

The Impact of Education on Unemployment Incidence and Re-employment Success: Evidence from the U.S. Labour Market[☆]

W. Craig Riddell^{*}
University of British Columbia
IZA

Xueda Song
York University

July 2011

Abstract

This study investigates the causal effects of education on individuals' transitions between employment and unemployment, with particular focus on the extent to which education improves re-employment outcomes among unemployed workers. Given that positive correlations between education and labour force transitions are likely to be confounded by the endogeneity of education, we make use of data on compulsory schooling laws and child labour laws as well as conscription risk in the Vietnam War period to create instrumental variables to identify the causal relationships. Results indicate that education significantly increases re-employment rates of the unemployed. Particularly large impacts are found in the neighborhoods of 12 and 16 years of schooling. Evidence on the impact of formal schooling on unemployment incidence is mixed.

JEL classification: I20, J64.

Keywords: education, labour market transitions, unemployment, causal effects, compulsory schooling laws, child labour laws, Vietnam War draft.

[☆]We thank David Card, Daniel Parent, Ben Sand, Arthur Sweetman, two anonymous referees and the editors for their useful comments and suggestions and Thomas Lemieux for providing data on cohort-level conscription risk during the Vietnam War era.

^{*} Corresponding author. Address: 997-1873 East Mall, Vancouver, BC V6T 1Z1, Canada. E-mail: criddell@interchange.ubc.ca Tel.: +1-604-822-2106; fax: +1-604-822-5915.