Less bucks for the books?

In this month's *Chicago Fed Letter*, Lisa Barrow and Cecilia Elena Rouse calculate that in 1979, an extra year of education was worth about a 9-percent increase in one's pay, on average, after controlling for things such as potential work experience, region of residence, sex, race, marital status, and other individual characteristics.

By 1993, this premium on an additional year of education had increased to 13.5 percent. Since then, the economic value of an additional year of education has been flat at best and stood at 12.7 percent in 2005. Given that the cost of education has gone up during the same period, some have asked if college is still worth the money. Barrow and Rouse cite earlier work of theirs that found that "even when the increased cost of college tuition is taken into account, a four-year college degree is worth at least $300,000 more than a high school diploma over an average working lifetime in net present value terms."

The really interesting question is why has the incremental value of education stagnated over the past decade or so? Barrow and Rouse doubt it is a decline in demand for more highly educated labor. There has actually been a large increase in the wages of college-educated workers during the 1990s and early 2000s, and, at the same time, there has been a significant increase in the supply of such workers. This, the authors note, "is consistent with increasing—not decreasing—demand."

Another possible explanation is a change in compensation practices. If more highly educated workers are getting larger packages of non-wage compensation, then their total compensation package may be increasing at a greater rate than the wage and salary portion alone. It could thus be that the *total* compensation premium to an extra year at school is still advancing. The authors conclude, "For now, at least, the value of education in terms of earnings remains near its peak, providing much incentive for young people to pursue a college education."

Reducing poverty in the Appalachian region

Appalachia was President Lyndon B. Johnson's choice of location when he declared the "War on Poverty." The president spoke in April, 1964 in Inez, Kentucky, basically the middle of Appalachia—a region surrounding the Appalachian Mountains, stretching from southern New York to northern Mississippi. Appalachia has been burdened by poverty for generations. Four decades later, poverty is still common, though less so.

In "Human Capital and the Challenge of Persistent Poverty in Appalachia" (Economic Commentary, Federal Reserve Bank of Cleveland, February 1, 2007), James P. Ziliak says that education is the way to reduce Appalachia's persistent poverty. He considers, in particular, the parts of Appalachia that lie in the Federal Reserve's Fourth District (which is where the Federal Reserve Bank of Cleveland is located).

From the 1970s to the 2000s, the worst poverty rates in Appalachia in the Fourth District were in the Appalachian portion of Kentucky. The second worst rates were in West Virginia. Both had poverty rates that were consistently higher than the rates for the Appalachian region or the United States as a whole. The Appalachian portions of Ohio and Pennsylvania, which are also in the Fourth District, had poverty rates much closer to, and sometimes below, the national rate.

A look at educational attainment in Appalachia over the same 1970–2000 period shows the same pattern in reverse. The areas with the highest rates of high school completion are Appalachian Ohio and Appalachian Pennsylvania. In these areas, the percentages of the population with high school degrees are near or above the U.S. rate. In contrast, Appalachian Kentucky and West Virginia have lower rates of school completion. Is the way out of persistent poverty through the schoolhouse door? Furthermore, is the lack of education causing poverty, or is it vice-versa? Perhaps those trapped in poverty cannot afford the financial and opportunity costs of education.

Ziliak cites findings showing that more education leads to employment and higher earnings. Each additional year of schooling means roughly an additional 10 percent in earnings. While academics are important and essential, it is also the "noncognitive skills" that come with diplomas and degrees that improve human capital. Being punctual, getting work done on time, taking responsibility, and showing initiative make graduates attractive to employers. As the American workplace makes use of more capital goods in the form of high-tech equipment and machines, the need for more highly trained human capital increases—that means workers with diplomas or degrees. □

We are interested in your feedback on this column. Please let us know what you have found most interesting and what essential readings we may have missed. Write to: Executive Editor, Monthly Labor Review, U.S. Bureau of Labor Statistics, Washington, DC, 20212, or e-mail, mlr@bls.gov