

Contents lists available at [ScienceDirect](#)

Social Science Research

journal homepage: www.elsevier.com/locate/ssresearch

The certification earnings premium: An examination of young workers



Kyle Albert

Harvard University, United States

ARTICLE INFO

Article history:

Received 2 October 2015

Received in revised form 22 September 2016

Accepted 29 September 2016

Available online 30 September 2016

Keywords:

Certification

Credentials

Education

Training

Inequality

Stratification

Income

Age

Unemployment

Nonprofit associations

Closure

Professions

Work

Labor markets

1. Introduction

The American higher education system grew at a rapid rate over the last few decades, fueled in part by competitive labor markets, employer demand for educational credentials, and entrepreneurial educational institutions (Baker, 2011; Hansen, 2011; Hoxby, 2009). Although much less visible, a system of occupational credentialing also expanded over the same period. This system is embedded not in the formal education system, but rather trade, industry, and professional associations that offer occupational certifications that vouch for an individual's work-related skills and abilities. While these certifications have some similarities to credentials available in traditional schools and colleges, they do not require formal coursework and instead rely on competency-based evaluations to determine who earns a credential.

As with other types of credentials, occupational certifications are often touted by their proponents as offering returns in the form of higher earnings, either to occupations, which benefit from signaling professional status through certifications, or to individual certification holders (hereafter, "certificants"), whose labor market prospects are improved by holding an

E-mail address: kalbert@hsph.harvard.edu.

occupational certification (US Department of Veterans Affairs, (2013); Lane, 2014). At the same time, there is reason to question whether occupational certifications live up to their billing, given that certifications are voluntary from a legal standpoint and carry value in the labor market only insofar as employers believe that they signal skills or attributes that are associated with greater marginal productivity.

To date, there has been little critical evaluation of whether, if at all, there are economic benefits to certification or how these benefits are distributed across the occupational structure (notable exceptions including Gittleman et al., 2014; Weeden, 2002). What little evidence exists is either limited to the occupational level (e.g., Weeden, 2002), consists of single occupation case studies, or does not consider how the certification premium might differ across groups of workers. Such analyses suggest that there is a potential effect of certification on income, but also point to the need to conduct analyses that control effectively for the many factors that might predict certification attainment and income simultaneously. In this article, I use nationally representative, longitudinal data on a recent cohort of labor market entrants to assess whether and how certification affects early career outcomes. Although certification could affect many outcomes (e.g., employment prospects, whether a job is found in the desired field), I focus on early labor market earnings from employment as an indicator of the benefit that certificants receive from their certifications. Aside from its measurability, employment income is perhaps especially appropriate as an indicator of the return on individuals' investment in becoming certified because certification boards often claim, but have limited evidence to prove, that certification attainment may be related to higher compensation.

Assessing the advantages or disadvantages associated with certification, like efforts to identify a causal effect of schooling (e.g., Brand and Xie, 2010), is often complicated by differential selection into certification, which is presumably made both on personal attributes (e.g., aspirations, prior achievement, unemployment history) and occupational attributes (certification is more common in some occupations than others). I use a comprehensive set of adjustment variables measured prior to labor market entry as well as models that allow me to estimate the magnitude and direction of the certification "effect" on income after adjusting for individual-level characteristics. These results suggest that there is a strong and positive association between holding a certification and early career income, even after adjusting for background characteristics and occupation. I also consider whether certification may result in a stronger or weaker earnings premium for those workers who have experienced difficulty in transitioning to stable employment in the initial years after secondary education, as measured through months of unemployment and the number of employers that one has worked for.

2. Certification: a unique breed of postsecondary credential

Occupational certifications, as I define them here, differ from occupational licenses and non-degree educational certificates. Certifications are issued by not-for-profit trade, professional, and industry organizations (e.g., Building Performance Institute, Yoga Alliance), though in some fields corporations may offer certifications to recognize demonstrated competence in using a particular product (e.g., the Microsoft Certified Solutions Expert). As the name suggests, occupational certifications are normally related to the activities one does to earn a living. Certifications are disproportionately found in the traditional professions and "quasi" professions, but are also available in occupations outside of the professions and in task domains that attract both avocational and vocational practitioners (e.g., diving, model railroading, yoga instruction).

The process of obtaining an occupational certification differs markedly from the process of obtaining a formal educational credential. Normally, certifications are earned by passing an examination that directly tests relevant knowledge, as defined by the certifying organization. There may also be other requirements relevant to a particular occupation, such as agreeing to adhere to an ethical code or documenting a given period of employment in a relevant position. Although some employers may expect workers in certain jobs to hold a particular certification, certifications differ from occupational licenses in that there is no legal requirement that individuals be certified in order to practice the skills of an occupation or claim the occupational title. Certifications also differ from educational certificates (for definitions, see US Department of Education, (2014)), which are typically issued by community colleges or university extension schools in recognition of a shorter or more focused sequence of coursework than what is required for an associate or baccalaureate degree. Perhaps most importantly, certifications theoretically surpass educational certificates in the extent to which they assure quality by directly testing for competence or mastery of a given content area. Of course, certification programs are not equal in the rigor of their examinations or how closely their exams match actual tasks performed in a given occupation, but their scope is not constrained by the curriculum offered by higher education coursework.

The overall number of certifications in the American labor market is unknown, as is the percentage of individuals holding one or more certification. US Census Bureau statisticians estimated that, as of 2012, 21.8 percent of the adult population held either a certification or a license, but did not differentiate between the two categories of credentials (Ewert and Kominski, 2014). A tabulation of information from association directories and a direct survey of certification program administrators conducted in the late-1990s estimated that, once all American workers are assigned to a single occupation on the basis of their primary job, the percentage of individuals holding certifications ranged from 25% in technical occupations to less than 1% in transport and manual labor occupations (Weeden, 1999). Observers of the field note an expansion in the number of certification programs, the number of occupations covered by those programs, and the growth of an industry or "ecosystem" to support the needs of certification organizations over the last two decades (Schoon and Leon Smith, 2000; Carter, 2005; Jaffeson, 2005; Rops 2011; Flynn 2013).

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