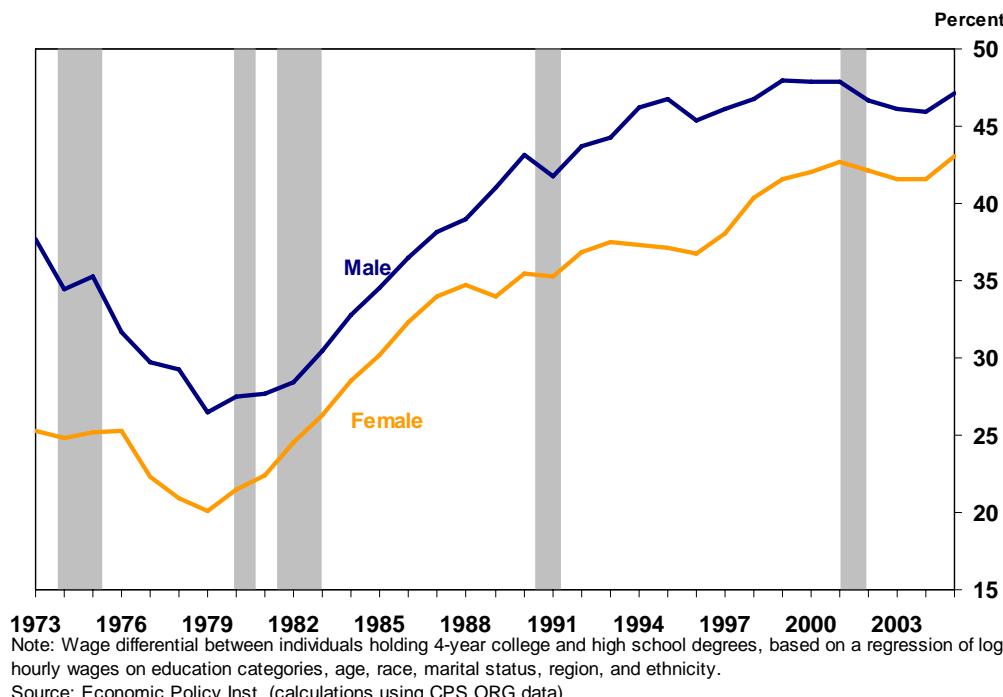


IN SHORT

The College Premium

Changes in technology have a direct impact on the labor market through the relative demand of skilled and unskilled workers. The technological developments of the past 30 years demanded increasing numbers of skilled workers, hence it is referred to as a "skill-biased technical change." One manifestation of this increase in demand is higher wages for college-educated workers when the supply of college graduates does not meet the increase in demand. Insofar as the wages paid for college graduates reflect their productivity, changes in the college premium can be indicative of a corresponding change in their productivity. Constructed by regressing log hourly wages on education and other control variables such as age, race, marital status, region, and ethnicity, the college premium reflects the wage premium an individual with a four-year college degree earns compared to an individual with similar characteristics but no college education.

As can be seen in the figure, the college premium decreased during the 1970s. At its lowest point in 1979, college-educated males earned 27% more than similar males with only a high school education; for females, this college premium was 21%. This period of decreasing returns to education is sometimes explained as resulting from an excess supply of college students, as Americans became "overeducated." However, since then the college premium has increased substantially and continuously, with a particularly rapid growth episode in the 1980s. The fact that the college premium has been slumping since 2000 raises the question of whether it reflects a slowdown in the demand for skilled workers, or whether the increase in college enrollment and graduating students is now continuously meeting the demand for skill. Finally, note that the college premium for females is 5 to 10 percentage points lower than the male premium, although it follows the same trend.



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