Higher Education Policies and Decelerating Wage Inequality: Cross-State Evidence from the 1990s

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Abstract

In the 1990s by contrast with the 1980s, increases in the college/high school wage premium began to decelerate in many U.S. states. Whether higher education policies played a role in containing increases in wage inequality is the issue of interest here. The paper exploits differences across the U.S. states in the evolution of the college premium, computed from CPS data, and in the evolution of post-secondary enrollments, using data from the NCES coupled with data on tuition from the WHECB and on state appropriations available from Grapevine. In the mid-1980s, many states increased state appropriations to higher education thereby containing tuition increases and allowing state enrollment rates to flourish. A two-stage instrumental strategy is used where nine-years lagged state enrollment rates predicted from higher education policies form an instrument thought to shift the supply of college graduates while being exogenous to current demand and thus allowing the identification of the underlying time trend in the returns to college. The paper concludes that the sustained growth in state appropriations in the mid-1980s that limited tuition increases contributed to the deceleration in returns to college among young workers seen in the 1990s.