

THE ECONOMIC LOSSES FROM HIGH SCHOOL DROPOUTS IN CALIFORNIA

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Highlights:

- ▶ California sustains \$46.4 billion in total economic losses—equivalent to 2.9% of the Annual Gross State Product—from each cohort of 120,000 20-year-olds who never complete high school.
- ▶ An “average” high school graduate earns \$290,000 more over a lifetime than a high school dropout (and pays \$100,000 more in federal, state, and local taxes).
- ▶ High school graduation reduces crime: by 20% for murder, rape, and other violent crimes; by 11% for property crime; and by 12% for drug-related offenses.
- ▶ More than two-thirds of all high school dropouts will use food stamps during their working life.
- ▶ A high school graduate is 68% less likely to be on any welfare program, compared to a dropout.
- ▶ The probability of incarceration for Black male dropouts is at least 60%.

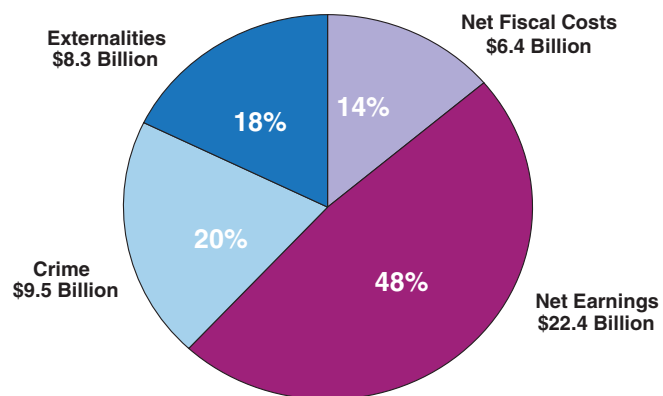
Education provides benefits to both individuals and society. Individuals with more education earn higher incomes, are healthier, are less likely to be involved in criminal activities, and are less likely to be on welfare. Additionally, better-educated persons pay more in taxes and enable reductions in government spending on health, crime, and welfare. It is therefore in a state’s best interest to ensure that all children complete an adequate education.

Yet, in California large numbers of high school students leave school without graduating.

▶ Dropouts in California

In 2005, almost one out of every four adults (18-64 years old) in California—more than 4 million persons—had not graduated from high school. For individuals who are Hispanic or Black, one-in-three is a high school dropout. Even allowing for those who graduate late or take the General Educational Development (GED) test, each year 120,000 individuals will fail to graduate by the time they are 20 years old. This brief examines the fiscal and social costs to the state of one cohort (*group*) of these high school dropouts.

Economic Losses from One Cohort of Dropouts in California



TOTAL LOSSES = \$46.4 BILLION

Note: All figures represent lifetime consequences for one cohort of dropouts at age 20 in 2005.

Read the full report at: lmri.ucsb.edu/dropouts

► Benefits of Education

There is compelling evidence that persons with low education face diminished opportunities and inferior economic and personal well being. Compared to high school graduates, dropouts earn less, pay less in taxes, and rely more on public health, criminal justice, and welfare services.

Even after adjusting for other attributes associated with dropping out, such as family disadvantage or academic aptitude, these differences hold true. For example:

- less educated workers are more likely to suffer from heart conditions, strokes, hypertension, high cholesterol, depression, and diabetes, as well as from a range of behaviors that contribute to ill health, such as smoking;
- the probability of incarceration for Black male dropouts is at least 60%;
- high school graduation reduces crimes by 20% for murder, rape, and other violent crimes; by 11% for property crime; and by 12% for drug-related offenses;
- more than two-thirds of all high school dropouts will use food stamps during their working life;
- high school graduates are 68% less likely to be on any welfare program, compared to a dropout.

High school graduates earn higher incomes, translating into more state, local, and federal tax revenues. State and local government agencies in California spend substantial amounts on health, criminal justice, and welfare services; but the need for such public services decreases with higher levels of education. Therefore, each new high school graduate generates a *fiscal gain*, both by generating greater public funds and reducing public costs to the taxpayer.

In addition, a higher graduation rate benefits the entire California economy. As well as saving taxpayers' money, economic output is higher. With a lower crime rate, all citizens will benefit: they are less likely to be the victims of crime and will need to spend less to protect themselves against crime. A higher graduation rate will

raise the rate of economic growth in California because high-skilled workers generate “productive externalities” by increasing the skills of co-workers and attracting new investment. Hence, each new high school graduate generates a *social gain* to the state.

► Benefits to Individuals

High school and college graduates reap sizeable advantages in the labor market. Graduates are more likely to be working (68% more likely for males; 50% more likely for females) and to be employed in jobs with health insurance and pension plans (by 18-20 percentage points for each benefit), compared to high school dropouts. Graduates also earn much more.

The lifetime economic consequences of dropping out are sig-

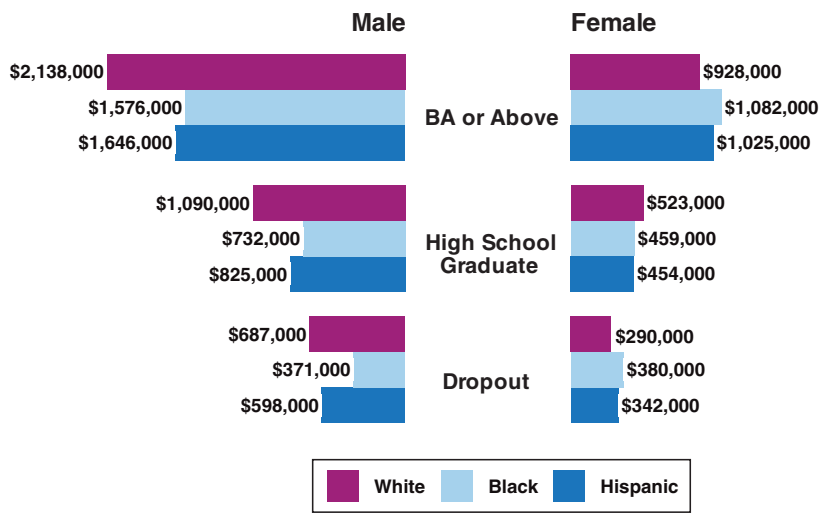
HOW THE STUDY WAS CONDUCTED

Using the best estimates from across the social science literature, the authors identify the lifetime impact of education and then calculate the economic consequences of that impact using California-specific data. They then calculate lifetime amounts for four separate education levels: dropouts, high school graduates, those with some college, and persons who graduate from college.

Savings to the taxpayer and to society are obtained for each person who moves from being a dropout to being a high school graduate (and so has a chance to go on to college). These savings are separated according to the extent to which federal or state/local governments benefit. Incomes and use of public services will depend on sex and race, so they present separate estimates for these characteristics.

These figures are then used to estimate the fiscal and social losses to the state from one cohort of 120,000 high school dropouts in 2005. Finally, the figures are used to estimate the economic benefits to the state of reducing the dropout rate by 30% and by 50%.

Projected Lifetime Income for all Persons in California Aged 20 in 2004, by Educational Attainment, Race, and Gender



nificant. At age 20, the lifetime earnings expected for a White male dropout will be just over \$580,000; whereas, a high school graduate’s expected earnings are \$1.1 million.

Those who go to college will earn even more: those with “some college” are projected to earn \$1.4 million, and those with a B.A. or above will earn over \$2 million. Although earnings vary by sex and race, all groups reap proportionately similar advantages from high school graduation and college enrollment. An “average” high school graduate earns \$290,000 more over a lifetime than a high school dropout, and contributes \$100,000 more to federal, state, and local taxes.

► **Economic Losses from Dropouts**

Dropouts cost taxpayers money. Over their lifetimes, each cohort of dropouts costs California

state and local governments \$9.5 billion in **fiscal losses**:

- \$3.1 billion in lost state and local tax revenues
- \$3.5 billion in health expenditures
- \$2.5 billion in crime expenditures
- \$400 million in welfare expenditures

Even accounting for the additional education expenditures for inducing dropouts to succeed and stay in school (\$3.2 billion), the net fiscal losses to state and local governments are \$6.3 billion per cohort.

California as a whole (factoring in lost earnings, the costs of crime to victims, and the externalities associated with increased education) sustains \$46.4 billion in total **economic losses** from each cohort, equivalent to 2.9% of the Annual Gross State Product.

► **Benefits of Raising California's High School Graduation Rate**

The economic benefits of raising California’s high school graduation rate are sizeable. If the high school dropout rate for a single year was reduced by 30%, the aggregate savings to state and local governments would be \$1.9 billion, and social gains would amount to \$13.9 billion, which equates to 0.9% of Gross State Product in California.

If the high school dropout rate for a single year was reduced by 50%, the aggregate savings to state and local governments would be \$3.2 billion, and social gains would amount to \$23.2 billion, which equates to 1.4% of Gross State Product in California.

California and all Californians would benefit significantly from raising the rate of high school graduation. The next step is to identify effective policies to ensure that all students have the opportunity to graduate from high school.

The next report from the California Dropout Research Project will identify a range of educational interventions that not only improve high school graduation, but also generate a positive return on investment.

Research Reports and Policy Briefs in Print

1. THE ECONOMIC LOSSES FROM HIGH SCHOOL DROPOUTS IN CALIFORNIA (*August 2007*)

In Production (*Working Titles*)

- The Return on Investment for Improving California's High School Graduation Rate
- Career and Technical Education as a Strategy for Improving High School Graduation Rates in California
- Alternative Pathways to High School Graduation, Further Education, and Workforce Preparation in Other Countries
- Existing Incentives and Impediments to Improving Graduation Rates in California
- Why Students Drop Out of School
- Building District Capacity for Improving High School Graduation Rates in California
- Middle School Reform as a Strategy for Improving California's High School Graduation Rate
- Improving California's Data System for Measuring Dropout and Graduation Rates
- What's Motivating Youths in Differing Schools?
- Follow-up Study of Students Who Did Not Pass the California High School Exit Exam (CASHEE)
- Early Predictors of High School Dropout
- Profiles of High School Dropouts and Graduates in Los Angeles Unified School District
- California High Schools That Beat the Odds in High School Graduation
- Student and School Predictors of High School Graduation in California

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