

Transitory Opportunities and Educational Scarring of Young Men*

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March 31, 2021

Abstract

Exploiting a tax reform that lowered income taxes to zero for a single year, I study the consequences of a transitory increase in the opportunity cost of schooling. Using a regression discontinuity design that compares teenagers above and below the compulsory schooling age, I document increased school dropout. There is a permanent loss in young men's educational attainment but no effects on women. Earnings of dropouts fall behind during early adulthood and they suffer substantial losses in lifetime earnings relative to the control group. In addition, male dropouts suffer misfortune through slow career progression, less marriage, and reduced fertility. The results are consistent with high discounting among dropouts or them underestimating education returns. My results imply that economic booms have a 'scarring effect' on educational attainment, potentially reducing aggregate labor productivity permanently.

JEL Classification: E65, H24, J24, I21.

Keywords: Opportunity cost; Educational attainment; Labor supply; Tax reform

*I thank Saman Darougheh, Arash Nekoei, Torsten Persson, Kjell Salvanes, as well as seminar participants at various institutions for valuable comments and discussions. Special thanks go to Ómar Harðarsson, Ásta M. Urbancic and other staff members at Statistics Iceland for valuable discussions. I thank H S and Emmy Josephson Grant Foundation, Lydia and Emil Kinander Foundation and Carl Mannerfelt Foundation for financial support.

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