

Is more always better? Early career returns to education in the United States and Norway

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Abstract

This paper compares early career returns to education in the United States and Norway. Longitudinal data is used to follow national cohorts of 10th graders who have made the transition from school to work within 10 years. OLS and quantile regression analyses show that whereas the relationship between educational attainment and income in the United States follows a linear pattern with higher returns to longer and more intellectually prestigious educations, this is not the case in Norway. In Norway, it pays off to choose vocational education in high school and college, especially for men. The results show that women and minorities benefit more from education than non-minority men in both countries. The findings from the quantile regressions indicate that this has partly to do with the fact that women and minorities are more disadvantaged at the lower end of the income distribution and at the lowest levels of educational attainment.

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1. Introduction

Norway and the United States have very different welfare state systems, and are located at opposite ends of the distribution of income inequality in the Western world (Pontusson, 2005). At the same time there are a number of similarities between the two countries in terms of inequality in educational attainment. Reisel (2011) shows that parental education predicts college graduation to a similar extent in the two countries, when both college access and completion is taken into account. Despite Norway's universal welfare state

system and tuition free higher education, the study even found a stronger relationship between having college educated parents and probability of graduating with a college degree in Norway than in the United States. What is more, parents' income matters much more than one might expect for college degree attainment in Norway when the full trajectory from 10th grade is taken into account – almost as much as in the United States (Ibid). The biggest differences between the two countries lie in when and how (self-) selection is taking place in the education system, and not so much in the ultimate outcomes in terms of inequality in educational attainment.

This pattern begs the question whether there are differences between these two countries in returns to education, given that the Norwegian social democratic welfare state and coordinated market economy should be producing a more egalitarian outcome than the

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liberal market economy of United States (cf. [Estevez-Abe, Iversen, & Soskice, 2001](#)). In other words, does inequality in educational attainment translate into income inequality to the same extent and in similar ways in the two countries?

Using nationally representative longitudinal data, this paper aims to compare the financial payoffs of different educational credentials in the years following a student's exit from the educational system in the two countries. I expect income returns to education to be smaller in Norway than in the United States, due to the overall differences in income distribution in the two countries. But beyond this general difference, this paper analyzes the relationship between degree attainment (or dropout) and earnings among men, women, and racial/ethnic minorities at different points in the earnings distribution, and investigates the extent to which inequality in educational attainment translates into inequality in earnings in the two countries.

The article proceeds as follows. First, I present the comparative context, describing some relevant features of the welfare states of the two countries in question. I then discuss existing literature on returns to education, with an emphasis on gender and ethnic/racial differences. In Section 4, I present three of the most central theories for understanding differences in returns to education, human capital theory, signaling theory and segmented labor market theory. Data and Methods are explained in Section 5, and Section 6 presents the findings. Section 7 provides a summary and discussion of the findings as well as some concluding remarks.

2. The comparative context

The United States and Norway are prototypes of two very different welfare state regimes. At one end of the political-economic spectrum, Norway is classified as a social-democratic, “decommodifying” regime (cf. [Esping Andersen, 1990](#)) where the government provides free education at all levels, including tertiary education, regulates the labor market, and maintains a strong redistributive tax system. At the opposite end of the spectrum, the United States is classified as a “residual” welfare state, where government aid is mostly aimed at the very poorest citizens as a last resort when all other societal mechanisms, such as the labor market and the family, fail to provide sufficiently for an individual's welfare. Over the course of the 20th century the United States has become one of the least economically egalitarian societies in the Western world, with an unequal distribution of income that far surpasses any other Western

country by measures such as the Gini coefficient ([Esping Andersen, 1990](#); [Pontusson, 2005](#)).

2.1. Comparing the education systems

Three specific features of these welfare state models have contributed to large differences in the structuring of the two education systems. First, the strong Norwegian tripartite system of collaboration between the government, labor unions and employer organizations laid the foundation for the development of a public vocational education system with close ties to trades and industries. Over 40% of Norwegian high school students enroll in vocational education tracks. In the United States, vocational training programs in high school are relatively uncommon and the linkages between schools and employers are weak ([Estevez-Abe et al., 2001](#); [Rosenbaum, 2001](#)). Second, the education system in the United States is highly decentralized, at all levels of education. This means that decisions about public funding, available programs, curriculum etc. are made at a local level, often at the district level ([Goldin & Katz, 2008](#); [Roksa, Grodsky, Arum, & Gamoran, 2007](#)). By contrast, regulation of the Norwegian education system is highly centralized, and decisions about program funding and curriculum are primarily made at the national level. This allows for more coordinated efforts to adjust the availability of training programs to the needs of the labor market.

Third, private institutions and market principles have played a significant role in the development of the U.S. school system. As a consequence, both public and private institutions of higher education charge students tuition and fees for attendance, shifting some of the financial burden of educational expansion to the students and their families. In Norway, tuition-free higher education has been part of the development of the modern welfare state, and expansion has been calculated and purposeful, with widespread access and affordability as one major principle. This means that higher education is more clearly a financial investment in the United States than in Norway.

A large part of the expansion of higher education in the United States since the 1970s has occurred at the more affordable community college level. Whereas four-year colleges award bachelor's degrees, community colleges and other two-year institutions mainly award a wide range of certificates and associate's degrees. These shorter associate's degree programs were initially meant as a stepping stone to regular four-year college entry, but over time two-year colleges have developed to accommodate a range of missions, most notably awarding

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