairly robust and support the authors' conclusions, the data and methods used do not support their rather sweeping claim that

> Our nation should aim to increase the educational attainment and, more generally, the skills of less-educated and lower-income individuals *because in the long-run, this is almost surely the most effective and direct way to increase their economic security, reduce poverty, and expand upward mobility* (emphasis added, p. 5).

The simulation takes into account a likely decline in the college premium as more people receive college degrees. The authors also suggest that those at the 10th percentile in earnings would not improve if 10% of the population received college degrees. And their simulation finds that the bottom 50th percentile proportionally gains more than the top 50th percentile. These assertions may be correct, but the simulation is insufficient to carry the full weight of them. The simulation does not distinguish between bachelor's degrees and graduate/professional degrees. Individuals who attain more schooling are likely to be high wage earners, regardless of their higher educational attainment, due in part to racial, class, and gender discrimination within education and the labor market. Tuition costs and the wages that were not earned while individuals were students instead of workers also need to be taken into account to usefully inform the authors' claim that increasing educational attainment will improve "economic security, reduce poverty, and expand upward mobility" (p. 5).

These criticisms of the report should not be taken to mean that education does not pay. Scholarly literature suggests that, for many individuals, much of the time, education is an investment that pays off in terms of higher income. This is not the same, however, as concluding that it is the best way to advance economically.

VI. Review of the Validity of the Findings and Conclusions

The use of the counterintuitive empirical simulation adds an interesting dimension to the understanding of the relationship between education and wage inequality. The limited utility of using education—in this case higher education—in reducing earnings inequality is unsurprising, except to those who insist on making more education an antidote to all the ills of society.

It is unfortunate that this report keeps within a narrow framework. Its failure to seek evidence on women leaves us wondering whether the findings would have been the same for them. By ignoring whether taking into consideration student debt levels would affect the earnings premium, they avoid a highly contentious issue. The report also ignores the subtleties of age, gender, race, ethnicity, field of study, labor market conditions, professions, institutional quality and reputation. Given that wealth is even more unequally distributed than income[7] and is clearly a component of economic prosperity, the report is unwise to neglect the relationship between education and wealth outcomes.

The report contained no data analysis, nor a review of any literature, addressing the relative effectiveness of education compared to other ways to improve economic security, reduce poverty and inequality, and increase upward mobility. Indeed, there is evidence that education is neither the most effective nor the most direct way to address these economic issues.[8] For instance, the Earned Income Tax Credit (EITC)[9] and Social Security[10] decrease poverty immediately, while increasing educational attainment is likely to take years, if not decades, to affect earnings.

VII. Usefulness of the Report for Guidance of Policy and Practice

The American faith that education can overcome inequality is longstanding. In the first half of the 19th century, Horace Mann, often viewed as the founder of public education, called education the equalizer and "balance-wheel" of society. At the beginning of the 20th century, Charles van Hise, president of the land-grant University of Wisconsin, offered a vision of higher education in which *every* son and daughter of the state would be able to study. The 1954 Supreme Court *Brown v. Board of Education* decision that found segregated schools were unconstitutional was infused with the belief that public schools available to all, on an equal basis, would reduce racial inequality. Secretary of Education Arne Duncan said in 2012, “What I fundamentally believe—and what the president believes . . . is that the only way to end poverty is through education.”[11]

Within a narrow focus, the report’s authors suggest that this unconstrained faith in education lacks a serious evidentiary base. It implies, but does not directly say, that we should be careful not to convert every discussion about education into a preparation-for-the-labor-market discussion, leaving out notions of citizenship, professional identities and ethical responsibilities, and rising levels of inequality and poverty even as more people are educated.

With these reservations, the report’s policy conclusions are important: Because more schooling increases, on average, the income of individuals in comparison to those not receiving advanced schooling and is particularly powerful for those in the bottom half of the earnings spectrum, the natural assumption is that the gap between rich and poor is narrowing. Yet the two realms, as the authors point out, need to be treated separately. If one wants to close the income and social class gaps that are destroying any notion of one nation, more direct actions are necessary--in the economy and politics. Using schools to improve economic conditions by increasing human capital is indirect and insufficient. Using schooling as a quick fix for economic problems is not going to do it.

This leads to an even broader discussion, questioning the knowledge society narrative that has become the dominant motif in higher education. This narrative claims that advanced levels of schooling are necessary for the more complex jobs of the future. The narrative thus lends weight to the “stay in school because it will pay off” belief. But what happens if the knowledge society actually needs fewer people with advanced levels of education? The scenario then is not all that pleasing.

Notes and References

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2 Hamilton Project, The (n.d.). About us. Author. Retrieved April 28, 2015 from http://www.hamiltonproject.org/about_us/mission_and_vision/

3 The report does cite one review of research about the economic returns to college, but alternative views include:

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