

Transitory Opportunities and Educational Scarring of Young Men

Abstract

I study how a temporary increase in the opportunity cost of schooling affects educational attainment and subsequent labor market outcomes. Exploiting a salient tax reform that led to labor earnings not being taxed for a year and comparing individuals above and below compulsory schooling age, I document reduced enrollment and increased dropout from upper-secondary school. While some students eventually return to school there is a permanent loss in educational attainment of about one month, driven by young men dropping out of academic tracks. In line with students dropping out of school to work, I estimate a positive effect on employment and earnings in the short run. However, these male dropouts loose out in the long run. By age 40, their cumulative earnings are 5.5% lower than otherwise. These results are consistent with economic booms having a 'scarring effect' on schooling, where students that drop out when opportunity costs rise are students that would otherwise have benefitted from staying longer in school.

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