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College Dropouts Cost Billions in Lost Income and Taxes, Study Finds

By Molly Redden

When students drop out of college, they lose many opportunities to better themselves. What's less well known is the broader economic costs of not completing college, but a report released on Monday offers a snapshot.

The nearly half a million dropouts in one recent year, according to the report, gave up some $4.5-billion in income they would otherwise have earned and taxes they would have paid.

The report, "The High Cost of Low Graduation Rates," was released by the American Institutes for Research, a nonprofit, nonpartisan research group, and was written by Mark Schneider, a vice president at the institutes, and Lu Michelle Yin, a researcher there. The report estimates that of the 1.1 million students who entered college in 2002, nearly 493,000 failed to graduate within six years, causing them to earn much less than students who graduated and costing an estimated $4.5-billion in lost income and federal and state income taxes in 2010.

Lost income, a figure that affects GDP, accounted for $3.8-billion of that amount; $566-million was lost federal income taxes, and $164-million was income taxes that were lost by states. That lost income, Mr. Schneider emphasized, is money that dropouts will never earn back, and a net loss that is magnified year after year.

New York and California were the two states that lost the most in income taxes, missing out on an estimated $21-million and $24-million, respectively, according to the report. Ten states lost more than $5-million in income taxes. Residents in 14 states lost more than $100-million in total income, with residents of California, New York, and Texas losing out on more than $300-million in income.

Using the interest rate on 30-year Treasury bonds in 2010 as a guide, the report also estimates the cumulative losses for members of this cohort over their working lives: $158-billion in lost income, $32-billion in lost federal income taxes, and $7-billion in lost state income taxes.

The report frames its findings as adding economic urgency to President Obama's ambitious goal for America to have the highest proportion of college graduates of any country by 2020.

Mr. Schneider stressed that the estimates pertain to just one cohort of students, and their losses in just one fiscal year.

"Business as usual in higher education is no longer sustainable," he said. "The present way of delivering higher education is too inefficient. We can't keep spending a billion dollars a year on students who drop out before their first year."

The report relies on federal data that do not account for part-time or transfer students. Part-time students drop out at higher rates than their full-time counterparts, an omission that would depress the report's findings, while omitting transfer students from the data would inflate its findings. Over all, Mr. Schneider and Ms. Lin conclude that 9 percent of students entering college in 2002 are unaccounted for in the report, in proportions that probably caused the income and tax losses to be overemphasized. The report also excludes community-college students, on whom the American Institutes for Research plans to release a similar report in September.

The report itself does not propose means to increase college-completion rates. But Mr. Schneider said that the solution to low completion rates lies with state governments and how well they track their colleges' success in retaining students.

"We really don't have a good playbook on what drives up completion rates ... because we've ignored this for so long and were only interested in filling the seats," he said. "We're not monitoring and evaluating what campuses are doing."