

Jepsen, Christopher; Troske, Kenneth; Coomes, Paul

Working Paper

The labor-market returns to community college degrees, diplomas, and certificates

UCD Centre for Economic Research Working Paper Series, No. WP12/23

Provided in Cooperation with:

UCD School of Economics, University College Dublin (UCD)

Suggested Citation: Jepsen, Christopher; Troske, Kenneth; Coomes, Paul (2012) : The labor-market returns to community college degrees, diplomas, and certificates, UCD Centre for Economic Research Working Paper Series, No. WP12/23, University College Dublin, UCD School of Economics, Dublin

This Version is available at:

<https://hdl.handle.net/10419/72233>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

UCD CENTRE FOR ECONOMIC RESEARCH

WORKING PAPER SERIES

2012

**The Labor-Market Returns to
Community College Degrees,
Diplomas, and Certificates**

Christopher Jepsen, University College Dublin,
Kenneth Troske, University of Kentucky and
Paul Coomes, University of Louisville

WP12/23

September 2012

**UCD SCHOOL OF ECONOMICS
UNIVERSITY COLLEGE DUBLIN
BELFIELD DUBLIN 4**

The Labor-Market Returns to Community College Degrees, Diplomas, and Certificates

by

Christopher Jepsen*
University College Dublin
School of Economics
Belfield
Dublin 4
Ireland

Kenneth Troske
University of Kentucky
Department of Economics
335BA Gatton B&E Bldg
Lexington, KY 40506-0034

Paul Coomes
University of Louisville
College of Business
Department of Economics
Louisville, KY 40292

Abstract

This paper provides among the first rigorous estimates of the labor-market returns to community college certificates and diplomas, as well as estimating the returns to the more commonly-studied associate's degrees. Using administrative data from Kentucky, we estimate panel-data models that control for differences among students in pre-college earnings and educational aspirations. Associate's degrees and diplomas have quarterly earnings returns of nearly \$2,400 for women and \$1,500 for men, compared with much smaller returns for certificates. There is substantial heterogeneity in returns across fields of study. Degrees, diplomas, and – for women – certificates correspond with higher levels of employment.

* Corresponding author. We thank Ginny Kidwell and Darshak Patel for excellent research assistance, as well as Christina Whitfield, Alicia Crouch, Rion McDonald, and Aphy Brough at the Kentucky Community and Technical College System (KCTCS) for providing access to and help with their administrative data. We thank the editor, two anonymous referees, Thomas Bailey, Marianne Bitler, Glenn Blomquist, Christopher Bollinger, Randall Reback, and seminar participants at the Society of Labor Economists conference, the Southern Economic Association conference, Teachers College – Columbia University, University College Dublin, the University of Kentucky, and the University of Michigan for useful comments. This project was supported with a grant from the UK Center for Poverty Research through the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, grant number 3 U01 PE000002-06S1. This project was also funded in part by KCTCS. The opinions and conclusions expressed herein are solely those of the authors and should not be construed as representing the opinions or policy of the UKCPR or any agency of the local, state, or Federal government.

1. Introduction

In July 2009, President Obama announced a \$12 billion initiative to increase assistance to the nation's community colleges (Kellogg and Tomsho, 2009).¹ The announcement, delivered at Macomb Community College in Michigan, illustrates the administration's view that community colleges are an essential component of the nation's economy. Nationally, over 45 percent of undergraduate students in higher education were enrolled in public community colleges during the 2006-2007 school year (Knapp et al., 2008). During that year, community college enrollment was more than 2.4 million full-time students and 3.8 million part-time students.

Community colleges are diverse institutions that offer several opportunities for individuals to gain human capital. Community colleges offer a variety of each of the three types of awards: degrees, diplomas, and certificates. Certificates are primarily awarded in technical programs and typically require one or two semesters of course work. Examples include medical records coding specialist, IT network administrator, automotive mechanic, and electrician. Diplomas typically require more than a year of study and are also most common in technical fields such as surgery technology, accounting, and practical nursing. Associate's degrees require the most number of credits, 60 to 76 depending on the field of study. The curriculum for associate's degree programs have much in common with that of the first two years of a four-year college, with liberal arts and general education courses as well as those geared to specific vocations, such as registered nursing. Associate's degree credits generally are transferrable to a four-year college towards a bachelor's degree.

Recent economic research on the labor-market returns for community colleges has focused almost exclusively on the returns to associate's degrees or the returns to additional

¹ In comparison, existing federal government assistance to community colleges is around \$2 billion.

years of schooling or credits. Although community colleges emphasize the benefits of diplomas and certificates, these benefits are based on anecdotal evidence rather than rigorous empirical analysis. A few studies look at the effects of certificates on labor-market outcomes, but these results are often inconclusive and are based on small samples of certificate recipients drawn from national longitudinal surveys. Given the growing importance of these awards as well as the growing importance of community colleges in general, it is important to document the economic returns associated with this form of human capital investment.

This paper provides among the first detailed empirical evidence of the labor-market returns to community college diplomas and certificates, as well as providing additional information on the returns to associate's degrees and credits earned. One unique aspect of our analysis is that to estimate these returns we exploit detailed administrative data from Kentucky, following 20 to 60 year-old students who entered the state's community college system during the 2002-2003 and 2003-2004 school years with the intent of receiving an award. Our student fixed effects model uses across-student and within-student variation to identify the labor-market returns. The student-level, panel data contain information on student goals and number of classes taken in the first term. These student intentions are used to provide comprehensive controls for potential differences in labor-market outcomes between students who complete different levels of community-college schooling. Such controls have not been included in previous studies of community college returns and therefore provide a valuable contribution to the returns-to-schooling literature.

Consistent with previous work, we find that labor-market returns to schooling are larger for women than for men. On average, women receive approximately \$2,400 higher

quarterly earnings for degrees or diplomas, compared to a \$1,500 increase in earnings for men. The returns to associate's degrees for men are similar to previous studies but the returns to associate's degrees for women are somewhat larger than previous work. For women, the \$2,400 increase in quarterly earnings translates into a 56-percent increase in the low average earnings of women in our sample. The returns to certificates are around \$300 per quarter for men and women. Consistent with previous research, we also find positive returns for credits earned. Finally, associate's degrees and diplomas are associated with larger gains in employment than certificates.

Our results strongly support the claims made by community colleges that associate's degrees and diplomas have large labor-market returns. Even though the returns to certificates are much more modest, the benefits to certificates likely still outweigh the costs. The large overall returns mask substantial heterogeneity in returns. For example, health and vocational awards have much higher returns than business or services awards. Overall, human capital investments in community colleges lead to large gains in earnings and employment, particularly for women.

2. Relation to Previous Work

Many researchers have studied the relationship between schooling and earnings. Census data show that workers with higher education levels have higher earnings. Card (1999) summarizes the vast literature on the labor-market returns to schooling, with discussions of several of the econometric techniques used to control for potential endogeneity. Belfield and Bailey (2011) summarize the literature on returns to community colleges. Straightforward, single-equation estimates of the labor-market returns to schooling find that an additional year of schooling raises yearly earnings between five and

ten percent. More complex analyses that use instrumental variables or within-family estimators (such as identical twins) tend to find returns at or above ten percent per year.

The overall rate of return generally assumes that an additional year of schooling has a similar effect on earnings whether that additional year is the 10th year of schooling or the 15th year of schooling. Other researchers have looked specifically at the types of schooling received, focusing in particular on high school graduation and college degrees. Kane and Rouse (1995) find that an additional year of community college corresponds with an increase of four to seven percent in annual earnings, whereas an additional year at a four-year institution produces a six to nine percent increase in annual earnings. They also find that receiving a college degree raises earnings even when compared to having completed an equivalent amount of schooling (such as four years) without completing a degree. Marcotte et al. (2005) obtain similar results for community colleges from a more recent cohort of students. Both studies use national data.

Jacobson, LaLonde, and Sullivan (2005a, 2005b) look at the labor-market returns to community colleges for a specific population, workers who have been “displaced” because their employers have closed down or moved out of the state of Washington. Although these papers have the advantage of looking at an exogenous shock to earnings, their results are not necessarily representative of the labor-market returns for all community college students. They find that an additional year of community college increases long-term earnings by approximately nine percent for men and 13 percent for women, with slightly lower returns for older workers (age 35 or older). They also show that workers derived more benefits from technical courses and math/science courses and

fewer benefits from less technical courses. Most of the increase in annual earnings came from additional hours of work rather than from higher hourly wages.

Another technique for studying labor-market returns is to look at the highest degree received rather than the number of years of schooling. Kane and Rouse (1995) report that associate's degrees are associated with earnings increases of 24 percent for men and 31 percent for women. Leigh and Gill (1997) find similar returns, and they find that the returns are similar between continuing students and returning students. For comparison, the returns for a bachelor's degree are 42 percent for men and 51 percent for women (Kane and Rouse, 1995). The comparison group in all cases is a high school graduate.

Cellini and Chaudhary (2011) compare labor-market returns between private (predominantly for-profit) and public community colleges using a student fixed effects model as in our paper and in Jacobson, LaLonde, and Sullivan (2005a, 2005b).² The authors find small and statistically insignificant differences between the labor-market returns from private and public community colleges, with earnings returns of approximately 15 to 17 percent for an associate's degree.

Although most of the work on community colleges focuses on the number of credits earned and on the receipt of associate's degrees, a few papers examine labor-market returns for certificates from public and private community colleges. Marcotte et al. (2005) and Bailey et al. (2004) fail to find a consistent effect of certificates on various labor-market outcomes in their studies using longitudinal surveys from the U.S. Department of Education. In a summary of the literature, Grubb (2002a) also finds insignificant effects of

² Lang and Weinstein (2012) also study labor-market returns of for-profit versus not-for-profit (including public) colleges using cross-sectional earnings data. They split the sample between people initially enrolling in certificate programs versus those initially enrolling in associate's degree programs. They find substantial positive effects in excess of 0.11 log points for individuals starting in associate's degree programs, but the effects are small and statistically insignificant for individuals starting in certificate programs.

certificates on wages and earnings in several earlier studies. In contrast, Grubb (1997) finds a positive association between community college certificates and earnings in the 1984 to 1990 waves of SIPP data. Jacobson and Mokher (2008) find positive effects of certificates on earnings using administrative data on recent high school attendees in Florida.³ Similarly, there is some descriptive evidence from administrative data that certificates are associated with higher earnings (Grubb, 2002b). There are several explanations for the discrepancy in results such as the time period, the length of time between education and labor-market outcomes, and the limited availability of controls for factors such as ability and parental education.

The current paper contributes to the returns to schooling literature in two ways. First, it provides one of the first estimates of labor-market returns for community college outcomes other than associate's degrees received or credits earned. Community colleges offer a large number of certificates and diplomas, in areas such as radiologic technologist or industrial electrician. Community colleges market these programs as providing valuable, marketable skills, but the labor-market returns of these programs are not well known. Second, we study the labor-market returns for credits and associate's degrees using a large administrative data set on the population of students in one state (Kentucky). Most previous work uses Census data or survey data. The Census data are large but are a cross section with no pre-college information. Survey data typically have small populations of community college students, and they often lack data on pre-college earnings. The administrative data allow us to control for pre-college earnings as well as for differences among students in educational goals and course enrollment in the first

³ They also find positive effects for associate's degrees, but these results become insignificant once they control for the field of study. However, it is unclear how they account for students who receive associate's degrees and then transfer to four-year institutions.

college term. Although Jacobson, LaLonde, and Sullivan (2005a, 2005b) also use administrative data for the state of Washington, they study the returns to credits earned rather than the returns to awards because so few displaced workers receive awards.

3. Data

The administrative data we use come from the Kentucky Community and Technical College System (KCTCS). The student demographic file contains student-level information on demographics such as age, race, and gender. The course-level data contain descriptive information on the type of course as well as the grade and the number of credits received. Data are available for each course taken by each student.

The outcome data identify each degree, certificate, and diploma awarded. Certificates are specialized programs where students can demonstrate a specific set of skills to potential employers. Schools offer certificates in several program areas. Diplomas tend to target broader areas than certificates and usually require more credits (often more than one year of full-time study). For example, KCTCS offers a diploma titled medical office assistant, which requires 44 to 47 credits; a medical administrative certificate from KCTCS requires 33 to 35 credits.

More generally, associate's degree usually require between 60 and 78 credits. Diplomas require between 36 and 68 credits, although most require at least 50 credits. Certificates typically require between 12 and 36 credits. A course load of approximately 30 credits is considered a full-time course load for one year.

The outcome data also contain transfer information from the National Student Clearinghouse. The transfer data identify the date and name of transfers to all participating four-year institutions from 2002 to 2006. The National Student Clearinghouse contains

nearly 90 percent of all students, including all four-year schools in Kentucky and most schools in neighboring states.⁴

KCTCS receives quarterly earnings data from the state's unemployment insurance program. Total wages are reported for each person and job. Data are from the first quarter of 2000 through the third quarter of 2008.

Our focus is on two cohorts of students: those who started at KCTCS from summer 2002 to spring 2003 (i.e. the 2002-2003 school year) and those who started at KCTCS from summer 2003 to spring 2004 (i.e. the 2003-2004 school year).⁵ Information on previous educational attainment at other educational institutions is not available. Furthermore, we have no information on KCTCS attendance prior to 2000.

For evaluating the labor-market returns to KCTCS, we exclude students who attend KCTCS while in correctional institutions, are less than 17 years old or more than 60 years old at the start of their first term, who transfer to a four-year school, or who do not seek an award. These students are excluded in order to study the labor-market returns of individuals most likely to be in the labor market immediately after their KCTCS attendance, as well as to create a comparison group that is most similar to the set of students who receive awards. In our preferred model, we further restrict the sample to individuals ages 20 to 60 at entry because the pre-KCTCS earnings of teenagers are unlikely to represent their earnings potential without KCTCS attendance. An additional reason for dropping the transfer students is that we do not observe their educational attainment at the subsequent institution, so the relationship between educational attainment

⁴ This information comes from the National Student Clearinghouse webpage (www.studentclearinghouse.org).

⁵ We identify initial enrollment using the course enrollment data. In other words, each student's initial enrollment is the first term in which he or she is enrolled in a KCTCS course.

and labor-market outcomes is impossible to measure for these students. We discuss the implications of excluding transfer students in section 5.5.

Table 1 contains the descriptive statistics for the preferred KCTCS sample. The average quarterly earnings over the entire period (2000 to 2008) is \$6,142 for men and \$4,245 for women (in 2008 dollars), illustrating a large gender disparity in earnings. The employment rate is 65 percent for men and 64 percent for women. The average age at entry is around 30 years, and less than 15 percent of the sample is nonwhite. Nearly 16 percent of women receive associate's degrees as their highest award, compared to only 11 percent for men. The percentage of women receiving diplomas (5.6 percent) is slightly higher than the percentage for men (5.1 percent), but men have a slightly higher percentage receiving certificates: 8.1 percent for men and 7.7 percent for women. Health is the most popular field of study for women, compared with academics and vocational for men.

The UI wage record data include the vast majority of jobs in Kentucky. The UI wage record data cover all employment except self-employment, a small subset of federal workers, informal / illegal work, and a small number of other uncovered jobs.⁶ In addition, the UI wage records will not capture the earnings and employment of people who work in other states, either because they commute across state lines or because they move to another state. However, Kentucky has relatively low levels of both of these patterns. According to the 2000 Census, Kentucky has one of the lowest rates of outmigration to other states (Franklin, 2003), and 6.6 percent of Kentucky residents work outside Kentucky.⁷ Census estimates show that the raw increase in earnings between high school

⁶ Kornfeld and Bloom (1997) show that the UI wage record data are a valid source of earnings data for low-income individuals except male youth with prior arrests (who are likely to be excluded from our preferred sample of 20-60 year olds).

⁷ The 6.6 percent calculation is the authors' calculation from 2000 Census worker flow data.

graduates and individuals with associate's degrees is similar between Kentucky and the national average.⁸ The time period of the earnings data is from 2000 to 2008, so most of the post-schooling observations are prior to the most recent recession.

4. Method

4.1 Traditional Human Capital Method

The KCTCS database provides detailed information on the cohort of students who entered KCTCS during the 2002-2003 and 2003-2004 school years. Our analysis begins with a traditional Mincer-type schooling equation because this type of model is commonly estimated in the returns to schooling literature. Therefore, the returns from this model can be easily compared to previous estimates of the returns to community college. Equation (1) contains the model:

$$(1) \quad EARN_i = \beta \cdot AWARD_i + \delta \cdot DEMOG_i + \varepsilon_i.$$

In this cross-sectional model, the dependent variable is earnings from the most recent one-year period, the fourth quarter of 2007 through the third quarter of 2008. *AWARD* is a set of three dichotomous variables for highest award (associate's degree, diploma, or certificate). An associate's degree is considered the highest award offered; a diploma is considered the second highest award offered; and a certificate is considered the third highest award offered. *DEMOG* is a set of person-specific demographics such as age and race/ethnicity. Throughout the analysis, we estimate separate equations for men and women.

4.2 Preferred Student Fixed Effect Method

⁸ Based on calculations of difference in mean earnings between high school graduates and associate's degree recipients using American Community Survey data from the U.S. Census Bureau.

Because the KCTCS database is a detailed panel data set with pre- and post-KCTCS earnings data, we use these data to estimate the change in earnings associated with KCTCS attendance. Specifically, we compare the post-KCTCS earnings with the pre-KCTCS earnings for two groups, those who receive awards and those who do not. The major difference between the two groups is KCTCS awards. In terms of program evaluation, our estimation technique resembles a treatment-on-the-treated model. This approach of using “dropouts” as a comparison group has been common in the job-training literature for decades (see e.g. Cooley, McGuire, and Prescott (1979)). Because we are using administrative data from KCTCS, we do not have any information for individuals who did not attend KCTCS.

Another way to think of this model is as a difference-in-differences model. As mentioned above the observations in our data set differ along two dimensions: the timing and the difference in award receipt. In other words, we compare earnings over time and between individuals over time with awards to individuals without awards. Equation (2) contains a simple difference-in-differences equation with no other controls:

$$(2) \quad EARN_{it} = \beta \cdot AWARD_{it} + \eta_i + \tau_t + \varepsilon_{it}.$$

Equation (3) contains the more extensive multivariate regression to measure the effect of KCTCS attendance on earnings.

$$(3) \quad EARN_{it} = \beta \cdot AWARD_{it} + \lambda \cdot ENROLL_{it} + \delta \cdot DEMOG_{it} + \gamma \cdot INTENT_{it} + \eta_i + \tau_t + \varepsilon_{it}.$$

In both equations, i denotes a person and t denotes a quarter.

$EARN$ is the earnings for the quarter. Quarters with no reported UI earnings are assigned values of zero earnings. The spring semester is assigned a start date of the first quarter and an end date of the second quarter; the summer term is assigned a start date of

the second quarter and an end date of the third quarter; and the fall semester is assigned a start date of the third quarter and an end date of the fourth quarter.

As in previous equations, the vector *AWARD* contains three dichotomous variables (equal to zero or one): one for having an associate's degree as the highest award, one for having a diploma as the highest award, and one for having a certificate as the highest award at the beginning of the quarter. For each KCTCS outcome (degree, diploma, or certificate), the estimated change in earnings should be interpreted as the change relative to the same person's earnings before she completed the award.

ENROLL contains four dichotomous enrollment variables. The first is equal to one when the individual is attending KCTCS and zero otherwise. This variable accounts for the opportunity cost (in terms of earnings) for students while they attend KCTCS. The second variable is equal to one after the individual has finished attending KCTCS. This variable accounts for any general post-schooling changes in earnings. The third variable is equal to one for the time period two quarters before KCTCS attendance, and the fourth variable is equal to one for the time period one quarter before KCTCS attendance. These two variables control for possible pre-KCTCS dips in earnings shortly before KCTCS attendance. Figure 2 in the next section shows earnings patterns relative to KCTCS enrollment. The figure illustrates that an "Ashenfelter dip" seems to occur for award recipients in the two quarters before KCTCS enrollment.⁹

DEMOG is a set of demographic variables that change over time. Specifically, the variables are age, nonwhite, and missing race/ethnicity and an indicator that the student

⁹ We do not include additional controls beyond two quarters because the data show little evidence of earnings declines beyond that period.

was in the 2002-2003 cohort, all interacted with time trends. We also include the county unemployment rate.

INTENT is a set of variables measuring students' intentions. All these variables are measured in the first semester. The variables are interacted with time because their non-interacted effects are subsumed by the student fixed effects. Students intentions are measured by the number of courses taken in the first KCTCS term and a set of dichotomous variables for each student's area of study (undecided award is the omitted category). For example, it is possible that an individual pursuing a nursing award may have a different earnings trajectory than an individual pursuing a vocational award. Similarly, given the difference in age-earning profiles, a 22 year old may have a different earnings trajectory than a 50 year old. These time-dependent differences will not be captured by the student fixed effects. By allowing different time trends based on the number of classes taken in the first term and students' initial aspirations (whether or not to pursue an award, and what field of study in which to pursue an award), we are able to compare labor-market outcomes for students with very similar earnings trajectories and intentions upon entry at KCTCS.

Unlike most studies of labor-market returns to education, we include a set of person fixed effects (η). The person fixed effects, used by Jacobson, LaLonde, and Sullivan (2005a, 2005b) and Cellini and Chaudhary (2011), capture person-specific components that are constant over time, such as race/ethnicity or innate ability.¹⁰ In fact, the fixed effects can be thought of as the overall effect of all these time-invariant person characteristics. The inclusion of the fixed effects has the advantage of controlling for time-

¹⁰ Jacobson, LaLonde, and Sullivan (2005a, 2005b) also include controls for short-run earnings deviations as well as its interaction with the number of credits obtained (their measure of community college schooling). The results presented in the next section are not sensitive to the inclusion of these additional variables.

invariant measures of ability and other factors that affect earnings and are correlated with community college schooling. The fixed effects model uses variation between individuals as well as variation over time within individuals to estimate the value of the parameters. Although each source of variation has weaknesses, together they provide a compelling technique for estimating the causal effect of education on earnings.

One limitation of the fixed effects approach is the assumption that the pre- and post-KCTCS earnings patterns are similar between students who received an award and students who did not receive an award. If a student receives a positive or negative shock that affects award receipt and earnings patterns, the fixed effects model will not produce valid estimates. However, this criticism is true of any of the previous studies of community college returns as well. Furthermore, we believe that, on average, the number of such shocks is likely to be small.

The model contains controls for each quarter (τ). The last component (ε) is the unobservable component of earnings. There are 35 quarters, from the first quarter of 2000 through the third quarter of 2008. Separate equations are estimated for men and women.

Jacobson, LaLonde, and Sullivan (2005a, 2005b) measure human capital accumulation in community college as the number of credits completed because few individuals in their sample of displaced workers complete an award. For comparison, we estimate an additional model that includes credits earned as well as the highest award received.

Because we measure earnings in levels and include observations with zero earnings, the coefficients represent the combined effect of employment (going from zero earnings to positive) and changes in earnings conditional on employment (a change in

earnings from one non-zero amount to another). We also consider alternative models that look directly at earnings conditional on employment as well as participation in the labor market. In the former model, the dependent variable is log earnings, where observations with zero earnings are treated as missing observations.¹¹ In the latter model, the dependent variable is a dichotomous variable equal to one for quarters with positive earnings. The dependent variable is zero for quarters with zero earnings or missing earnings. Earnings that are not reported to the Kentucky UI system, such as self-employment earnings and out-of-state earnings, are interpreted as not participating in the Kentucky labor market. Although the dependent variable is dichotomous, we estimate a linear probability model because it is less sensitive to distributional assumptions and it is easier to interpret (Wooldridge, 2001).

5. Results

5.1 Comparison with Other Data Sets

As mentioned previously, most previous analyses of returns to community college compare community college students to individuals outside the community college system, whereas KCTCS data only contain individuals who attended KCTCS. Therefore, we compare our sample of KCTCS students with other earners in Kentucky drawn from other data sources such as the U.S. Census.

First, we compare average quarterly earnings of individuals in the KCTCS sample with the statewide average quarterly earnings for all other Kentucky workers using aggregate UI earnings data (individual-level data are not available). Figure 1 contains average quarterly earnings from the first quarter of 2002 through the first quarter of 2008.

¹¹ We do not report the results from these log earnings models, but they are available from the authors upon request.

All dollars are measured in 2008 dollars, deflated by the CPI-U. The figure combines men and women because the UI data are not available by gender (or any other category, such as age). We report average quarterly earnings for three groups: KCTCS award recipients (labeled “KCTCS award”), KCTCS attendees who do not receive an award (labeled “KCTCS non-award”), and all other Kentucky workers (labeled “UI (Non KCTCS)”).

Average earnings are higher for the non-KCTCS sample than for either KCTCS sample. The higher wages for non-KCTCS UI workers is to be expected because the average age in the KCTCS sample is lower than the average age of all Kentucky workers.¹² Average wages show little growth for the non-KCTCS sample. Average wages for the non-KCTCS sample drop in the summer likely due to summer-only workers such as high-school and college students. In contrast, we see that average wages grew substantially for both KCTCS samples. For example, the average for award students grew from around \$5,000 per quarter in 2002 to close to \$7,000 in the last quarter of 2007.

Next, we compare our KCTCS sample to 2000 Census data for Kentucky. In the Census data, we limit our sample to people ages 25 to 66 with an associate’s degree, one year or more of college without a degree or less than one year of college without a degree.¹³ We also weight the Census data by race/ethnicity and age so that it is balanced with respect to KCTCS data on these two dimensions. Table 2 contains descriptive statistics for our preferred KCTCS sample and our sample drawn from Census data. The most notable difference in the data is that average earnings are lower in the KCTCS sample.

¹² The UI data do not contain age and experience. However, in unreported results, we find that KCTCS students are younger with presumably less labor-market experience than comparable individuals from the 2000 Census.

¹³ These ages match the ages of the KCTCS preferred sample in the first quarter of 2008.

Using the same data as in Table 2, Table 3 contains regression results for returns to schooling for the KCTCS and Census data from equation (1).¹⁴ For men, the return to an associate's degree relative to less than a year of college is \$7,735 for the KCTCS data and \$5,513 for the Census data. For women, the return is \$10,125 for the KCTCS data and \$6,624 for the Census data. The returns for one or more years of college without a degree are much smaller, especially in the Census data. In the KCTCS data, the returns are around \$1,900 for men and \$1,800 for women.

5.2 Cross-sectional Analysis

Our analysis begins with estimated earnings regressions as in equation (1). We also include pre-KCTCS earnings information, as well as student intentions, in a cross-sectional model. This model allows us to control for individuals' intentions and their pre-KCTCS labor-market experiences. Table 4 contains the results from these earnings regressions, where the dependent variable is the average quarterly earnings for the fourth year after enrolling in KCTCS (quarters 13 to 16). Presenting the results in terms of quarterly earnings facilitates the comparison of these results with the results from the fixed effects model presented in the following tables.

Associate's degrees are associated with higher quarterly earnings of \$1,349 for men and \$2,290 for women. These returns are roughly 22 percent of men's average quarterly earnings and 54 percent for women. The return to a diploma for men is \$1,017, or 17 percent of average earnings, and the return for women is \$1,990, or 47 percent of average earnings. For men, the returns for certificates are one third as large as the returns for associate's degrees: \$496 or 8 percent. For women, the returns to certificates are only

¹⁴ All results in the table are weighted as described above. Results using Census weights, as well as results using unweighted Census data produce similar results and are available from the authors upon request.

\$221 or 5 percent. In this cross-sectional model that compares KCTCS award recipients with other KCTCS attendees based on intentions and pre-KCTCS earnings, we find sizable returns for associate's degrees and diplomas and much smaller returns for certificates.

5.3 Earnings Patterns

We begin our analysis of the longitudinal (or panel) aspect of the KCTCS data by looking at earnings patterns over time by highest award. Figure 2 shows the average quarterly earnings for men (top panel) and women (bottom panel), where each quarter is measured relative to initial attendance at KCTCS. The quarter when the student first attended KCTCS is measured as 0 on the horizontal axis of the graph. The first quarter before the student attended KCTCS is measured as -1, and the first quarter after the student attended KCTCS is measured as 1. For example, consider a student who first attended KCTCS in fall 2002. For this student, quarter 0 is July-September 2002; quarter -1 is June-August 2002; and quarter 1 is October-December 2002. We measure time relative to entrance at KCTCS, rather than calendar quarter, for two reasons. First, students enter KCTCS at different time periods between summer 2002 and spring 2004. Quarterly earnings at a particular calendar quarter, such as the first quarter of 2006, will measure students with different levels of KCTCS schooling. Second, this arrangement of quarters allows us to illustrate clearly pre-KCTCS differences in earnings. This technique is common in evaluations of job-training programs, where researchers are concerned about the similarity of recipients and non-recipients prior to participation in job-training programs. We are able to conduct analogous comparisons for participation in KCTCS.

The top panel of Figure 2 has several interesting patterns. Men who attend KCTCS without receiving an award have the lowest pre-KCTCS earnings, with average quarterly

earnings around \$4,000 in most quarters.¹⁵ Individuals who eventually receive an associate's degree award have the highest pre-KCTCS earnings of approximately \$6,000 a quarter. However, award earners – especially those who receive diplomas – experience a substantial decrease in earnings the quarter before entering KCTCS. Average earnings for diploma recipients are under \$2,000 for the first four quarters after enrollment. Much of the explanation, particularly for men, is that diploma recipients have lower employment rates during these quarters. In addition, diploma recipients tend to take more credits per term than other award recipients, leaving less time for working in the labor-market. Average quarterly earnings for associate's degree and diploma recipients begin to increase dramatically approximately seven quarters after entering KCTCS; the increase occurs slightly earlier for certificate recipients.¹⁶ By 15 quarters after entering KCTCS, the earnings for the four groups of individuals have exceeded their pre-KCTCS levels. By this time, individuals with associate's degrees have the highest earnings, and individuals without awards have the lowest earnings.

The bottom panel of Figure 2 illustrates average quarterly earnings for women. There are noticeable differences between men and women. Women have lower average earnings than men. In the quarters prior to KCTCS attendance, average quarterly earnings are relatively similar across the four education levels, except for the same decline in average earnings for award recipients – particularly diplomas – starting in the quarter before KCTCS attendance. As with men, average quarterly earnings for women with associate's degrees and diplomas start to increase around seven quarters after KCTCS

¹⁵ As mentioned previously, all dollar figures are reported in 2008 dollars.

¹⁶ Some students enter KCTCS with credits from other institutions and therefore receive an award more quickly than if they arrived at KCTCS with no credits. However, our data do not contain any information on credits obtained at other institutions prior to enrollment at KCTCS.

attendance, with a slightly earlier increase for certificate recipients. By 12 months after initial KCTCS enrollment, the average quarterly earnings of diploma and associate's degree recipients substantially exceed average earnings of women who did not receive an award. Women without awards have the lowest average earnings 18 months after initial KCTCS attendance, slightly below average earnings for certificate recipients.

Although these graphs provide a useful starting point for our discussion of labor-market returns, they look only at differences in average earnings between the four groups indicated in the graphs. Figure 2 does not control for differences in age or length of KCTCS enrollment. Therefore, we now turn to our regression analysis.

5.4 Overall Earnings Returns

Table 5 contains the effects of the highest award received on quarterly earnings from the fixed effects model. The first four columns are for men and the second four columns are for women. The first and fifth columns contain no controls other than highest award as illustrated in equation (2). The second and sixth columns contain controls for the timing of enrollment (*ENROLL* in equation (3)). The third and seventh columns also contain demographic controls (*DEMOG* in equation (3)). The fourth and eighth columns also contain controls for student intentions (*INTENT* in equation (3)). The last specification is our preferred one because we believe that it does the best job of capturing observed differences.

The table shows that the returns for all awards fall slightly when we add controls for enrollment timing (columns 2 and 6), but returns increase moderately when demographic controls are added (columns 3 and 7). Similarly, the returns increase slightly when we include controls for student intentions (columns 4 and 8). In other words, the gap

in earnings between students with and without awards is higher when we compare students with similar intentions (columns 4 and 8) than when we compare students with no regard toward their demographics or intentions (columns 2 and 6).

The table shows that associate's degrees are associated with large increases in earnings, particularly for women. In our preferred specification (columns 4 and 8), associate's degrees are associated with returns of \$2,363 for women and \$1,484 for men. In percentage terms of average earnings from Table 1, the return is approximately 56 percent for women and 24 percent for men.

Women also have higher returns from diplomas than men: \$1,914 (column 8) versus \$1,265 (column 4). In percentage terms, the returns to diplomas are 45 percent for women and 21 percent for men. For both associate's degrees and diplomas, the average number of credits earned varies little between men and women. Thus, the gender difference in returns cannot be explained by differences in the number of credits earned.

Certificates have small positive returns for women and men, although the returns for men are only significant at the ten-percent level (two-sided test) once we include controls for intentions as well as demographics and enrollment timing (column 4). In the preferred specification, certificates are associated with returns of approximately \$300 for men and women, an increase of five percent for men and seven percent for women. Certificates require the least amount of coursework (usually one year or less of full-time course work), so their lower returns are not surprising.

The results from our preferred specification of the fixed effects model (columns 4 and 8 of Table 5) are generally similar to the results from the cross-sectional OLS model in Table 4, at least for associate's degrees and diplomas. The fixed effects model has slightly

larger returns for these two awards except for the slightly lower returns to diplomas for women. For certificates, the inclusion of fixed effects produces smaller returns for men and larger returns for women relative to a cross-sectional OLS model.

5.5 Sensitivity Analysis

A primary concern in the returns to schooling literature is establishing the causal effect of educational attainment on earnings. We provide a relatively new application of student fixed effect models to estimate the labor-market returns to community college degrees, and we include detailed control variables including student intentions. Our results for associate's degrees are higher than previous estimates for women but are similar for men, and little if any previous work has been done on diplomas and certificates. Still, we acknowledge that concerns about the causality may remain, so we conduct several sensitivity analyses to test the robustness of our earnings returns, as shown in Table 6. The top panel contains the results for men, and the bottom panel contains the results for women. The first column of the table contains the results from our preferred specification in Table 5, columns 4 and 8.

In columns 2 and 3, we expand the sample to include teenagers (column 2) and students who initially do not intend to pursue an award (column 3). The returns for men are much higher with the expanded sample, especially for certificates in column 2. The returns for women are slightly lower with the expanded samples. Thus, the inclusion of teenagers or non-award seeking students in the sample may overstate the returns for men.

In columns 4 through 7, we impose various restrictions that reduce the preferred sample of award-seeking students ages 20 to 60. First, in column 4, we exclude students who did not receive an award given their different earnings pattern (Figure 2). This

exclusion reduces the model from a difference-in-difference model to a difference model where the difference is the receipt of a KCTCS award (degree, diploma, or certificate). For men, the returns to certificates are nearly twice as large as in the preferred sample. For women, the returns to degrees and diplomas are approximately 20 percent smaller than in the preferred sample, and the returns for certificates are under \$100 (and statistically insignificant). Thus, the inclusion of students without awards may overstate the returns for women, but it may understate the returns to certificates for men.

The specification in column 5 excludes students who fail to receive any community college credits because they may have fundamental differences in earnings growth. Their inclusion may produce an upward bias in our estimated returns if they had a negative random shock that caused them to drop out of KCTCS and led to lower earnings growth. Compared to the returns for the full sample, the returns to all awards are 10 to 25 percent lower for men and 1 to 5 percent lower for women. The returns to certificates for men are no longer statistically significant from zero at the ten-percent level (two-sided test). Thus, the overall returns in our preferred specification may be slightly overstated for men because the comparison group includes students who did not receive any KCTCS credits.

Because our sample is from state UI wage records, we cannot determine whether a person has left the Kentucky labor force. Consequently, we restrict the sample in column six to individuals who have at least one quarter with positive UI wages (in Kentucky) after leaving KCTCS. As expected, the exclusion of people with zero earnings in all post-KCTCS quarters results in larger estimated returns of 5 to 10 percent for associate's degrees or diplomas and 20 to 80 percent for certificates.

Many studies of training programs restrict analysis to individuals with some pre-training level of labor-force attachment. We employ the same idea in column seven by restricting the sample to individuals with at least five quarters of earnings in the pre-KCTCS period.¹⁷ For associate's degrees and diplomas, the returns are slightly lower for individuals with substantial pre-KCTCS labor-force attachment. The decline in earnings is more pronounced for certificates, suggesting that certificates have larger returns for individuals with weak labor-force attachment prior to enrolling in KCTCS.

In column 8 we exclude the two quarters two quarters prior to KCTCS attendance because they contain an "Ashenfelter dip" in earnings.¹⁸ The results from this sample are nearly identical to the full sample, suggesting that the pre-KCTCS earnings drop is not driving the estimated labor-market returns.

Finally, in column 9, we exclude all observations (i.e. quarters, not people) that are more than 12 quarters after leaving KCTCS. In other words, for each person, the sample is limited to the first 12 post-KCTCS quarters, as well as all quarters prior to and during KCTCS attendance. Aside from lower returns to certificates for males in column 9 compared to the full sample, there is little support for the concern that students who leave KCTCS after a couple of semesters are creating an upward bias in the results.¹⁹

In summary, the sensitivity analysis in Table 6 shows that, regardless of the sample used, associate's degrees and diplomas have large earnings returns, particularly for women.

¹⁷ Results are quite similar when we vary the cutoff for number of quarters with pre-KCTCS earnings from four to eight quarters.

¹⁸ We also estimated three additional models where we excluded one quarter, three quarters, and four quarters prior to KCTCS entry, respectively. The results from these models are nearly identical to the results presented in the eighth column of Table 6.

¹⁹ Specifically, the concern is that those who finish early with awards may possess unobservable traits that are positively correlated with earnings, whereas those who finish early without an award may possess unobservable traits that are negatively correlated with earnings.

The returns for certificates are much smaller, although the returns are positive and statistically significant from zero at the five-percent level in most specifications.

The exclusion of transfer students likely understates the return to associate's degrees due to the option value of continued enrollment in four-year schools. Stange (2012) shows that, for male high school graduates, the overall option value of postsecondary schooling is above 10 percent of the total return to education. The option value is higher for moderate-ability students, many of whom attend community colleges.

To learn more about the potential bias from excluding transfer students, we estimate a cross-sectional model where the dependent variable is a dummy variable for transferring to a four-year institution. Controlling for student demographics and student intentions, an associate's degree is associated with a higher probability of transferring of approximately 24 percent for men and 17 percent for women. In contrast, we find a small negative association between other awards and the probability of transfer, so there is minimal bias in the returns to diplomas and certificates from excluding transfer students.

For transfer students who complete a bachelor's degree, their returns would be captured in the returns to a bachelor's degree and therefore would not bias our estimates for associate's degrees. Thus, the concern with our estimated returns – aside from the option value mentioned above – is that we exclude individuals who obtain an associate's degree and transfer to a four-year institution without completing a bachelor's degree. Determining the direction and size of the bias in excluding these students is extremely difficult. These students likely have lower earnings than transfer students who complete a bachelor's degree, but do they have higher or lower earnings than students who complete an associate's degree and do not transfer?

Despite these concerns, we estimate specifications that include all transfer students. We find smaller returns than in the sample that excludes such students, even when we restrict the sample to individuals who enter KCTCS during the 2002-2003 school year in order to maximize the number of post-schooling observations.²⁰

We believe that two factors explain why the returns are lower once we include transfer students. First, our time period is simply too short to include students who transfer to four-year institutions. Our data only follow students for up to 6.5 years after entering community college. If we assume that transfer students take four years to complete a bachelor's degree, these students would have at most 2.5 years of post-schooling data on earnings. For students who take longer than four years to complete a bachelor's degree, we have even fewer post-schooling observations.

Second, we cannot distinguish between transfer students who are attending school full-time and not working from students who have left school but are unable to find employment. In addition, we cannot distinguish periods when students were working while in school from periods when individuals were working full-time and not in school. As mentioned previously, we only know the date of transfer and the school to which the student transferred; we know nothing about attendance or educational attainment at the post-transfer school.

In general, we suspect that, by excluding transfer students, our estimated returns may understate the actual returns of an associate's degree due to the likely superior ability

²⁰ Because we have no information on the length of schooling at the subsequent institution, we vary the length of schooling at the subsequent institution from one quarter to six quarters. The returns are slightly higher in the models with longer lengths of schooling, but the returns are always smaller than in the specification excluding transfer students.

of students who transfer. However, we have no way of confirming this suspicion or of assessing the size or direction of any bias.

5.6 Field of Study

As illustrated in Table 1, men and women have different fields of study at KCTCS. Therefore, one explanation for the gender differences in returns (Table 5) is that returns vary by fields of study. Table 7 contains the results where the highest education level is interacted with dummy variables for six fields of study: humanities, other academic subjects (i.e. social science and science), business, health, services, and vocational. No students received diplomas or certificates in academic subjects (humanities or otherwise). Except for the highest award received variables, the models used to estimate the results in Table 7 are identical to the preferred specification in Table 5 (columns 4 and 8).

In addition to labor-market returns, the table also includes the percentage of individuals in each field of study who transfer to another institution. As discussed previously, we exclude students who transfer from our analysis due to the lack of data on schooling at the subsequent institution. The inclusion of transfer percentages illustrates the extent to which our returns estimates are limited by our inability to follow transfer students. The percentage of students who transfer varies substantially by field.

The table shows that, for both men and women, the highest returns are from associate's degrees in health: \$3,709 for men and \$4,409 for women. The returns for associate's degrees in academic subjects other than the humanities are also positive: \$1,793 for men and \$1,661 for women. Fewer than 10 percent of award recipients in these fields transfer to another institution. Vocational associate's degrees are associated with higher earnings of \$1,268 for men and \$1,545 for women. Women receive positive returns of

\$654 for associate's degrees in business and \$316 for associate's degrees in services; for men, the results are slightly negative and not statistically different from zero (at the ten-percent level) for either field of study. The coefficients for associate's degrees in the humanities are not statistically different from zero at the ten percent level, but over 30 percent of award recipients transfer to other institutions. Thus, the award may provide positive labor-market returns primarily through further education at other institutions, but that analysis is beyond the scope of this paper.

Diplomas have mixed effects on earnings. Fewer than 20 men receive diplomas in business or services, and fewer than 20 women receive vocational diplomas; we do not discuss these coefficients because of the large standard errors associated with the estimates. Health-related diplomas are associated with large increases in earnings: \$2,140 for men and \$2,441 for women. Vocational diplomas also have large, positive effects of \$1,264 for men. Services diplomas are not associated with higher earnings levels for women, although only 40 women receive such diplomas. Business diplomas for women have insignificant returns, perhaps because most business diplomas are related to office administration, a low-paying field.

Certificates also have mixed effects on earnings. Vocational certificates are associated with higher earnings of \$368 for men, but the results for women are not statistically significant from zero (at the ten-percent level). For women, health certificates are associated with higher earnings of \$375, and services certificates are associated with higher earnings of \$241 (only significant at the ten-percent level). For men, certificates in these fields have little or no association with earnings.²¹ The coefficients for business

²¹ The disparity for health certificates is not related to areas of study, as most of the health-related certificates are nursing-related for both men and women. Most women receive service certificates in "family and

certificates are always statistically insignificant (at ten percent) for both men and women, although only 19 men receive business certificates.

5.7 Earnings Returns for Credits

Another way to measure the returns to KCTCS is to look at the returns to credits (see Jacobson, LaLonde, and Sullivan (2005a, 2005b) and citations within). We extend our preferred specification to include credits earned as well as highest award. This model breaks down the returns to the award into the returns for the credits earned as well as for any additional returns of the award, what is often referred to as the sheepskin effect.

Table 8 contains the results from this analysis. Columns 1 and 3 are the preferred specifications from columns 4 and 8 of Table 5, and they do not contain credits earned. Columns 2 and 4 contain credits earned for men and women, respectively. The results illustrate that most of the increase in earnings for associate's degrees and diplomas are from awards rather than from credits. For example, a man earning an associate's degree with 69 credits (the midpoint of the required number of credits) would receive an earnings boost of \$386 per quarter from the 69 credits in addition to an earnings boost of \$1,117 from the award. For a woman, the comparable numbers are \$959 from the credits and \$1,763 from the award.

The sheepskin effects for certificates are much lower. The sheepskin effect for men is \$112 per quarter, compared with an increase in earnings of \$134 per quarter for 24 credits, the midpoint of the required number of credits for certificates. For women, the sheepskin effect is \$134 for the certificate, compared with an earnings increase of \$333

consumer sciences” whereas men are more likely to receive service certificates in “personal and culinary services.” However, only 27 men received services certificates, so small sample size is an issue here.

associated with 24 credits. More generally, the returns from credits exceed the returns from the certificate at 20 credits for men and at only 10 credits for women.

5.8 Differences by Age

Our sample contains a wide range of ages from 20 to 60. We explore the variation in earnings returns across the age distribution by estimating separate regressions for each age group and gender, where age is measured at the start of students' first term. We also include returns for 18 and 19 year-olds because they are the most common ages for starting postsecondary education. Figure 3 displays the coefficients for highest award received; Appendix Table 1 contains the coefficients and standard errors. The results are from the specification that includes the most complete set of control variables. Coefficients that are statistically significant at the ten-percent level (two-sided test) are shaded in, and those that are not significant are not shaded in.

Returns vary greatly by age, award and gender. For men, the largest returns for associate's degrees are for students in their early twenties, although there are sizable returns to associate's degrees and diplomas for some older age ranges. For diplomas and certificates, the largest returns are for teenagers. The fixed effects models rely on the comparison between pre-KCTCS earnings and post-KCTCS earnings, and – as discussed earlier – this comparison may exaggerate the returns for teenagers, who often have little or no pre-KCTCS earnings. Thus, the results for teenagers should be interpreted with caution. Generally, the returns to associate's degrees are often above \$1,000 per quarter, and they are positive and statistically significant except for the oldest group. Returns to a diploma are often over \$1,500, and they are also statistically significant for all categories except the oldest. Returns to a certificate are only positive and statistically significant for

teenagers. Even though the return to certificates for men ages 45 to 59 is negative, few men in this age range receive certificates. Likely, these men are returning to school for reasons other than increasing their earnings (such as to find employment after being laid off or simply for enjoyment).

Women receive sizable returns to degrees and diplomas throughout their teens, 20s, 30s, and into their 40s. The returns for associate's degrees are in excess of \$1,000 for all age categories, and returns for diplomas are above \$1,500 for all but the oldest category. For certificates, the returns are only positive and significant for only three categories: ages 19, 22-24 and 30-34, with returns of approximately \$500.

5.9 Employment Returns

In addition to studying the effect of community college awards on earnings, we also study their impact on employment. Higher earnings are a potential benefit of community colleges. Another potential benefit is increased employment, especially for individuals who, prior to entering KCTCS, face the possibility of losing their jobs. Therefore, we estimate models similar to those in equations (2) and (3), except that the dependent variable is now a dichotomous variable for having positive quarterly earnings. We refer to this variable as employment, although the category of people with no reported earnings includes individuals who are employed in jobs that are not covered by the Kentucky Unemployment Insurance system.

Table 9 contains the regression results for employment. The table has the same layout as Table 5; the only difference is the dependent variable is now employment rather than earnings. The first four columns contain results for men, and the second four contain

results for women. The rows at the bottom of the table explain the set of additional control variables in each regression.

With the exception of certificates for men, all three awards are associated with sizable increases in employment for both men and women. Associate's degrees are associated with an 11.0 to 12.3 percent increase for men and an 18.5 to 19.3 percent increase for women. Diplomas are associated with larger increases of 13.9 to 15.3 percent for men and 19.7 to 20.6 percent for women. Certificates are associated with increased employment probabilities of 1.5 to 2.2 for men and 8.3 to 8.6 percent for women, although the effect for men is not statistically significant from zero at the ten-percent level. The table illustrates that the employment returns are not sensitive to the inclusion of different control variables. More generally, community college awards are associated with higher employment and earnings.

6. Discussion

This paper provides new estimates on the labor-market returns to certificates and diplomas offered by community colleges. More people receive these awards than receive associate's degrees, which are more commonly studied. We study the earnings returns for the cohort of students aged 20 to 60 who entered Kentucky's community college system during the 2002-2003 and 2003-2004 school years. For these students, associate's degrees and diplomas have quarterly returns of around \$1,500 for men and \$2,000 for women. Certificates have small positive returns of around \$300 per quarter for men and women. The highest returns for associate's degrees and diplomas are for health-related awards. The highest returns for certificates are in vocational fields for men and health fields for women. Like Jacobson, LaLonde, and Sullivan's (2005a) work on displaced workers in

Washington, we find that earning credits at a community college without receiving an award has a positive effect on earnings. Degrees and diplomas are associated with noticeably higher likelihoods of employment, and certificates have positive associations with employment for women. Although our estimated returns are large, the dollar amounts are comparable to previous work on associate's degrees.

Like any empirical paper, our analysis of the labor-market returns to community colleges has limitations. Because teenagers have limited labor-market experience, the fixed effects model may overstate the labor-market returns for these individuals, as illustrated in Table 6. Yet this is the group with the highest attendance at community college and is the focus of nearly all research on returns to schooling. The exclusion of transfer students potentially induces bias by excluding perhaps the most able students in community college. Furthermore, this exclusion understates the return to associate's degrees due to the option value of continued enrollment in four-year schools (Stange 2012).

These findings add to an extremely limited literature on the returns to community college certificates and diplomas. Nearly all the previous literature focuses on associate's degrees or the amount of schooling received (measured by credits or years of full-time attendance). Although our study focuses on the experience in one state, the richness of the data and the similarities of community college systems around the U.S. suggest some tentative national policy conclusions. Human capital investments in community and technical college programs produce large labor-market returns, particularly for women, but the returns vary substantially among fields and awards.

7. References

- Bailey, Thomas, Gregory Kienzl, and David Marcotte. 2004. The Return to a Sub-Baccalaureate Education: The Effects of Schooling, Credentials, and Program of Study on Economic Outcomes. Report for National Assessment of Vocational Education, U.S. Department of Education.
- Belfield, Clive R., and Thomas Bailey. 2011. The Benefits of Attending Community College: A Review of the Evidence. *Community College Review*, 39(1): 46-68.
- Card, David. 1999. The Causal Effect of Education on Earnings. In *The Handbook of Labor Economics*, Vol. 3A, eds. Orley C. Ashenfelter and David Card. New York: Elsevier Science, North-Holland: 1801-1863.
- Cellini, Stephanie, and Latika Chaudhary. 2011. The Labor-Market Returns to a Private Two-Year College Education. Working paper.
- Cooley, Thomas F., Timothy W. McGuire, and Edward C. Prescott. 1979. Earnings and Employment Dynamics of Manpower Trainees: An Exploratory Econometrics Analysis. In *Evaluating Manpower Training Programs*, edited by Farrell E. Block. Greenwich, Connecticut, JAI Press: 119-147.
- Franklin, Rachel S. 2003. Domestic Migration Across Regions, Divisions and States: 1995-2000. Washington, D.C.: U.S. Department of Commerce, U.S. Census Bureau.
- Grubb, W. Norton. 1997. The Returns to Education in the Sub-Baccalaureate Labor Market, 1984-1990. *Economics of Education Review*, 16(3): 231-245.
- Grubb, W. Norton. 2002a. Learning and Earning in the Middle, Part I: National Studies of Pre-Baccalaureate Education. *Economics of Education Review*, 21(4): 299-321.
- Grubb, W. Norton. 2002b. Learning and Earning in the Middle, Part II: State and Local Studies of Pre-Baccalaureate Education. *Economics of Education Review*, 21(5): 401-414.
- Jacobson, Louis S., Robert J. LaLonde, and Daniel G. Sullivan. 2005a. Estimating the Returns to Community College Schooling for Displaced Workers. *Journal of Econometrics*, 125(1-2): 271-304.
- Jacobson, Louis S., Robert J. LaLonde, and Daniel G. Sullivan. 2005b. The Impact of Community College Retraining on Older Displaced Workers: Should We Teach Old Dogs New Tricks? *Industrial and Labor Relations Review*, 58(3): 398-415.
- Jacobson, Louis G., and Christine Mokher. 2008. Pathways to Boosting the Earnings of Low-Income Students by Increasing Their Educational Attainment. Prepared for the Bill & Melinda Gates Foundation by The Hudson Institute and CNA.

- Kane, Thomas J., and Cecilia Elena Rouse. 1995. Labor Market Returns to Two-Year and Four-Year Schools. *The American Economic Review* 85(3): 600-614.
- Kellogg, Alex P., and Robert Tomsho. 2009. Obama Plans Community-College Initiative. *The Wall Street Journal*. July 14, 2009.
- Knapp, Laura G., Janice E. Kelly-Reid, Scott A. Ginder, and Elise S. Miller. 2008. Enrollment in Postsecondary Institutions, Fall 2006; Graduation Rates, 2000 & 2003 Cohorts; and Financial Statistics, Fiscal Year 2006 (NCES 2008-173). National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education, Washington, D.C.
- Kornfeld, Robert, and Howard S. Bloom. 1997. Measuring Program Impacts on Earnings and Employment: Do UI Wage Reports from Employers Agree with Surveys of Individuals? Working paper, Abt Associates and New York University.
- Lang, Kevin, and Russell Weinstein. 2012. Evaluating Student Outcomes and For-profit Colleges. National Bureau of Economics Working Paper 18201.
- Leigh, Duane E., and Andrew M. Gill. 1997. Labor Market Returns to Community Colleges: Evidence for Returning Adults. *Journal of Human Resources* 32(2): 334-353.
- Marcotte, Dave E., Thomas Bailey, Carey Borkoski, and Greg S. Kienzl. 2005. The Returns from a Community College Education: Evidence from the National Educational Longitudinal Survey. *Educational Evaluation and Policy Analysis*, 27(2):157-175.
- Stange, Kevin M. 2012. An Empirical Investigation of the Option Value of College Enrollment. *American Economic Journal: Applied Economics*, 4(1): 49-84.
- Wooldridge, Jeffrey M. 2001. *Econometric Analysis of Cross Section and Panel Data*. MIT Press: Cambridge, MA.

Table 1: Descriptive Statistics, KCTCS Data

Variable	Men		Women	
	Mean	Std. Dev	Mean	Std. Dev
Average Quarterly Earnings	6,142	4,440	4,245	3,321
Proportion Employed	0.652	0.291	0.640	0.290
Age at Entry	30.0	8.9	31.3	8.9
White	0.769	0.422	0.768	0.422
Nonwhite	0.119	0.324	0.142	0.349
Missing Race	0.112	0.315	0.090	0.286
Associate's Degree	0.112	0.316	0.159	0.365
Diploma	0.051	0.221	0.056	0.230
Certificate	0.081	0.272	0.077	0.266
No Degree or Award	0.756	0.430	0.709	0.454
Associate's Degree Fields				
Business	0.006	0.074	0.019	0.137
Health	0.021	0.145	0.074	0.262
Humanities	0.019	0.137	0.029	0.168
Other Academics	0.031	0.173	0.023	0.148
Services	0.008	0.089	0.016	0.127
Vocational	0.029	0.168	0.004	0.060
Diploma Fields				
Business	0.001	0.032	0.008	0.089
Health	0.007	0.082	0.045	0.208
Services	0.002	0.045	0.002	0.048
Vocational	0.042	0.200	0.001	0.033
Certificate Fields				
Business	0.002	0.046	0.009	0.096
Health	0.007	0.085	0.047	0.212
Services	0.003	0.055	0.017	0.129
Vocational	0.068	0.252	0.004	0.066
County Unemployment Rate	7.89	1.76	7.98	1.79
Number of Students	8,881		16,572	

Note: Earnings and employment statistics are person-level averages across all quarters of data (2000 through 2008).

Table 2: Means and Standard Deviations for 2000 Census and Full KCTCS Sample

	Men		Women	
	KCTCS	Census	KCTCS	Census
Yearly Earnings	20,756 (22,788)	39,728 (35,456)	14,590 (15,659)	22,095 (21,457)
Associate's Degree	0.112 (0.316)	0.191 (0.393)	0.159 (0.365)	0.253 (0.435)
1+ Years College, No Degree	0.317 (0.465)	0.548 (0.498)	0.301 (0.459)	0.486 (0.500)
<1 Year College, No Degree	0.571 (0.495)	0.262 (0.440)	0.541 (0.498)	0.261 (0.439)
In School	0.063 (0.243)	0.107 (0.309)	0.087 (0.282)	0.108 (0.310)
Age	35.6 (8.9)	35.6 (8.9)	37.0 (8.9)	37.0 (8.9)
Nonwhite	0.119 (0.324)	0.119 (0.324)	0.142 (0.349)	0.142 (0.349)
Observations	8,881	12,082	16,572	15,229

Notes: Standard deviations are in parentheses. Each sample includes individuals ages 25 to 66. Census observations are limited to the state of Kentucky and to individuals with postsecondary education without completion of a bachelor's or postgraduate degree. Census data are weighted so that they have a similar age and race/ethnicity distribution as the KCTCS data. KCTCS earnings data are for the fourth quarter of 2007 through the third quarter of 2008, the most recent earnings data available. Census earnings data are from 1999. Earnings from both data sets are in 2008 dollars. Note that the individuals in the KCTCS data are the same as in Table 1 but are measured at a different time period.

Table 3: Cross-Sectional OLS Model with 2000 Census and KCTCS Data
Dependent Variable is Yearly Earnings (2008 \$)

	-2	-5	-10	-17
	Men		Women	
	KCTCS	Census	KCTCS	Census
Associate's Degree	7,735 *** (798)	5,513 *** (1,094)	10,125 *** (400)	6,624 *** (520)
1+ Years of College, No degree	1,880 *** (536)	804 (805)	1,776 *** (260)	1,137 *** (457)
In School	7,644 *** (1,009)	-8,371 *** (1,022)	573 (410)	-3,410 *** (618)
Age	2,113 *** (219)	4,511 *** (306)	994 *** (112)	1,940 *** (171)
Age Squared	-23 *** (3)	-50 *** (4)	-10 *** (1)	-22 *** (2)
Nonwhite	-6,723 *** (606)	-8,554 *** (998)	311 (325)	1,085 * (569)
Observations	8,881	12,082	16,572	15,229

Notes: Heteroskedasticity-robust standard errors are in parentheses. *, **, and *** denote coefficients with statistical significance at the 10%, 5%, and 1% levels on two-sided tests, respectively. All models include individuals ages 25 to 66. Regressions using KCTCS data also include dummy variables for missing race/ethnicity and for students entering KCTCS during the 2002-2003 school year. The Census and KCTCS data in this table are identical to the data in Table 2 (and the KCTCS data in Table 1).

Table 4: Quarterly Earnings Returns for Highest Award Received
 Cross-sectional OLS Model with KCTCS Data

	Men	Women
Associate's Degree	1,349 *** (204)	2,290 *** (106)
Diploma	1,017 *** (229)	1,990 *** (129)
Certificate	496 *** (207)	221 ** (96)
Demographics	yes	yes
Intentions	yes	yes
Observations	8,881	16,572

Notes: Heteroskedasticity-robust standard errors are in parentheses. *, **, and *** denote coefficients with statistical significance at the 10%, 5%, and 1% levels on two-sided tests, respectively. All regressions also include controls for age, age squared, nonwhite, missing race/ethnicity, earnings in each of the four quarters immediately prior to KCTCS entry, and dummy variables for term of entry.

Table 5: Earnings Returns for Highest Award Received, Fixed Effects Models with KCTCS Data

	Men				Women			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Associate's Degree	1,325 *** (150)	1,203 *** (152)	1,433 *** (148)	1,484 *** (149)	2,440 *** (83)	2,284 *** (83)	2,343 *** (83)	2,363 *** (81)
Diploma	1,028 *** (185)	890 *** (187)	1,130 *** (181)	1,265 *** (183)	1,955 *** (114)	1,801 *** (115)	1,893 *** (114)	1,914 *** (110)
Certificate	95 (164)	43 (164)	248 (159)	297 * (160)	286 *** (76)	235 *** (76)	324 *** (76)	299 *** (73)
Student Fixed Effect:	yes							
Enrollment Timing	no	yes	yes	yes	no	yes	yes	yes
Demographics	no	no	yes	yes	no	no	yes	yes
Intentions	no	no	no	yes	no	no	no	yes
Observations	306,642	306,642	306,642	306,642	572,319	572,319	572,319	572,319

Notes: Standard errors clustered by student are in parentheses. *, **, and *** denote coefficients with statistical significance at the 10%, 5%, and 1% levels on two-sided tests, respectively. All models also include time fixed effects. An observation is a person and a quarter.

Table 6: Sensitivity Analysis to Alternate Samples, KCTCS Earnings Returns

Sample	Full sample (Table 5, columns 4,8)	Include Ages 17 to 60	Include non-award seeking	Exclude never received award	Exclude earned zero credits	Employed after leaving KCTCS	Employed in 5 or more pre-KCTCS quarters	Exclude two qtrs before KCTCS entry	Exclude 13+ post-KCTCS quarters
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Men									
Associate's Degree	1,484 *** (149)	1,562 *** (115)	1,837 *** (142)	1,506 *** (170)	1,276 *** (153)	1,660 *** (157)	1,381 *** (168)	1,554 *** (148)	1,367 *** (149)
Diploma	1,265 *** (183)	1,666 *** (155)	1,530 *** (176)	1,244 *** (210)	1,132 *** (187)	1,333 *** (184)	1,354 *** (214)	1,306 *** (181)	1,210 *** (183)
Certificate	297 * (160)	523 *** (121)	377 *** (146)	550 *** (178)	224 (167)	531 *** (176)	261 (185)	276 * (162)	213 (157)
Observations	306,642	500,792	641,369	75,235	230,637	255,019	231,256	288,880	272,703
Women									
Associate's Degree	2,363 *** (81)	2,230 *** (66)	2,403 *** (80)	1,886 *** (84)	2,337 *** (86)	2,667 *** (87)	2,210 *** (93)	2,396 *** (81)	2,346 *** (85)
Diploma	1,914 *** (110)	1,909 *** (95)	1,994 *** (108)	1,443 *** (117)	1,835 *** (116)	2,077 *** (113)	1,760 *** (129)	1,975 *** (109)	1,913 *** (112)
Certificate	299 *** (73)	262 *** (61)	283 *** (71)	89 (87)	284 *** (81)	358 *** (85)	221 *** (85)	289 *** (75)	274 *** (74)
Observations	572,319	801,814	749,723	167,798	437,796	463,793	423,939	539,175	515,833

Notes: Standard errors clustered by student are in parentheses. *, **, and *** denote coefficients with statistical significance at the 10%, 5%, and 1% levels on two-sided tests, respectively. The table contains results from 18 regression models (9 specifications and 2 genders). All models also include controls for enrollment timing, demographics, student intentions, person fixed effects, and time fixed effects.

Table 7: Earnings Returns for Highest Award by Field of Study
Fixed Effects Models with KCTCS Data

	Men			Women		
	Coeff.	Std. Err.	Percent Transfer	Coeff.	Std. Err.	Percent Transfer
<i>Associate's Degree</i>						
Humanities	-2	290	38.4%	171	131	30.6%
Other Academic	1,793	253 ***	5.5%	1,661	177 ***	8.4%
Business	-138	551	10.9%	654	156 ***	8.1%
Health	3,709	354 ***	7.3%	4,409	127 ***	4.1%
Services	-46	419	27.6%	316	155 **	18.9%
Vocational	1,268	332 ***	11.0%	1,545	460 ***	13.0%
<i>Diploma</i>						
Business	-1,124	1,003	10.0%	158	235	2.2%
Health	2,140	502 ***	3.2%	2,441	122 ***	4.9%
Services	73	813	0.0%	-9	427	2.5%
Vocational	1,264	202 ***	3.6%	240	945	5.3%
<i>Certificate</i>						
Business	-8	883	0.0%	173	230	3.1%
Health	32	500	9.7%	375	96 ***	7.2%
Services	-141	596	0.0%	241	142 *	3.5%
Vocational	368	177 **	3.0%	264	296	5.3%
Observations		200,045			366,507	

Notes: Standard errors are clustered by student. *, **, and *** denote coefficients with statistical significance at the 10%, 5%, and 1% levels on two-sided tests, respectively. All models also include controls for enrollment timing, demographics, student intentions, person fixed effects, and time fixed effects.

Table 8: Earnings Returns for Credits Earned and Highest Award
Fixed Effects Models with KCTCS Data

	Men		Women	
	(1)	(2)	(3)	(4)
Associate's Degree	1,484 *** (149)	1,117 *** (170)	2,363 *** (81)	1,763 *** (90)
Diploma	1,265 *** (183)	821 *** (198)	1,914 *** (110)	1,331 *** (119)
Certificate	297 * (160)	112 (162)	299 *** (73)	134 * (75)
Credits		5.6 *** (2)		14 *** (1)
Observations	306,642	306,642	572,319	572,319

Notes: Standard errors clustered by student are in parentheses. *, **, and *** denote coefficients with statistical significance at the 10%, 5%, and 1% levels on two-sided tests, respectively. All models also include controls for enrollment timing, demographics, student intentions, person fixed effects, and time fixed effects.

Table 9: Employment Returns for Highest Award Received, Fixed Effects Models with KCTCS Data

	Men				Women			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Associate's Degree	0.112 *** (0.012)	0.110 *** (0.013)	0.123 *** (0.013)	0.121 *** (0.013)	0.193 *** (0.008)	0.185 *** (0.008)	0.190 *** (0.008)	0.191 *** (0.008)
Diploma	0.142 *** (0.016)	0.139 *** (0.016)	0.153 *** (0.016)	0.152 *** (0.017)	0.205 *** (0.013)	0.197 *** (0.013)	0.203 *** (0.013)	0.206 *** (0.014)
Certificate	0.015 (0.014)	0.015 (0.014)	0.022 (0.014)	0.022 (0.014)	0.084 *** (0.011)	0.083 *** (0.011)	0.086 *** (0.011)	0.086 *** (0.011)
Student Fixed Effect:	yes							
Enrollment Timing	no	yes	yes	yes	no	yes	yes	yes
Demographics	no	no	yes	yes	no	no	yes	yes
Intentions	no	no	no	yes	no	no	no	yes
Observations	306,642	306,642	306,642	306,642	572,319	572,319	572,319	572,319

Notes: Standard errors clustered by student are in parentheses. *, **, and *** denote coefficients with statistical significance at the 10%, 5%, and 1% levels on two-sided tests, respectively. All models also include time fixed effects.

Figure 1: Average Quarterly Earnings for KCTCS Award, KCTCS Non-award, and Non-KCTCS Workers, 2002 to 2008

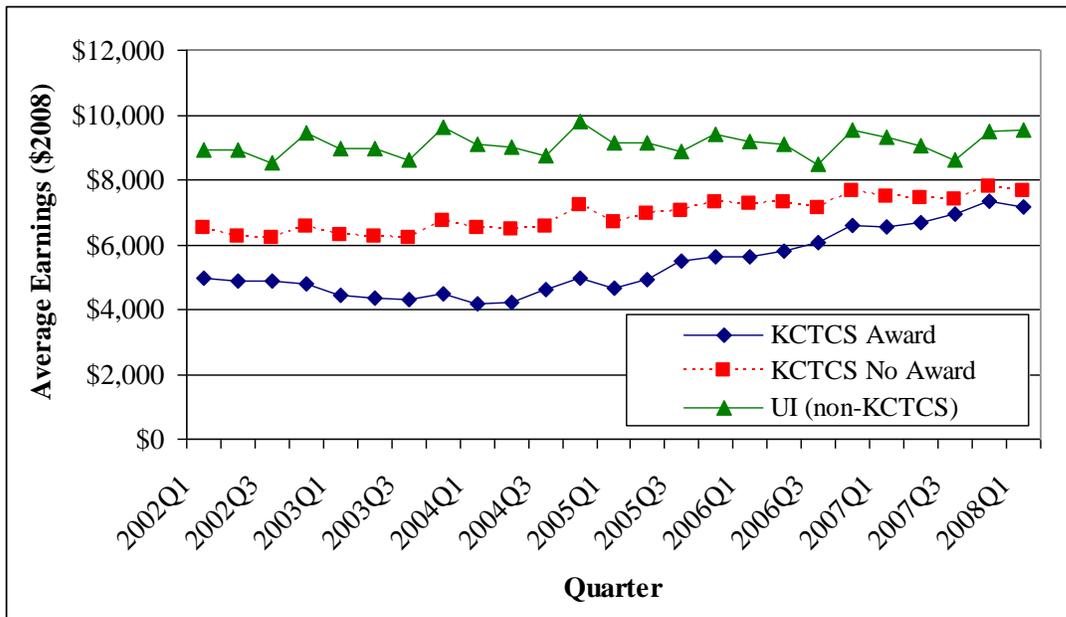
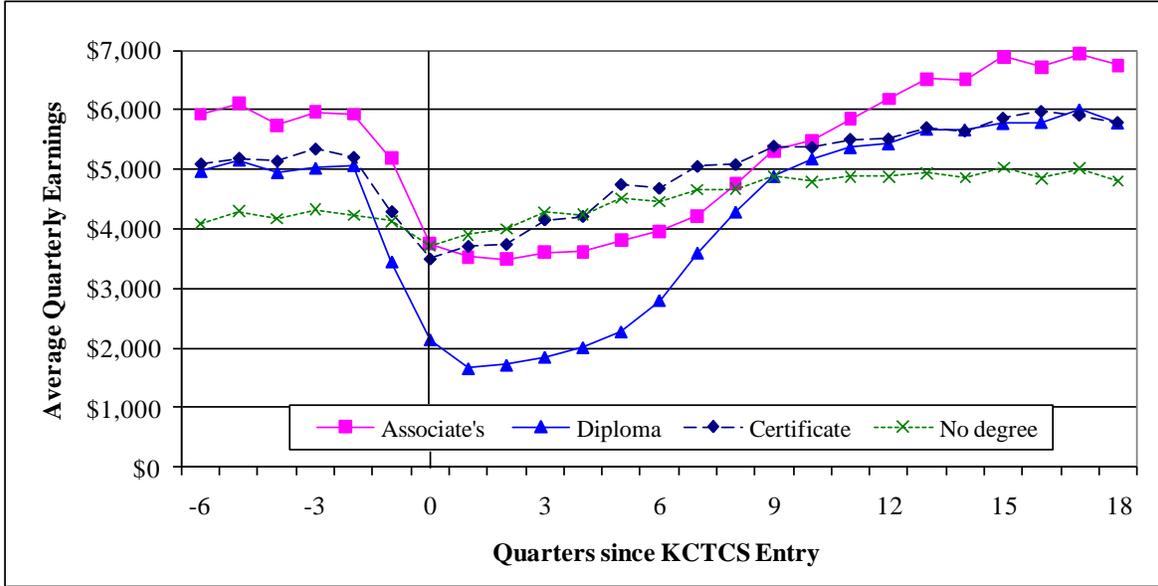


Figure 2: Quarterly Earnings by Quarters since KCTCS Entry

Men



Women

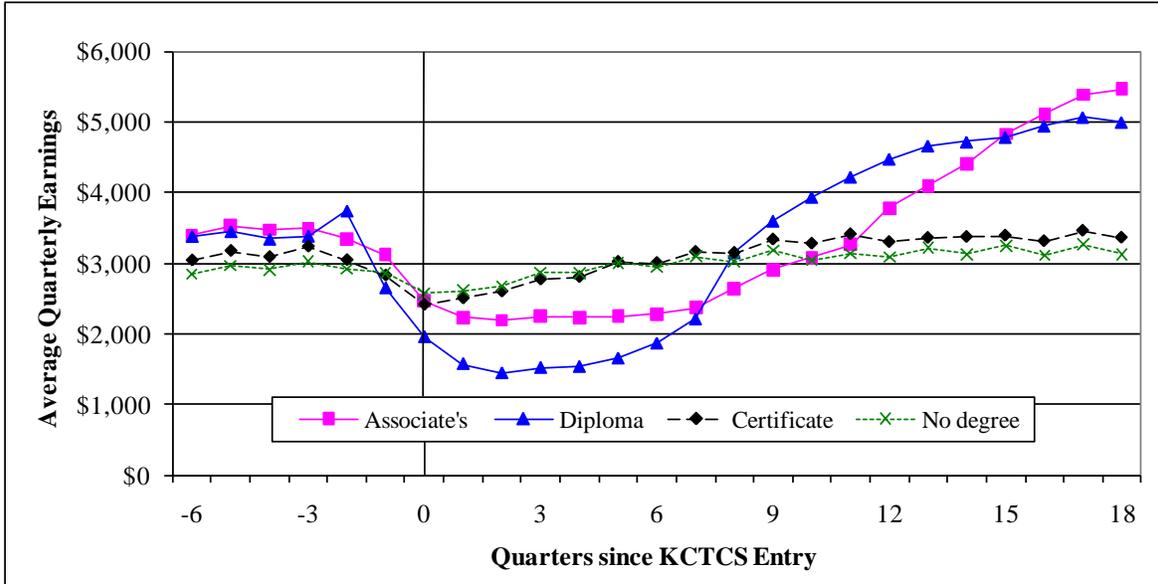
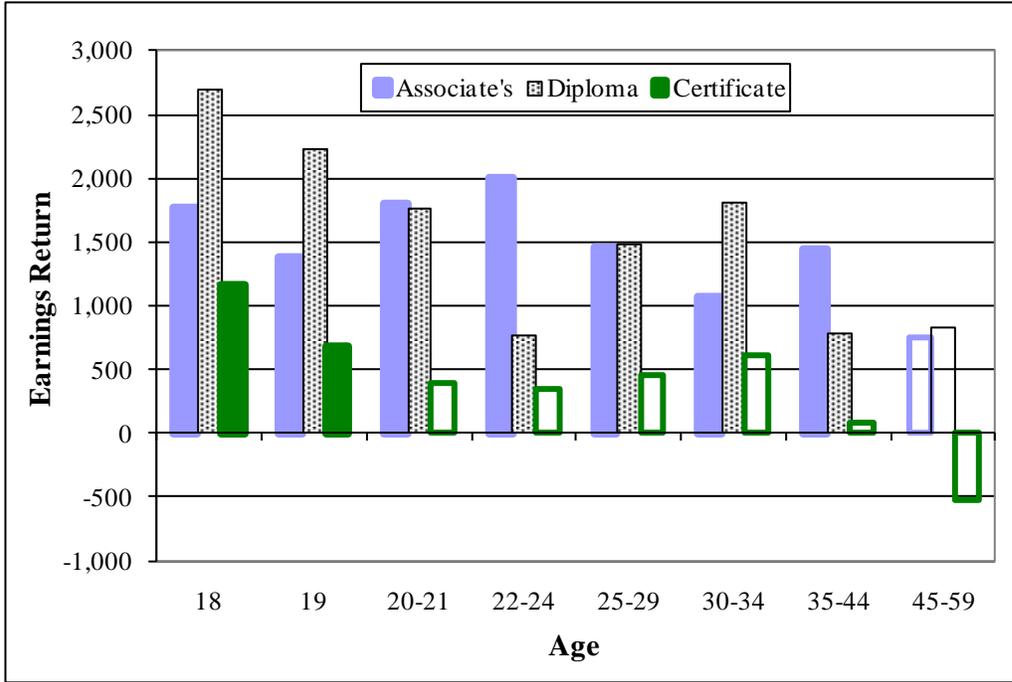
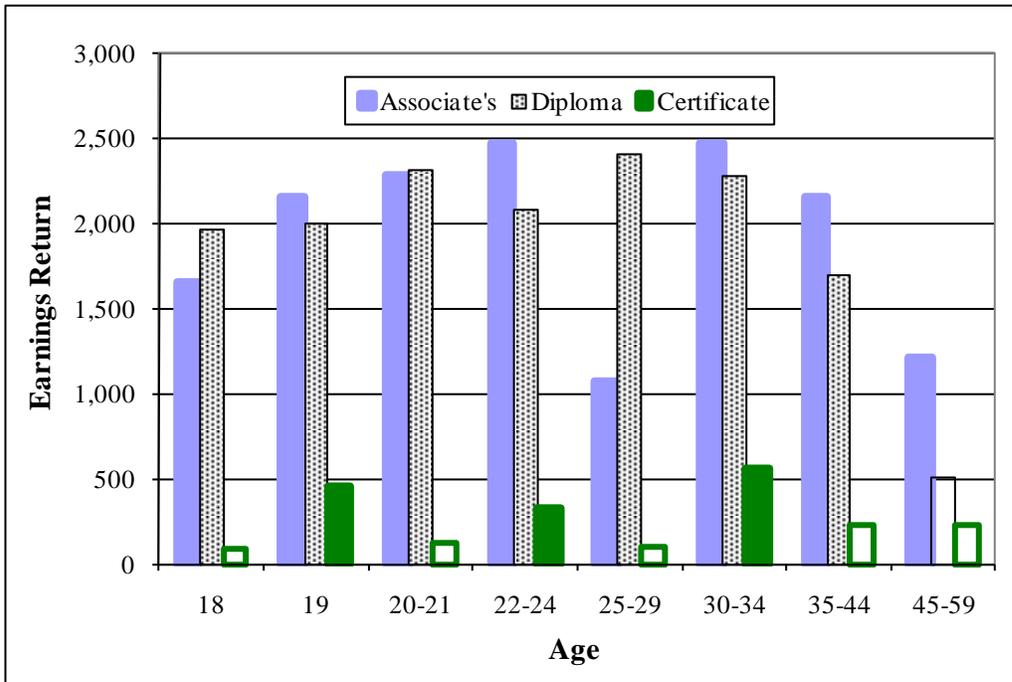


Figure 3: Earnings Returns for Highest Award Received by Age
Fixed Effects Models with KCTCS Data

Men



Women



Notes: Coefficients that are not statistically significant from zero at the ten-percent level (two-sided tests) are not shaded. The coefficient for certificates for men ages 30-34 and the coefficient for diplomas for women ages 45-59 are significant at the ten-percent level but not the five percent level.

Appendix Table 1: Earnings Returns for Highest Award Received by Age
Fixed Effects Models with KCTCS Data

	Men			Women		
	Associate's Degree	Diploma	Certificate	Associate's Degree	Diploma	Certificate
Age 18	1,776 *** (219)	2,693 *** (369)	1,170 *** (245)	1,655 *** (125)	1,973 *** (232)	82 (135)
Age 19	1,375 *** (303)	2,231 *** (411)	675 *** (274)	2,155 *** (219)	2,002 *** (311)	457 *** (154)
Age 20 - 21	1,806 *** (333)	1,768 *** (450)	390 (319)	2,288 *** (225)	2,319 *** (316)	123 (152)
Age 22 - 24	2,008 *** (392)	770 * (395)	350 (294)	2,470 *** (199)	2,087 *** (244)	333 ** (167)
Age 25 - 29	1,456 *** (257)	1,481 *** (381)	462 (367)	1,072 *** (387)	2,406 *** (227)	103 (158)
Age 30 - 34	1,072 *** (387)	1,802 *** (411)	605 (374)	2,479 *** (202)	2,276 *** (282)	558 *** (204)
Age 35 - 44	1,439 *** (393)	785 * (429)	81 (433)	2,158 *** (167)	1,704 *** (230)	227 (176)
Age 45 - 59	758 (484)	822 (660)	-518 (575)	1,214 *** (266)	508 (331)	230 (228)

Notes: Standard errors clustered by student are in parentheses. *, **, and *** denote coefficients with statistical significance at the 10%, 5%, and 1% levels on two-sided tests, respectively. All models also include demographics, controls in-school and post-school periods, controls for each of the two quarters prior to KCTCS entry, person fixed effects, and time fixed effects. Each age and gender combination (such as age 18 males) is from a separate regression. The table reports results from 16 regressions (8 age groups and 2 genders).

UCD CENTRE FOR ECONOMIC RESEARCH – RECENT WORKING PAPERS

- [WP11/27](#) Brendan Walsh: 'Well-being and Economic Conditions in Ireland' December 2011
- [WP11/28](#) Cormac Ó Gráda: 'Fetal Origins, Childhood Development, and Famine: A Bibliography and Literature Review' December 2011
- [WP12/01](#) Mark E McGovern: 'A Practical Introduction to Stata' January 2012
- [WP12/02](#) Colm McCarthy: 'Ireland's European Crisis: Staying Solvent in the Eurozone' January 2012
- [WP12/03](#) Colm McCarthy: 'Improving the Eurosystem for Old and New Members' January 2012
- [WP12/04](#) Ivan Pastine and Tuvana Pastine: 'All-Pay Contests with Constraints' February 2012
- [WP12/05](#) David Madden: 'Methods for Studying Dominance and Inequality in Population Health' February 2012
- [WP12/06](#) Karl Whelan: 'ELA, Promissory Notes and All That: The Fiscal Costs of Anglo Irish Bank' February 2012
- [WP12/07](#) Olivier Bargain, Eliane El Badaoui, Prudence Kwenda, Eric Strobl and Frank Walsh: 'The Formal Sector Wage Premium and Firm Size for Self-employed Workers' March 2012
- [WP12/08](#) Brendan Walsh: 'The Influence of Macroeconomic Conditions and Institutional Quality on National Levels of Life Satisfaction' March 2012
- [WP12/09](#) Ronald B Davies and Rodolphe Desbordes: 'Greenfield FDI and Skill Upgrading' March 2012
- [WP12/10](#) Morgan Kelly and Cormac Ó Gráda: 'Change Points and Temporal Dependence in Reconstructions of Annual Temperature: Did Europe Experience a Little Ice Age?' March 2012
- [WP12/11](#) Morgan Kelly and Cormac Ó Gráda: 'The Waning of the Little Ice Age' April 2012
- [WP12/12](#) Morgan Kelly and Cormac Ó Gráda: 'Agricultural Output, Calories and Living Standards in England before and during The Industrial Revolution' April 2012
- [WP12/13](#) Arnaud Chevalier and Orla Doyle: 'Schooling and Voter Turnout - Is there an American Exception?' April 2012
- [WP12/14](#) David Madden: 'The Relationship Between Low Birthweight and Socioeconomic Status in Ireland' April 2012
- [WP12/15](#) Robert W Fairlie, Kanika Kapur and Susan Gates: 'Job Lock: Evidence from a Regression Discontinuity Design' April 2012
- [WP12/16](#) John Regan: 'Ballot Order effects: An analysis of Irish General Elections' April 2012
- [WP12/17](#) Orla Doyle: 'Breaking the Cycle of Deprivation: An Experimental Evaluation of an Early Childhood Intervention' April 2012
- [WP12/18](#) Ivan Pastine, Tuvana Pastine and Paul Redmond: 'Incumbent-Quality Advantage and Counterfactual Electoral Stagnation in the U.S. Senate' May 2012
- [WP12/19](#) Adrian Corcoran and Robert Gillanders: 'Foreign Direct Investment and The Ease of Doing Business' July 2012
- [WP12/20](#) Wen Fan and Yuanyuan Ma: 'Estimating the External Returns to Education: Evidence from China' August 2012
- [WP12/21](#) David Madden: 'The Socioeconomic Determinants of Mental Stress in Ireland' August 2012
- [WP12/22](#) Sinéad Kelleher: 'Playing by the Rules? The Development of an Amended Index to Measure the Impact of Rules of Origin on Intra-PTA Trade Flows' September 2012