



ELSEVIER

Contents lists available at ScienceDirect

Economics of Education Review

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

The impact of parental layoff on higher education investment

Weixiang Pan^a, Ben Ost^{b,*}^a Department of Economics, University of Illinois at Chicago, 601 South Morgan Street, 725 University Hall, Chicago, IL 60607, United States^b Department of Economics, University of Illinois at Chicago, 601 South Morgan Street, 718 University Hall, Chicago, IL 60607, United States

ARTICLE INFO

Article history:

Received 22 November 2012

Received in revised form 27 June 2014

Accepted 30 June 2014

Available online 22 July 2014

JEL classification:

I23

I24

Keywords:

Higher education

Layoff

ABSTRACT

This paper uses variation in the timing of parental layoff to identify the effect of parental job loss on higher education enrollment. Unlike research that compares laid-off workers to workers who do not lose their jobs, all families in our analysis experience a layoff at some point. The treatment group (layoff when child is 15–17) and control group (layoff when child is 21–23) have statistically indistinguishable initial characteristics, but substantially different higher education enrollment rates. We find that parental job loss between ages 15 and 17 decreases college enrollment by 10 percentage points.

© 2014 Elsevier Ltd. All rights reserved.

1. Introduction

Classical models of education investment predict that, in the absence of credit constraints, investment decisions should be solely determined by the rate of return to education relative to other investment opportunities (Becker, 1962). These models predict that college enrollment should be independent of family resources, a prediction that is at odds with the large college enrollment gaps between rich and poor families. While some point to the relationship between family income and college enrollment as evidence of credit constraints (Belley & Lochner, 2007; Goodman, 2010; Lochner & Monge-Naranjo, 2012), others argue that the relationship between family income and college enrollment could be due to unobserved correlates of parental income (Cameron & Taber, 2004; Carneiro & Heckman, 2002). These latter

literatures point out that children from lower-income families may face larger costs or lower benefits to enrolling in higher education, thus even in the absence of credit constraints, one would expect a relationship between family income and college enrollment. Finally, to the extent that higher education is a normal consumption good, we would expect a relationship between family income and college enrollment.

We provide new evidence in support of the notion that parental labor market outcomes causally impact higher educational enrollment. Specifically, we use the PSID to compare families who all experience layoffs, but where the timing of the layoff differs with respect to their children's ages. We find strong, robust evidence that enrollment in higher education differs sharply depending on whether a parent is laid off before or after the college enrollment decision. Under the assumption that future parental job loss has no direct effect on past college enrollment, the control group represents the population that eventually experiences parental job loss, but whose enrollment decisions are not influenced by the displacement.

* Corresponding author. Tel.: +1 617 233 3304.
E-mail address: bost@uic.edu (B. Ost).

This research contributes to a literature on the intergenerational effects of layoff. It is well documented that involuntary job loss leads to large decreases in an individual's lifetime earnings (Jacobson, LaLonde, & Sullivan, 1993; Von Wachter, 2009). Oreopoulos, Page, and Stevens (2008) show that parental job loss also has intergenerational impacts on earnings. One important pathway through which parental job loss may impact children's earnings is through investment in higher education. Though several studies have examined the relationship between parental layoff and college enrollment (Kalil & Wightman, 2011; Page, Stevens, & Lindo, 2009; Shea, 2000), previous research has relied on being able to sufficiently control for differences between laid-off workers and workers who experience no layoff. Past research has used plant closures and industry variation to help create comparable treatment and control groups; however, we view our empirical approach as a cleaner test of credit constraints since we can control for unobservable factors that might lead certain types of individuals to enter declining industries or firms.

Our identification strategy is similar to the idea behind the falsification test in Coelli (2011). Coelli (2011) uses Canadian longitudinal data, finds evidence of large negative effects of parental job loss on post-secondary enrollment of youth. To test the exogeneity of parental job loss, the author estimates a model that includes an indicator denoting job losses that occur when the youth is aged 18–19 (after the educational decision). We expand the idea further, taking advantage of the long panel of the PSID to carefully test the exogeneity of the timing of parental job loss. For example, our analysis considers whether cohort effects, birth order, parental age or other covariates act to systematically bias estimates based on the timing of layoff. Furthermore, we provide evidence against the notion that our results are driven by an anticipation of future parental layoff or manipulation of the timing of layoff.

In a working paper written in parallel with our own, Hilger (2013) uses a similar identification strategy to examine the impact of layoff on college enrollment. While Hilger (2013) finds that college enrollment declines as a result of layoff, the magnitude of his estimate is much smaller than that found in our paper. Given the similarities in methodology, the divergence between our results is likely due to either measurement or data differences. Our paper uses survey data and measures college enrollment based on the completion of a full year of higher education whereas Hilger (2013) uses administrative data and defines college enrollment based on tax filings from the university.

Given that the change in enrollment rates caused by parental layoff is not attributable to unobservable differences across families, there are several mechanisms through which the causal impact might operate. First, if families have limited access to credit, changes in family resources at the time of the college decision can reduce college enrollment. Second, if higher education is partly a consumption good, then wealth effects could lead to decreased higher education enrollment following the drop in wealth caused by a layoff. Third, parental layoff during

high school could directly impact high school performance, which in turn might lower a student's propensity to enroll in higher education. Finally, it is possible that layoff increases family stress and conflict and leads to an environment less supportive of higher educational investments. While we cannot differentiate between these explanations, our estimates are unchanged when controlling for factors such as geographic mobility, divorce, and parental self-reported health, suggesting that these are unlikely channels.

2. Higher education financing in the United States

The direct cost of higher education varies considerably across institutions, with public two-year colleges averaging \$3131 per year and private four-year institutions averaging \$29,056 per year (Payea, Baum, & Kurose, 2013). While these fees represent a substantial portion of median wealth, few students pay these costs up-front because there are many avenues through which students can access need- and merit-based grants.

Despite the fact that few students are required to pay the full sticker price of higher education, students may rule out going to college based on their perception that it is unaffordable. Based on this concern, the 2008 Higher Education Opportunity Act included a requirement that colleges make "net price calculators" available to prospective students by 2011. During the time frame of our study, these calculators were not available, but a well-informed student would have been able to calculate their own net price or reach out to prospective universities to obtain this information. That said, even since net price calculators became available, a majority of students still report that they have ruled out colleges based solely on the sticker price alone, without considering financial aid (studentPoll, 2012).

Though net prices are well below sticker prices, parents and students still borrow an average of \$4410 per year to pay for higher education (Payea et al., 2013). Students and parents share both this debt burden and the up-front cost of higher education, with students paying for approximately 30% of the total cost and parents paying for approximately 40% (Sallie Mae & Ipsos, 2012). While the majority of these loans come from federal programs such as the Stafford Loan Program, nearly 10% of the loan amount came from private or state loans.

Though the federal government provides fairly easy credit for financing the direct costs of education, there are several reasons why credit constraints may still exist. First, loan amounts are capped and loans cannot be used to support family member living expenses (Lochner & Monge-Naranjo, 2012). While private loans can be used to finance other expenses, these loans are credit rated, which presents a major obstacle for young adults with little to no credit. Second, the federal financial aid application process is complicated and work intensive, which may discourage families from filling out the necessary paperwork to qualify for a loan. Bettinger, Long, Oreopoulos, and Sanbonmatsu (2012) show that the barriers created by the complicated FAFSA are substantively important for college attendance since randomly

Download English Version:

<https://daneshyari.com/en/article/6840893>

Download Persian Version:

<https://daneshyari.com/article/6840893>

[Daneshyari.com](https://daneshyari.com)