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Does It Pay to Enter College During Economic Downturns?[2]

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Summary

- We analyze the long-term career impacts of the economic situation students face before enrolling in college. We use extensive data from the United States that includes information on future earnings of nearly 40 cohorts of college graduates who began their studies in different phases of the economic cycle. **College graduates who enroll during periods of higher unemployment** tend to earn **higher hourly wages and annual earnings** later in their careers. Women also achieve higher earnings through more intensive labor market participation. Adverse economic conditions before entering college also increase their future employment rates. These positive effects are long-lasting: we observe them both among recent graduates and later in their careers.

- We test **several possible economic justifications that could explain** the observed **earnings premium**, but **none** of them is **supported by the data**. Specifically:
  - **During recessions, only a select group of above-average students apply to, enroll in, and graduate from college**. However, previous research shows that more students enroll in college during recessions, so it is not a select group of high performers. Our data confirms that cohorts of graduates entering college during recessions are larger.
  - **Among graduates who start college during recessions, only a more select group may be employed later on.** Thus, the future earnings of only those high performers who managed to find employment would be observed. However, our findings

[2] The study is based on the academic article "Make Your Own Luck: The Wage Gains from Starting College in a Bad Economy" by Alena Bičáková, Guido Matias Cortes, and Jacopo Mazza, published in the peer-reviewed scientific journal Labour Economics. We would like to thank Daniel Münich for his useful comments and insights on the working versions of this popularizing text. This study represents the authors' own views. Any inaccuracies and errors are the responsibility of the authors and do not represent the official position of the Economics Institute of the Czech Academy of Sciences or the Center for Economic Research and Graduate Education at Charles University (CERGE). This work was created as part of the NPO project "National Institute for Research on the Socioeconomic Impacts of Diseases and Systemic Risks," No. LX22NPO5101, funded by the European Union — Next Generation EU (MŠMT, NPO: EXCELES).

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show that cohorts enrolling during recessions have the same, or in the case of women, even higher employment rates than cohorts who entered college during economic booms.

- **Graduates who start college during recessions choose more lucrative fields of study than those who start during economic booms**. Only about 10% of the observed earnings premium, however, can be attributed to differences in fields of study.
- **Graduates who start college during recessions more often complete their studies during economic booms. They enter the labor market under better conditions and thus earn higher wages**. This explanation does not hold, either. We observe the earnings premium even among cohorts of graduates who complete their studies under the same economic conditions.

- **The only factor that explains** about **one-third of the observed earnings difference** based on the economic cycle phase before entering college is **the region in which graduates work** after completing their studies. Those who begin college during periods of high unemployment are more likely to be employed in regions with higher average earnings.
- The remaining approximately **two-thirds of the observed earnings premium cannot be empirically explained using the available data**. However, the observed effect of adverse economic conditions is consistent with previous research showing that recessions significantly influence human preferences, behavior, and major life decisions, and that early adulthood is one of the most sensitive periods in this regard. **Our interpretation** of the findings is based on these insights; we attribute the earnings premium to changes in preferences, life goals, and behaviors that affect future earnings.
- Negative personal experiences and concerns caused by a recession can have serious adverse effects on young people. However, they can also drive changes in life attitudes and trigger **increased effort, greater diligence, and stronger determination**. This can manifest in higher financial and/or time investments in education, choices of more lucrative fields of study, and/or better academic performance. Experiencing negative economic conditions when young can also later result in greater effort expended in job searches and higher productivity at work. All of this tends to be rewarded with higher earnings, and could explain the earnings premium that we observe among graduates who start college during recessions.
- This positive effect of recessions on increased effort by young people is supported by numerous psychological and economic studies. Our findings regarding the factors that can explain the observed earnings premium also confirm this hypothesis at least partially: graduates who start college during periods of high unemployment tend to **choose fields of study with greater financial returns, more often relocate to regions with higher earnings**, and—in the case of women—**show greater labor market participation**.
- Our analysis is based on U.S. data covering more than 1.9 million women and 1.6 million men with at least a bachelor's degree who began their studies between 1976–2014. **A similar study would be desirable in the Czech Republic**. We expect that the mechanisms observed in the U.S. would have similar effects here. However, due to institutional differences between the countries and their education systems, it is not possible to predict which mechanisms would be dominant. Therefore, **the impact of a recession when enrolling in college on future career outcomes of college graduates in the Czech Republic remains an open empirical question**.