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STUDY FINDS MARYLAND DROPOUTS TAKE HUGE FISCAL TOLL ON STATE REVENUES, TAXPAYERS

INDIANAPOLIS (September 30, 2008)—The state of Maryland loses about \$193 million in tax revenues each year as a result of the state's growing number of high school dropouts, according to a study released today by the Friedman Foundation for Educational Choice and the Maryland Public Policy Institute.

The study documents the public costs of high school dropouts in Maryland, examining how the state's decreasing graduation rates are materially affecting the state's finances through reduced tax revenues and increased public expenditures. The study was undertaken by Friedman Fellow Justin P. Hauke, a Chicago securities analyst and former economic research analyst at the Federal Reserve Bank at St. Louis.

"The individual consequences of not completing high school, through lower wages and higher unemployment rates are well known," said Robert Enlow, Executive Director of the Friedman Foundation. "This study documents the true costs to society and places a dollar amount, on such costs as increased Medicaid and incarceration costs. The report documents the heavy toll dropouts extract from both state revenues and taxpayers."

"Maryland residents are paying dearly for the state's dropout crisis," said Christopher B. Summers, president of the Maryland Public Policy Institute. "Each year's class of drop outs is costing state taxpayers about \$42 million per year, each and every year in increased governmental expenditures and reduced taxes. We really need to begin to get this under control."

"The consequences of our drop out numbers affect all Maryland residents, depressing overall wage and job growth and imposing a fiscal drag on state expenditures associated with increased spending on social programs," he said.

Key findings of the study include:

- Each year's class of dropouts will cost Maryland taxpayers \$42 million every year.
- About 27,000 Maryland students in the class of 2007 failed to graduate from high school. Independent estimates suggest that the state's overall graduation rate is about 76 percent but urban graduation rates are well below 50 percent.
- On average, Maryland's 393,200 working-age dropouts earn nearly \$10,000 less a year than the state's high school graduates, reducing overall state income by nearly \$4 billion a year. Maryland dropouts can expect to earn \$150,000 less in their lifetimes than high school graduates.

- Every additional Maryland high school dropout costs the state approximately \$1,555 a year in lost revenue, with total lifetime costs (in present value) of \$35,180.
- Maryland's high school graduation rates are declining, even as the national graduation rate has been rising, indicating that dropout-related costs to Maryland taxpayers will increase each year.

The study noted that divide between urban and suburban graduation rates in Maryland is the highest in the nation. Although the state's high school graduation rate is above the national average, its urban school districts have suffered from years of decline. In 2007, the Baltimore city school district's graduation rate was only 35 percent, compared to 81.5 percent in Baltimore's suburbs and 76 percent statewide. Among the nation's 100 largest school districts, Baltimore has the 98th lowest graduation rate.

These study's cost estimates include only lost revenue from state taxes, increased Medicaid costs and increased incarceration costs. Because high school dropouts incur many other public costs, the true costs of Maryland's high school dropouts are much higher.

The study also examines how increased competition from private schools could raise public school graduation rates and save Maryland taxpayers millions of dollars each year.

The beneficial effect of private school competition on public schools is large enough that even a modest school choice program could save Maryland taxpayers millions of dollars each year. For example, a 6 percent increase in Maryland's statewide graduation rate would save Maryland taxpayers more than \$5 million a year.

"The High Cost of Maryland's Dropout Rate" can be found online at: http://www.mdpolicy.org/research/pubID.207/pub_detail.asp

Founded in 2001, the Maryland Public Policy Institute is a nonpartisan public policy research and education organization that focuses on state policy issues. The Maryland Public Policy Institute's work can be found on the Internet at www.mdpolicy.org.

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