



Trend Lines NH

Economic, Fiscal, Demographic and Policy Insights for NH
 Prepared By: Brian J. Gottlob, PolEcon Research (603) 749-4072

This Month: All About Dropouts

February, 2006

Highlights:

- Owning-Up to the Dropout Problem (pg. 2).
- Are Dropouts Pushed Out or Pulled In? (pg 2).
- The Private Cost of Dropping Out (pg 3).
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NH Index of Leading Indicators: What Improved (+) or Declined (-) this Month

New Claims For Unemployment	-
Manufacturing Production	-
Housing Permits	-
Value of Construction	-
Help Wanted Advertising	-
Consumer Confidence	-
US Employment Growth	+
Capital Goods Shipments (US)	+
Yield Curve (Interest Rates)	-

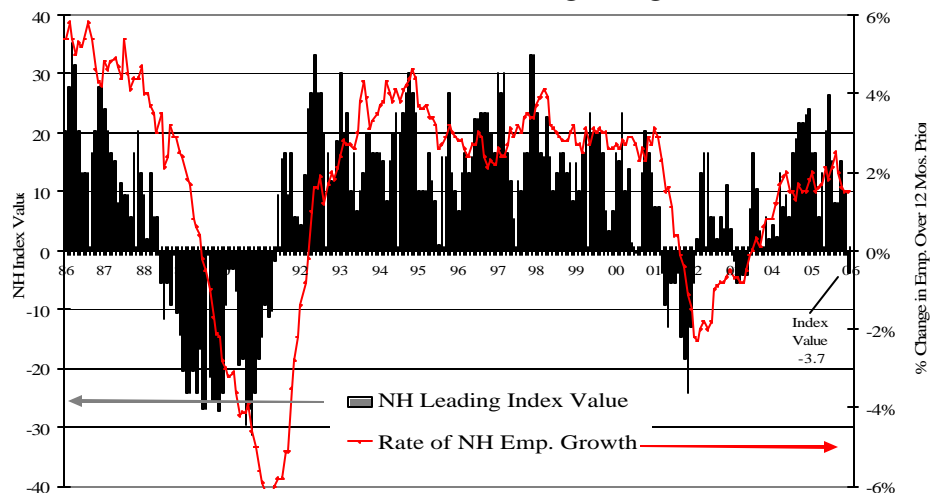
NH Leading Index Tumbles As 2006 Begins

PolEcon's *NH Index of Leading Indicators* slipped into negative territory last month for the first time in nearly three years, to -3.7, down from +9.7 a month earlier. Seven of the nine indicators in the NH Index were negative during the month. Despite the drop, data point to some conflicting trends in the NH economy. After buoying the Index for two years, both the value of construction contracts in NH and permits for new single family housing units have been trending downward. US shipments of capital goods had a big increase last month, continuing a trend that has helped to stabilize NH's

manufacturing employment. At the same time a drop in the average number of hours worked by NH manufacturing employees resulted in a small decline in our measure of NH manufacturing production. New claims for unemployment insurance increased in NH last month, while consumer confidence and help wanted advertising both declined. The interest rate yield curve moved toward inversion (long term rates lower than short term rates) but there is some evidence that this traditional signal of a slowing national economy is losing some of its

predictive ability. Despite the decline in the NH Index (which leads changes in employment by 3-6 months) NH's seasonally adjusted employment increased last month for the first time since August. The slide in construction and housing activity are causes for concern in NH as are the impacts of higher interest rates and energy prices. Next month's Index value will provide a better indication of whether the current drop in the NH Leading Index is just a blip or an early indication of significant weakening of economic activity in the second half of 2006.

The NH Leading Index Turned Negative for The First Time In Three Years – A Bad Month Or Beginning Of A Trend?



Owning-Up To The Dropout Problem

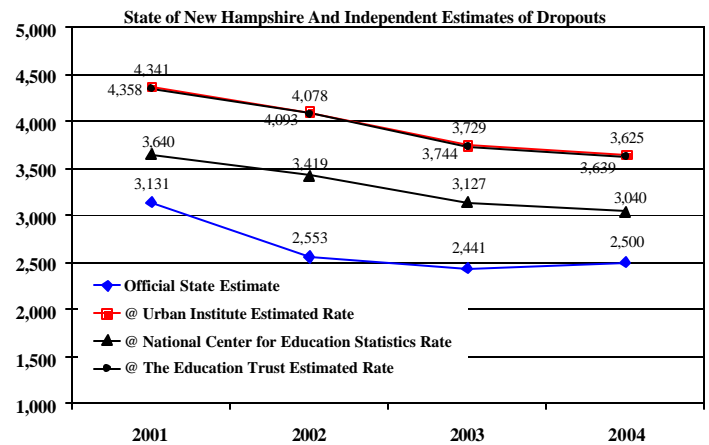
Much attention is being given to the problem of high school dropouts but the hard choices and strong actions necessary to address the issue have not been undertaken. While official estimates of NH's dropout rate suggest that 86% of students complete high school, independent estimates place the rate 8-12% lower. The chart at right shows the official number of reported NH dropouts, along with the number based on three independent estimates of NH's dropout rate. The chart shows that, on average, estimates from the Urban Institute, The Education Trust, and the National Center for Education Statistics

produce about 1,000 more dropouts per year than are officially reported. NH is not alone in under-reporting dropouts, almost all states do. The private and public consequences of dropouts are enormous and we discuss a few of them in this month's *Trend Lines*. Too often debates about education policy take place between "unloving critics" and "uncritical lovers" of public education and the failure to collect and report accurate dropout data may be one result of that conflict. Effective policies to address dropouts cannot be adopted without good data. Until that happens, all key actors (students, parents, teachers, administrators, school boards and lawmakers) must give more priority to

the goal of academic achievement and less to the goals of leisure, conflict avoidance, and even equity, which are taking precedence over the academic achievement of students. Until a "culture of

achievement" is created in our schools and in our communities and we move from an objective of preventing failure to achieving success, the dropout problem will not really be addressed.

Independent Estimates Suggest That the Number of Annual Dropouts in NH is Much Higher Than Reported



Are Dropouts "Pushed Out" Of School Or "Pulled Into" The Labor Market?

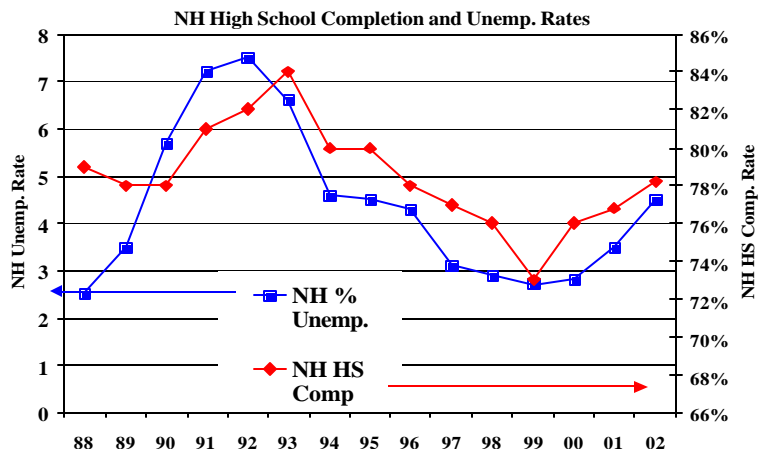
Dropping out in NH has become a mostly male phenomenon (but the consequences for female dropouts are more severe). There is a near-crisis in education among young males at both the high school and post-secondary school levels. Among NH dropouts age 20-29, 80% are male, the percentages for ages 30-39 and 40-49 are much lower, at 45% and 50% respectively. Even among older dropouts age 50-64, the percentage of male dropouts reaches only 64%. In part, the recent increases reflect the relatively greater opportunities available to

male dropouts compared to females. Our analysis of the occupational patterns of high school dropouts finds that they are increasingly concentrated in occupations for which there is no substitute for physical labor, while those occupations once available to some female dropouts, such as lower level clerical occupations have been largely eliminated. Young males marginally connected to schools may have attractive (from their perspective) opportunities in NH when jobs are plentiful and unemployment is low. As the chart below indicates, young males may feel the "pull" of the labor

market during good economic times. The chart shows that high school completions fall when unemployment rates decline and opportunities

for lower-skilled workers rise. It is quite possible that young males are more likely to be "pulled" into the labor market than are young females.

Students (Especially Males) Can Be "Drawn-Out" of School If Jobs Are Plentiful. When Unemployment is Low, So Are High School Completions



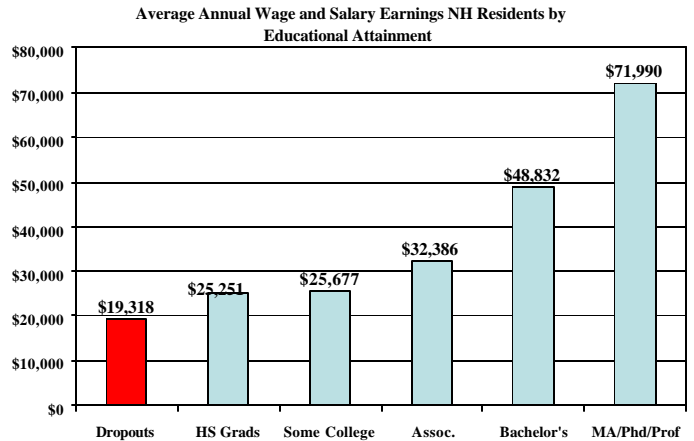
The Private Cost Of Dropping Out

A strong economy can create opportunities even for dropouts when labor is in short supply, but dropouts establish a lifelong pattern of lower earnings. The chart at right shows that the average *wage and salary* earnings of dropouts age 20-64 in NH is about \$6,000 less than for HS graduates (including other earnings increases the differentials). The chart also shows the large incremental gains in earnings that result from obtaining each degree beyond high school. In presenting static averages, the chart understates true earnings differentials. We used regression models to better isolate the impact that educational attainment has on

earnings in NH when the effects of age, gender, and other variables are controlled. Our results indicate that in NH, for individuals of a similar age and gender, the difference in annual wages and salaries between dropouts and HS grads is \$7,622 and overall earnings differentials are \$8,831. These results imply that the annual cost of NH's approximately 53,000 dropouts age 20-64, in terms of reduced wages, is over \$400 million and \$470 million in total earnings. In addition, our results indicate that:

- ◆ Each additional year of HS completed beyond 9th grade adds \$1,958 to an individual's annual wages and salaries.

There is a Big Jump in Wage and Salary Earnings in NH for High School Graduation and for Each Degree Beyond (But These Differentials Minimize the True Differences in Earnings)



Source: PolEcon analysis of US Census Bureau's "Current Population Survey" March 2004 and March 2005 data for NH

- ◆ Wages and salaries of dropouts are relatively stagnant over lifetimes – adding one year of age increases wages by only about \$60 for dropouts but \$641 for HS grads.
- Over a working life, these results suggest that dropouts in New Hampshire will earn about \$350,000 less in wages and \$400,000 less overall than will high school graduates.

The Public Cost of Dropping Out: Medicaid Caseloads & Spending

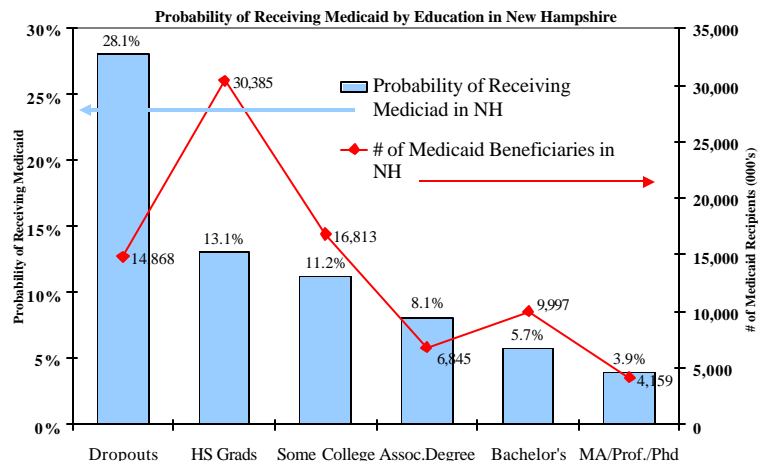
The individual consequences of not completing high school are large and well documented, but there are also substantial public or social costs that accrue when individuals drop out of school. Public costs result when individuals who do not complete high school contribute less to society and require more public services. Higher levels of educational attainment confer public benefits in the form of lower utilization of public assistance programs and overall lower social service expenditures, at the same time higher educational attainment increases productivity,

economic growth, income, and tax revenues. To demonstrate the impact of dropouts on just one public assistance program we estimate the impact that dropouts have on the Medicaid program. The adjacent chart shows that among NH's non-elderly population age 20-64, the probability that an individual, or their dependent children, will receive Medicaid benefits increases dramatically for dropouts. The chart also shows that even if all individuals obtained a high school diploma, a large number of NH residents would still receive Medicaid benefits. To estimate the impact of

dropouts on Medicaid caseloads and costs we assume that all 52,911 current dropouts age 20-64

obtained a high school diploma and apply the high school graduate probability of receiving Medicaid to

About 6.6% of NH's Population Age 20-64 are Dropouts but They (and Their Dependent Children) Account for About 18% of Medicaid Caseloads



Source: PolEcon analysis of US Census Bureau's "Current Population Survey" March 2004 & March 2005 data for NH

Public Costcont.

the group. The result is a reduction in Medicaid recipients of 7,937 (down from 14,868.) At an average payment for services for each non-elderly NH Medicaid recipient of \$5,662, the implied cost of dropouts to the Medicaid program is \$44.9 million or about 10% of all Medicaid payments for services to the non-elderly. Applying the probability of receiving Medicaid to the number of new dropouts in NH over the past 5 years, suggests

that dropouts add about 1,000 individuals to the Medicaid rolls each year at a cost of \$5-\$6 million per year. Eliminating dropouts in NH would cut both of those numbers by more than half. The table at right presents some basic calculations of the impact of all dropouts age 20-64 have on Medicaid payments for services. Note that the CPS data here is known to understate Medicaid recipients and dropouts, and is likely a low estimate of costs.

	<u>Pop.</u>	<u>Cases</u>	<u>\$'s</u> <u>(Millions)</u>	<u>If Dropouts</u> <u>Became Grads</u>	
				<u>Cases</u>	<u>Spending</u>
Total Pop. 20-64	797,868	82,978	\$469.8		
Dropouts	52,911	14,868	\$84.2	0	\$0
HS Grads	231,950	30,385	\$172.0	37,317	\$211.3
Some college	150,112	16,813	\$95.2	16,813	\$95.2
Associate's	84,507	6,845	\$38.8	6,845	\$38.8
Bachelor's	175,380	9,997	\$56.6	9,997	\$56.6
Master's	79,434	3,098	\$17.5	3,098	\$17.5
PhD/Prof. Degree	23,574	1,061	\$6.0	1,061	\$6.0
Totals		83,066	\$470.3	75,130	\$425.4
Change in Cases and Spending (Equals Costs Attributable to Dropouts)				7,937	\$44.9

About the Index

PoEcon's *NH Index of Leading Indicators* is a diffusion index consisting of nine state, regional, and national indicators of economic activity designed to predict changes in the rate of employment growth in NH. When index scores are above zero, more of the leading indicators are moving in a positive

direction and the NH economy is expanding. When the Index is below zero, more indicators are moving in a negative direction and the NH economy is weakening. The Index has a strong statistical relationship with changes in NH employment, Index scores lead changes in

the rate of NH employment growth by 3-6 months. Using kernel regression techniques, Index scores can be converted into a probability that the state of NH will enter into a recession sometime in the subsequent six months.

PoEcon Research
51 Atkinson St.
Dover, NH 03820

PHONE:
(603) 749-4072

INDEX E-MAIL:
Index@poleconresearch.com

AUTHOR'S E-MAIL:
bgottlob@poleconresearch.com

About Polecon

PoEcon specializes in identifying, understanding and communicating emerging economic, fiscal, demographic, labor market, and public policy trends at the intersection of private sector activity and government policy, where public sector action or inaction can

significantly impact the growth and development of industries, individual businesses, institutions, communities and geographic regions. PoEcon clients include for-profit firms in the energy, financial, real estate, and legal/lobbying industries, not-for-profits,

regional development organizations, charitable and government agencies, as well as trade associations, chambers of commerce, and higher education institutions. PoEcon services include economic and public policy analysis and forecasting, economic and fiscal impact

analysis, demographic and labor market analysis and forecasting, cost/benefit analysis, market analysis, strategic economic development, and survey research.