

A more highly educated labor force makes everyone better off . . . right?

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The unemployment rate for people with at least a bachelor's degree is typically much lower than the rate for people with less education. So having the degree is generally beneficial to the individual's employment status and economic condition, and metropolitan areas often strive to attract a more highly educated labor force on the assumption that doing so will benefit the local labor market as a whole. But is that assumption correct? What is the actual effect on a metropolitan area's labor market when the college-educated share of its labor force increases?

Those are the key questions explored in "[Will talent attraction and retention improve metropolitan labor markets?](#)" by Stuart Andreason (Federal Reserve Bank of Atlanta, working paper 2015-4, April 2015).

"Improvement" is an inherently subjective term. The paper defines it by comparing measures of four factors: earnings per job, the unemployment rate, the poverty rate, and relative changes in income inequality. Increases in growth, opportunity, and equality are thus regarded as improvements in a metropolitan labor market. "Talent" is identified by the share of the labor force that has obtained at least a bachelor's degree.

The paper uses an outcomes-based cluster-discriminant analysis. The author notes that previous literature has sought to explore the issue by using microeconomic cost-benefit analysis to sum the potential benefits experienced by individuals rather than by studying place-based changes. He also states that previous studies have been unable to adequately capture the overall effect on local labor markets because those studies were focused on measuring single factors, such as per-capita income or unemployment rates.

Andreason's study looks at the 78 U.S. metropolitan areas that had the highest absolute growth from 1990 to 2010 in the proportion of the population with a bachelor's degree or higher; these are the metro areas that should show the greatest improvements in labor market outcomes—if currently prevailing beliefs on the matter are valid. But the study finds no clear evidence that an increase in the share of the labor force with at least a bachelor's degree improves metropolitan labor market outcomes. On the contrary, the analysis concludes that a metro area's increase in holders of bachelor's degrees results generally in one of two sets of local labor market outcomes:

1. Earnings per job increase, but inequality, unemployment, and poverty rates rise.

2. Income inequality growth is low and unemployment and poverty rates decline, but earnings per job are stagnant or negative.

The findings have potentially major implications regarding which strategies metropolitan areas should choose in seeking to improve their labor market outcomes and which longstanding strategies may need revision.