



Labour Market Matters

Special points of interest:

- The growth in prominence of the information age, and the associated decline of unionized jobs in sectors such as manufacturing means that youth who do not have a high school education will likely be trapped in low-paying jobs for their entire lifetimes.
- How much parents value education found to have a significant effect on whether their children finish high school.

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Morley Gunderson
(University of Toronto)

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How important is high school for success?

Self-made billionaire Sir Richard Branson is one of the world's richest people. His “Virgin Group” business empire spans entertainment, airlines, telecommunications and even space-travel. That he dropped out of high school at 16 does not seem to have impaired his adulthood success. While Branson should be considered a rather extraordinary exception to the norm, his ability to find success despite being a high school drop-out does beg the question of how important high school really is for labour market success. In their paper **“Labour Market Outcomes and Skills Acquisition of High-School Dropouts”** ([CLSRN Working Paper no. 16](#)), Michele Campolieti, (University of Toronto), Tony Fang (York University), and Morley Gunderson (University of Toronto) analyse the effect dropping out of high school has on wages, employment and subsequent skills acquisition for youth.

Their analysis is based on data collected from the Youth in Transition Survey (YITS). The study finds that dropouts have poorer wage and employment outcomes, and generally do not make up for their lack of education through additional skill acquisition and training. The growth of a skills-based technological economy and the related industrial restructuring from manufacturing to a more polarized job distribution with

professional, business and administrative, financial jobs at the high end, and personal services at the low end, have effectively ‘hollowed out’ many traditional jobs in the middle of the job distribution due to the disappearance of blue-collar, unionized jobs in sectors such as manufacturing. This change in the labour market means that not having a high-school education presents a particularly daunting challenge for young dropouts, as they no longer have the opportunity to move into jobs in the middle of the job distribution that they traditionally would have. Without this ability to move into jobs in the middle of the job distribution, such youth also lack a progression ladder to move from low-wage service jobs into higher-wage jobs due to lack of both education and experience. As such, high-school dropouts are likely to be trapped in low-end jobs for their entire lifetimes.

High school dropouts are more likely to become discouraged workers in the labour market, as there is evidence that initial negative experiences in the labour market (that drop outs would more likely experience) have long-run “scarring effects,” fostering a state of dependency, which can perpetuate into persistent negative employment experiences, and can eventually lead to an individual giving up entirely on finding satisfying employment. Alternatives for acquiring additional education are also bleak. Apprenticeship

programs have low enrolment rates for youth, as well as low and declining completion rates. Apprenticeships are also not common in the emerging trades associated with the information economy. Training programs to substitute for a lack of high-school education tend to also be unattractive options given that these programs have a poor record of success for disadvantaged youths.

The researchers believe that policies to curb drop-out rates, such as initiatives to increase the school leaving age; funding assistance; expansion of accessibility; providing alternative education opportunities; providing alternative pathways to the labour market; early targeting of ‘at risk’ youth for counselling; campaigns against dropping out; and better educating youth on the consequences of dropping out could have desirable effects of both curbing high school drop-out rates, as well as improve highschool completion rates of more ‘at risk’ disadvantaged groups.

Examining innovative ways to ensure that all youth complete high school could lead to positive social “spillover” effects, resulting in a better educated, skilled, and ultimately more successful workforce and citizenry.

What is it about parents that prevent teenagers from dropping out of high school?

Policy makers are well aware that children are far more likely to drop out of high school if their parents are also high school dropouts. Using Canadian data from the Youth in Transition Survey, a recent study by CLSRN affiliates finds that teenage boys with two parents who are themselves high school dropouts have a 16% chance of dropping out, compared to a dropout rate of less than 1% for boys whose parents both have a university degree. The study by Kelly Foley (Copenhagen Business School), Giovanni Gallipoli (University of British Columbia) and David A. Green (University of British Columbia) entitled **“Ability, Parental Valuation of Education and the High School Dropout Decision”** ([CLSRN Working Paper no. 60](#)) attempts to uncover **why** this relationship which is called a ‘socio-economic gradient’ persists.



Kelly Foley
(Copenhagen Business School)

For policy makers who hope to reduce the number of Canadian children who leave high school without graduating, it is vital to understand the underlying causes of the socio-economic gradient. On the one hand, having parents who are highly educated may directly help children stay in school, perhaps because these parents are better able to understand and help with homework. On the other hand, the benefits of educated parents may operate through other indirect channels. For example, previous research has emphasized the role played by children’s cognitive and non-cognitive skills.

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Foley, Gallipoli and Green quantify how much of the socio-economic gradient can be attributed to children’s skills and introduce a new channel through which family background affects dropping out. The researchers consider whether children are less likely to drop out when their parents place a high value on education. Parental valuations of education reflect parents’ subjective assessments of returns to

education, broadly defined in terms of both pecuniary and non-pecuniary benefits.

These three channels, parental valuations, cognitive and non-cognitive skills, can explain virtually all of the relationship between dropping out and family background. A boy whose parents never finished high school will be just as likely to drop out as another boy whose parents both have a Bachelors degree if those boys have similar skill levels and their parents place the same value on education.



Giovanni Gallipoli
(University of British Columbia)

Another important message from this paper is that, while significant, skills development is not the exclusive channel through which socioeconomic status operates. For example, children with median level skills are far less likely to drop out of high school if their parents place a high value on education. This result should be of concern to policy makers because it suggests that children with identical levels



David Green
(University of British Columbia)

of ability may be more or less likely to complete school depending on their parents’ characteristics and inclinations. It would appear that the family trait which matters most is not parental education, but how much parents value education.

The authors argue that their results are hopeful in the sense that they suggest dropout rates can be reduced in ways other than the slow, cross-generational process of raising parental education and early skill development. Parental valuations of education are also likely to be deeply ingrained and difficult to shift except over the very long run. However, several interventions that might replicate whatever it is that high valuation parents do for their children are very feasible, such as expanded Big Brothers and mentoring programs, or extended hours in school and publicly provided child care. The results in this study suggest that such programs deserve more attention.

Endnotes

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Articles in *Labour Market Matters* are written by Vivian Tran - Knowledge Transfer Officer, CLSRN, in collaboration with the researchers whose works are represented. For further inquiries about *Labour Market Matters* or the CLSRN, please visit the CLSRN Website at:

<http://www.clsrn.econ.ubc.ca> or contact Vivian Tran at: vivtran@interchange.ubc.ca