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FYI
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Postsecondary Education OPPORTUNITY

The Mortenson Research Letter on Public Policy Analysis of Opportunity for Postsecondary Education

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Every Year . . .

. . . More Unequal

Family Income Differences Influence Educational Opportunity at Every Step Toward Bachelor's Degree

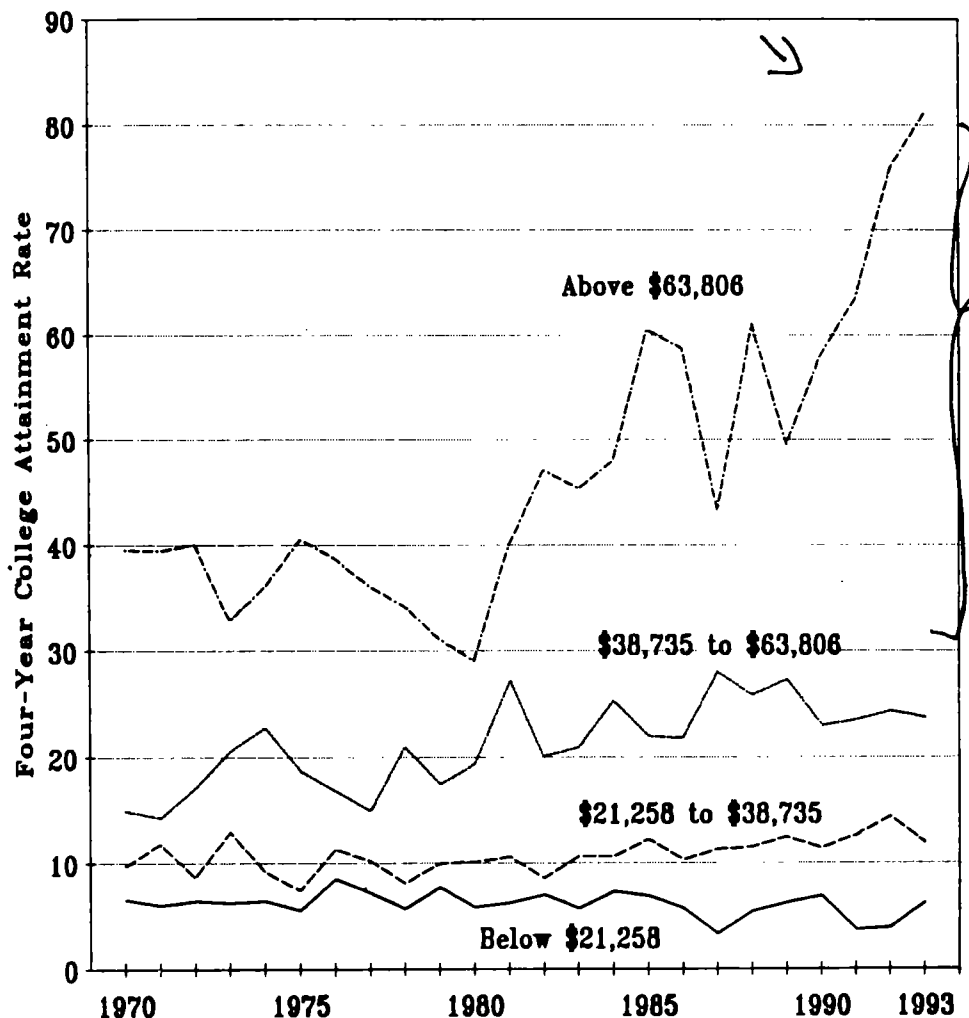
The huge and growing disparity between the objectives and performance of government student financial aid policy can no longer be ignored. Program performance has been failing with respect to its intended objectives since 1979.

At every level of education, family income backgrounds of young people influence how likely they are to successfully complete the level they are at and move on to the next level of education. These differences across levels of family income in the rate at which young people participate in the educational system are:

- ⊗ *Huge, at every level of educational participation,*
- ⊗ *Persistent, across the last twenty five years of available data,*
- ⊗ *Growing, wider over time, and*
- ⊗ *Wider now than at any time in the past.*

Here we examine school enrollment data collected through last October in the Current Population Survey by the Census Bureau to see, once again, how young people born into different circumstances of family income are faring as they move through the secondary and higher education systems. The results are a continuation of trends that have been in place since 1979. Almost none of this is new, and that by itself is an especially sad reflection on the people who make public policy, design programs, fund them, and oversee

Estimated Chances for a Baccalaureate Degree
by Age 24 by Family Income Quartile
1970 to 1993



their performance. The programs are not working, and nothing is being done to rectify the disastrous trajectory we are now on.

Data used here come largely from the Census Bureau's Current Population Survey, except as noted where estimates are used to supplement CPS

data. The data for 1993 were very recently shared with OPPORTUNITY on a pre-publication basis, and for that we thank the Education and Social Stratification Branch of the Population Division at the Census Bureau.

Federal Policy Objectives

From its origins in the War on Poverty in the mid-1960s, federal policy toward higher education has been focused on those with financial need to attend college. The Higher Education Act of 1965 created the Educational Opportunity Grant Program to encourage colleges and universities to seek out and enroll students from low family income backgrounds with needs-tested student financial aid. Subsequent reauthorizations have reaffirmed and renewed this commitment to assisting students with financial need to pay their college attendance costs with need-tested grants, loans, and work-study.

The February 1992 report of the House Committee on Education and Labor on the 1992 Higher Education Amendments noted as basic policy objectives:

The need for this legislation arises primarily from the expiration at the end of fiscal year 1992 of the authorizations for the programs in the Higher Education Act. Thus, the fundamental purpose of this bill is to affirm and improve the Federal commitment to the support of postsecondary education. The reason for this Federal commitment to education was eloquently stated by President Johnson in his message proposing the Higher Education Act twenty-six years ago. He said, speaking of education:

Nothing matters more to the future of our country: Not our military preparedness—for armed might is worthless if we lack the brain power to build a

world of peace; not our productive economy—for we cannot sustain growth without trained manpower; not our democratic system of government—for freedom is fragile if citizens are ignorant.

A fundamental theme of Federal support for postsecondary education is assistance to achieve the goal of equal educational opportunity. This is not a new goal. It was stated as long ago as 1947 by the President's Commission on Higher Education, created by President Truman. That Commission's report stated:

Equal education opportunity for all persons, to the maximum of their individual abilities and without regard to economic status, race, creed, sex, and national origin, or ancestry is a major goal of American democracy. Only an informed, thoughtful, tolerant people can maintain and develop a free society.

President Eisenhower's Committee on Education Beyond the High School stated as one of its 'basic premises' that:

Our ideals and the increasing complexity of our civilization require that each individual, regardless of race, creed, color or national origin, have the opportunity to pursue education or training beyond high school to the full extent for which he or she is willing and able.

This goal was reaffirmed in President Johnson's message to the Congress, 'Towards Full Educational Opportunity,' which proposed the Higher Education Act of 1965, and in his remarks at Southwest Texas State College upon signing the Higher Education Act of 1965. At the signing ceremony, President Johnson said that this law 'means that a high school senior anywhere in this great land of

ours can apply to any college or any university in any of the 50 States and not be turned away because his family is poor.'

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Mission Statement

This research letter is founded on two fundamental beliefs. First, sound public social policy requires accurate, current, independent, and focused information on the human condition. Second, education is essential to the development of human potential and resources for both private and public benefit. Therefore, the purpose of this research letter is to inform those who formulate, fund, and administer public policy, and programs about the condition of and influences that affect postsecondary education opportunity for all Americans.

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President Nixon expressed his strong commitment to equal educational opportunity in his 1970 message to the Congress in higher education in which he said, 'No qualified student who wants to go to college should be barred by lack of money. That has long been a great American goal: I propose that we achieve it now.'

The student assistance programs have increasingly become the dominant means by which the federal government pursues the goal of equal educational opportunity. Perhaps the most dramatic change in the Higher Education Act over the last twenty-six years has been the shift from an Act which primarily supported higher education through the purchase of things, such as buildings and books, to an Act which supports higher education primarily by investing in people through the student aid programs. The 1965 Act provided for total authorizations of almost \$1.1 billion for the first fiscal year fiscal year 1966. Of this total authorization, 68 percent of the funds were authorized for institutional aid programs and the remaining 32 percent for student aid. The largest single authorization in the 1965 Act was \$460 million for grants to build undergraduate academic facilities.

Currently, the fiscal year 1992 appropriations for programs authorized by the Higher Education Act is \$15.3 billion. Of these funds 97 percent are for the student assistance programs authorized by Title IV and only the remaining 3 percent are for the other programs authorized by the Act. In fact, the student financial assistance program authorized by Title IV provide 75 percent of the student financial assistance from all sources in the United States. The watershed in the reorientation of the Higher Education Act from the dominance of institutional aid programs to the dominance of student aid programs was the

Education Amendments of 1972 which created the Pell Grant program.

The most consistent message received from the Subcommittee's hearings was to note the erosion in the value of student aid when compared to college costs, the disproportionate decline in the purchasing power of grant assistance and the dramatic increase in student borrowing. In constant dollars, between 1980-81 and 1990-91 the value of Title IV financial assistance increased by 23 percent. During this same period increases in college costs ranged from 27 percent for public universities to 54 percent for private universities and median family income increased by only 15 percent. The purpose of the Federal student financial aid programs is to fund that part of college costs that cannot be met out of family income and thereby expand educational opportunities. These Federal programs are clearly diminishing in their ability to serve that purpose as college costs have grown at a rate significantly faster than both median family income and Federal student financial assistance. The gap between family resources and college costs is steadily widening and the ability of the Federal student financial assistance programs to fill that gap and enable students to pursue education beyond high school is also steadily eroding. It is, therefore, not surprising that in a recent Gallup poll 87 percent of the public agreed with the statement, 'College costs are rising at a rate which will put college out of the reach of most people' and 73 percent agreed with the statement, 'College costs in general are such that most people cannot afford to pay for a college education.'

Of particular significance is the fact that in fiscal year 1979 the maximum Pell Grant award represented 46 percent of the average cost of attendance at all postsecondary institutions in the United States. In the current academic year, the

maximum Pell Grant award provided only 25 percent of the average cost of attendance. In short, the purchasing power of the Pell Grant has declined by one-half.

As the value of grants has declined, students are increasing their borrowing in order to finance their education. In the current academic year, \$18.4 billion will be available to students through Federal programs. Of this amount 64 percent will be in the form of loans and 36 percent in the form of grants and work-opportunities. In the late 1970's this proportion was exactly the opposite. Looking only at the Pell Grant and the Stafford Loan program, for academic year 1976-77 the Pell Grant provided slightly more aid to students than the Stafford I program. For the 1990-91 academic year the Stafford Loan program provided more than two and one half times as much aid as the Pell Grant program. So, rather than a little more than one grant dollar for each loan dollar as in 1976-77, we are now providing two and a half loan dollars for every grant dollar. What is particularly disturbing is that the lowest income students are being increasingly forced to borrow to pay for postsecondary education.

State Policy Objectives

All states have established state programs of need-tested grants for undergraduates students, many as a result of the federal State Student Incentive Grant Program. These statutes often contain declarations of purpose that specify state intent. Pennsylvania's 1966 law is a good example:

Although the enrollments of postsecondary institutions of higher learning of this Commonwealth and throughout the nation continue to increase at a rapid pace, and although larger numbers of the Commonwealth's children

graduates from both public and nonpublic secondary schools each year, there continues to be a tragic underdevelopment of the Commonwealth's human talent because of the inability of many needy students to finance a postsecondary education program. The Commonwealth of Pennsylvania can achieve its full economic and social potential only if every individual has the opportunity to contribute to the full extent of his capabilities and only when the financial barriers to his economic, social, and educational goals are removed. It is therefore the policy of the Legislature and the purpose of this act to establish a broad-scale State scholarship program designed to guarantee that the most able students from all sectors of the Commonwealth, the most needy students and students with the capability to successfully complete postsecondary educational programs, and deserving postsecondary students are given the opportunity to continue their program of self-improvement in an institution of higher learning of their choice.

Performance Versus Promise

Data collected by the Census Bureau in the Current Population Survey provide an extraordinarily valuable and unique tool with which to examine the distribution of educational opportunity for young people across levels of family income from 1970 through 1993. Our approach is to disaggregate educational attainment (through the baccalaureate degree at age 24) into three components: high school graduation, college continuation, and 4-year college completion by age 24. We also divide the population of unmarried 18 to 24 year old high school graduates into four quartiles of family income. For 1993 these quartiles were:

Q1	below \$21,258
Q2	\$21,258 to \$38,735
Q3	\$38,735 to \$63,806
Q4	above \$63,806

That is to say, one-quarter of all unmarried 18 to 24 year old high school graduates came from families earning less than \$21,258, another quarter came from families earning from \$21,258 to \$38,735, and so on.

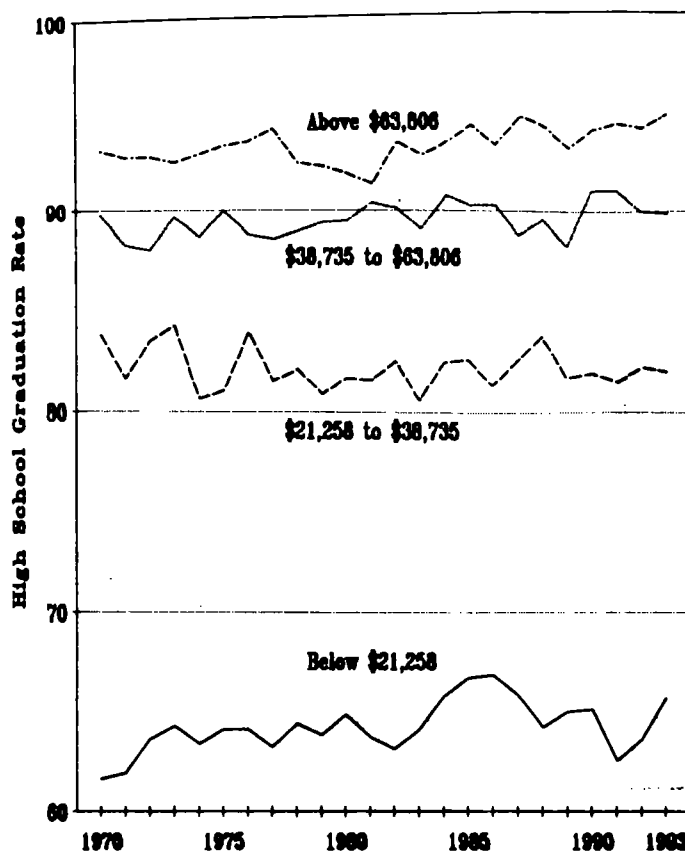
By this measure median family income for all unmarried 18 to 24 year old high school graduates was \$38,735 in 1993, compared to \$38,820 in 1992 and \$38,268 in 1991. Middle income is defined by convention (established by Michael McPherson) as the two middle income quartiles, ranging from \$21,258 to \$63,806. We call the bottom quartile poor and the top quartile affluent. In constant dollars, the top quartile has become more affluent since 1970 while the bottom quartile has become poorer.

High School Graduation

The first step of the three steps to a baccalaureate degree is

high school graduation. Here we examine the rate of high school graduation among unmarried 18 to 24 year olds stratified by family income quartiles for the years 1970 through 1993.

High School Graduation Rates by Family Income Quartiles for Unmarried 18 to 24 Year Olds
1970 to 1993



In 1993 81.5 percent of the unmarried 18 to 24 year olds were high school graduates, compared to 80.6 percent in 1992. Across quartiles of family income, high school graduation rates were 94.9 percent in the top quartile, 90.0 percent in the third quartile, 82.0 percent in the second quartile, and 65.7 percent in the bottom quartile in 1993.

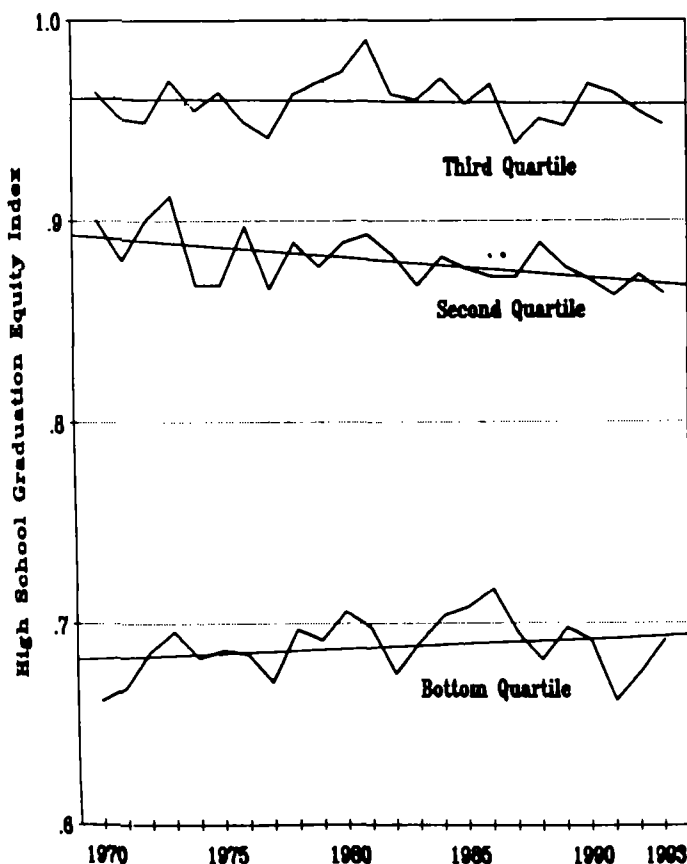
As the above chart makes clear, high school graduation rates by family income quartile have changed little over the last twenty-four years. In each and every year high school graduation rates have been highest in the top quartile, lowest in the bottom quartile, with the two middle income quartiles ranked between the extremes. Never once has the lowest rate of high school graduation for one family income quartile fallen below the highest rate for the quartile below it. The differences in high school graduation rates by family income quartiles over time are huge and persistent.

The stability of these high school graduation rates over time is emphasized when we construct a High School Graduation Rate Equity Index from the data in the previous chart. Using the high school graduation rate for the group from the top quartile of family income as the reference population toward which all other groups would move to achieve equality, we construct the Index by dividing the high school graduation rate for each lower quartile by the rate for the top quartile.

For example, in 1993 when the high school graduation rate for the top quartile was 94.89 percent and the rate for the third quartile was 89.99 percent, the High School Graduation Rate Equity Index for the third quartile was .948. Expressed another way, a student from the third quartile was 94.8 percent as likely as a student from the top quartile to be a high school graduate in 1993. The corresponding Indices were .864 for the second quartile, and .692 for the bottom quartile.

The High School Graduation Rate Indices for the first through third quartiles (compared to the top quartile) are shown in the following chart. We have also plotted a trend line through the 24 years of available Census Bureau data to emphasize the

**High School Graduation Equity Index
by Family Income Quartiles
1970 to 1993**

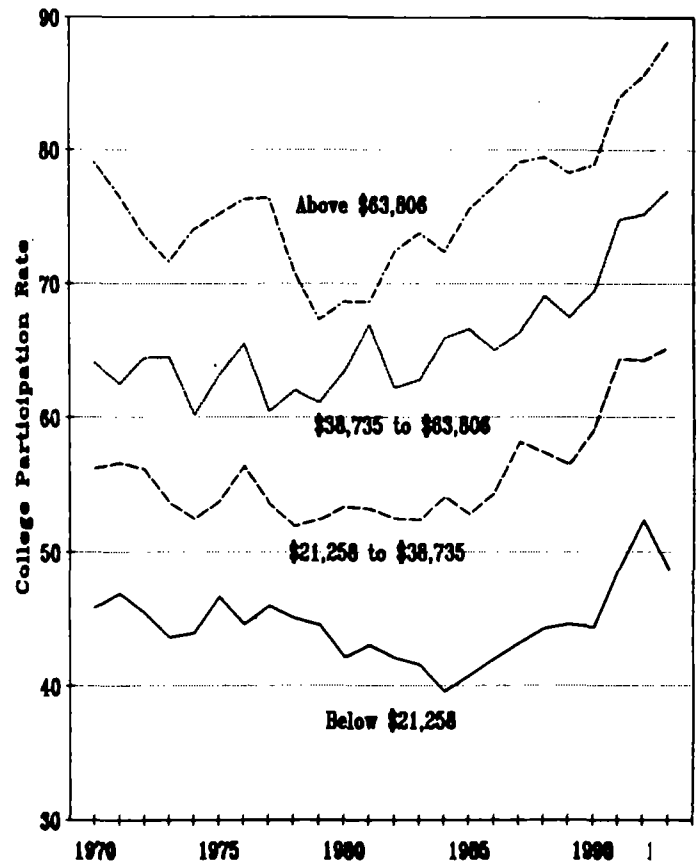


trend over annual fluctuations. The trends are largely flat, with a slight downward slope to the trend line for the second quartile and a slight upward slope to the trend line for the bottom quartile. Compared to the equity index charts that follow, these trend lines are truly flat. Over the last 24 years, virtually no progress has been made closing the huge differences in high school graduation rates across family income levels.

College Participation

The second step toward a baccalaureate degree is college enrollment for those who graduate from high school. Here we examine the rate at which unmarried 18 to 24 year old high school graduates participate in college.

**College Participation Rates by Family Income Quartiles
for Unmarried 18 to 24 Year Old High School Graduates
1970 to 1993**

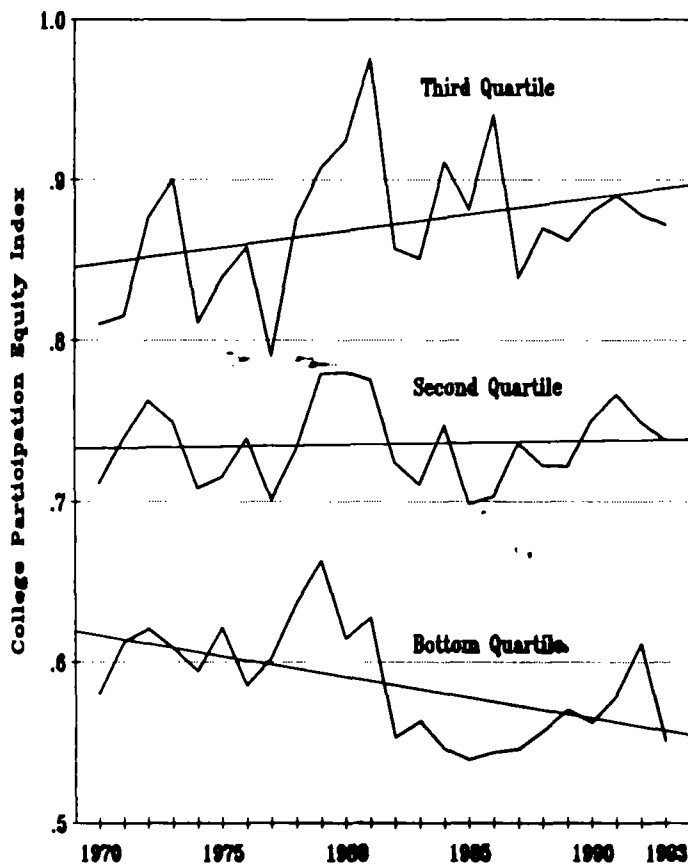


In 1993 69.8 percent of the unmarried 18 to 24 year old high school graduates had enrolled in college, compared to 69.4 percent in 1992, 67.9 percent in 1991 and 62.9 percent in 1990. In 1993 the college participation rate was 48.7 percent in the bottom quartile of family income, 65.2 percent in the second quartile, 77.1 percent in the third quartile, and 88.4

percent in the top family income quartile. Compared to 1992, the college participation rates increased in the top three family income quartiles, but dropped in the bottom quartile.

The large differences across quartiles of family income evident in the high school graduation rate chart carry over to college participation rates as well. Once again, the differences in college participation rates are huge and persistent, and they magnify disparities that are carried over from high school graduation.

College Participation Equity Index
by Family Income Quartiles
1970 to 1993



The College Participation Rate Equity Index for the bottom through third quartiles of family income are constructed by comparing the college participation rates in the three bottom family income quartiles to the rate for the top quartile. These indices are shown in the above chart.

The charts also show the trend line in the College Participation Equity Index through the 24 years of available data. Here trends appear more distinct across family income quartiles. For example the College Participation Equity Index for the third quartile was .872 in 1993, meaning that they were 87

percent as likely as a student from the top quartile to participate in college between 18 and 24 years. The comparable indices were .738 for the second quartile and .551 for the bottom quartile. The trend over 24 years is toward greater equality in the third family income quartile, no change in the second quartile, and toward greater inequality in the bottom quartile.

Four-Year College Completion

The third step toward a baccalaureate degree is the completion of four years of college by age 24 for those who started college. These data are estimated, in ways explained below, that are should not be treated as reliable as are the data reported previously for high school graduation and college participation.

The estimation of four-year college completion by age 24 for those who start college involves two sets of data. The first set is the CPS data on college participation. These data consist of three sub-groups: those currently enrolled in college, others who have completed one to three years of college and are no longer enrolled, and those who have completed four years of college and are no longer enrolled. We use this last part of the participation rate data to calculate college completion rates.

The second source of data is the 1980 High School and Beyond data file. This file was analyzed to determine for the 1980 high school graduate cohort the proportion of those who started college from each family income quartile in 1980 that had completed four years or more of college by 1986 when the cohort would have been about 24 years old.

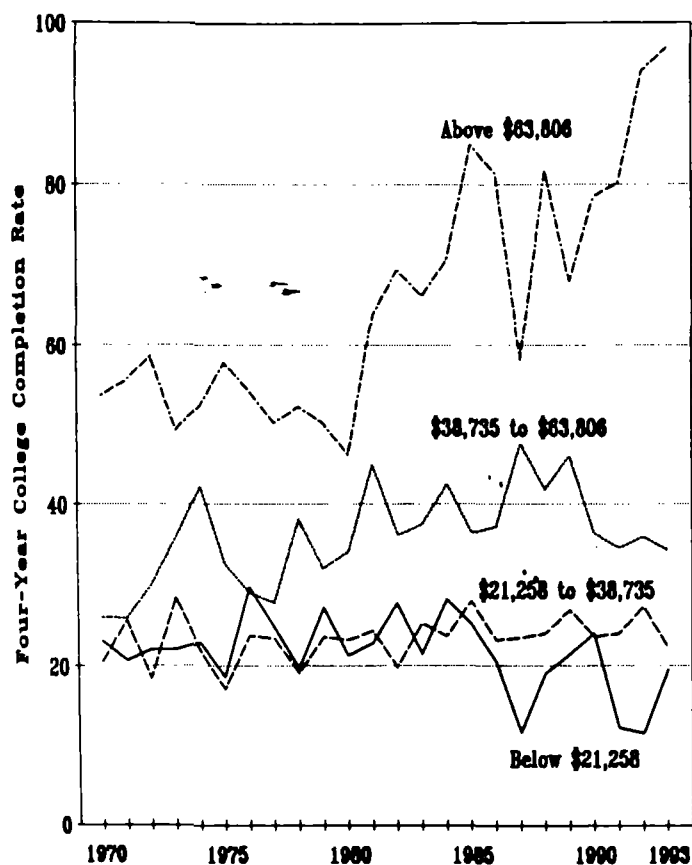
The proportion of each CPS cohort having completed four years or more of college and no longer enrolled in college is used to project a four-year college completion rate for that cohort based on the 1980 HSB experience. The main limitation of this estimation technique is that the farther we are from 1980 the less reliable this projection technique becomes. In particular this projection technique assumes that in 1993 college graduates were as likely to remain dependent family members as were students in 1980 at each quartile of family income. This may be more true in some family income quartiles than in others, e.g. the top family income quartile. Any such change will skew the following results.

While it is impossible at this time to verify this assumption, or correct for any known differences in family retention behavior of college graduates, there is some solid independent evidence that four-year college completion behavior has deteriorated for some groups of low income students and increased for other groups of higher income students. Four-year college completion rates for whites ages 25 to 29 years have edged upward since 1980 while they have dropped

sharply for blacks. There is also evidence from the UCLA Freshman Survey that students from lower income backgrounds have shifted their enrollments from four-year to two-year colleges, and that students from above median family incomes have shifted their enrollments to four-year colleges and universities.

While the accuracy of the data reported here are suspect, the general disparities they portray and the trends in recent years are quite likely to reflect actual experience of college students in completing four years of college by age 24.

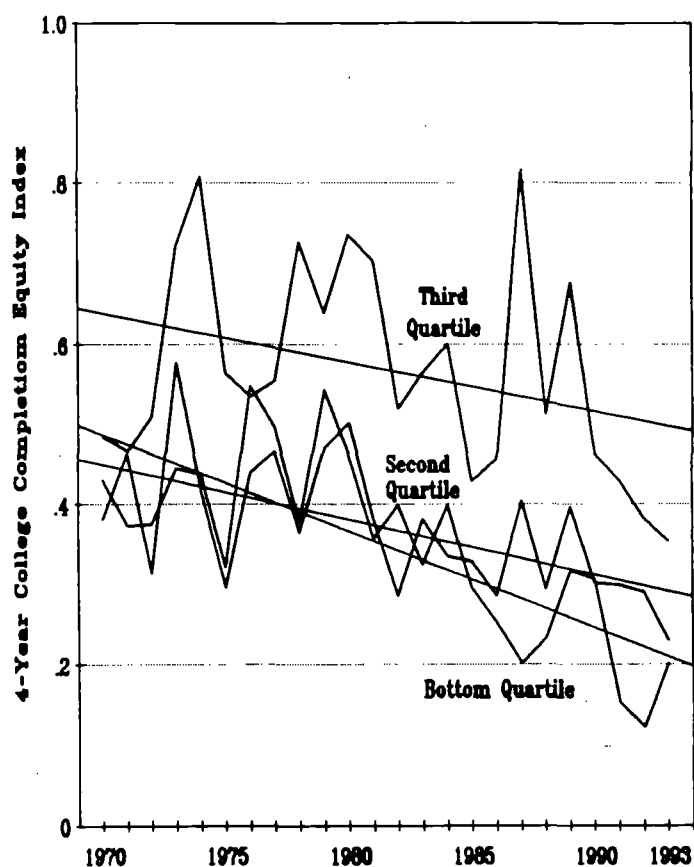
**Estimated Four-Year College Completion Rates by Age 24
by Family Income Quartiles for Unmarried College Students
1970 to 1993**



In 1993 the estimated four-year college completion rates by age 24 for unmarried college students were 19.5 percent in the bottom quartile of family income, 22.3 percent in the second quartile, 34.3 percent in the third quartile, and 96.9 percent in the top quartile. As with high school graduation and college participation, the differences across levels of family income in four-year college completion are huge, they are persistent, and they are generally wider than they have ever been in the past.

When we construct the Four-Year College Completion Equity Index, the redistribution of success in college completion becomes more apparent. Here the four-year college completion rates in the bottom three family income quartiles are divided by the four-year college completion rate for the top quartile to calculate indices. The results are plotted below.

**Four-Year College Completion Equity Index
by Family Income Quartiles
1970 to 1993**



The results are striking: in all three of the lowest family income quartiles, four-year college completion rates compared to the top quartile are well below 1.0 (signifying equity) and dropping sharply.

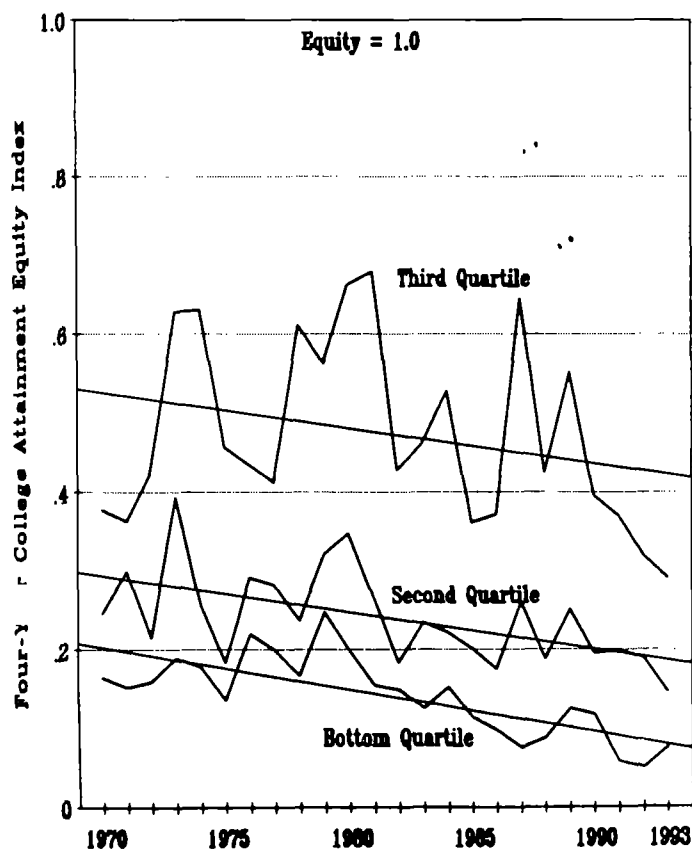
In all three quartiles, the actual equity index score has been below the trend line for at least the last three years. In the bottom two quartiles this reflects the success of the top quartile. In the third quartile, however, the deterioration in the equity index also reflects an apparent substantial deterioration in four-year college completion rates from 1990 through 1993.

Four-Year College Attainment

To earn a baccalaureate degree one must graduate from high school, enroll in college and complete four years of college. The mathematical product of the high school graduation rate, times the college participation rate for those who have graduated from high school, times the four-year college completion rate for those who have entered college is the proportion of the 24 year old population that has attained four years of college education by age 24.

The four-year college attainment rate is plotted for each family income quartile for each year between 1970 and 1993 on the first page of this research letter. The differences in high school graduation, college participation and four-year college completion across quartiles of family income are magnified when it comes to the attainment of a baccalaureate degree. In the lowest quartile of family income 6.23 percent of the 24 year olds are estimated to have obtained a baccalaureate degree (.6570 high school graduation rate x .4865 college participation rate x .1950 four-year college graduation rate). In contrast a student from the top quartile of family income has a thirteen times greater chance of earning a bachelor's

Four-Year College Attainment Equity Index
for Family Income Quartiles
1970 to 1993



degree by age 24. In 1993 81.20 percent of this quartile passed all three hurdles (.9489 high school graduation rate x .8835 college participation rate x .9685 four-year college completion rate by age 24). More so than in times past, it helps to be born into an affluent family when it comes to attaining a baccalaureate degree by age 24.

The Four-Year College Attainment Equity Index is plotted in the following chart. The index is calculated by dividing the four-year college attainment rates at the first through third quartiles of family income by the rate for the top quartile of family income. We have plotted not only the indices in the following chart, but the trend line for each quartile as well. The results are unmistakable: compared to the top quartile of family income, there is growing inequality across the bottom three quartiles of family income.

This growing inequality is largely the result of the success of the top family income quartile in high school graduation, college participation and four-year college completion. The top quartile—the only income group able to attend a four-year college without financial aid—appears to be responding directly, exclusively and appropriately to the large and growing returns to a baccalaureate education compared to lesser levels of educational attainment. Not only are students from these family income levels most likely to come from families with college educated parents, but they are also most likely to have taken college preparatory curricula in high school. From lower levels of family income, students are less likely to have college educated parents and to have taken college preparatory courses in high school. In addition, they are dependent on a student financial aid system that has been failing to reduce costs of attending college as intended for nearly the last 15 years.

Summary and Conclusions

This analysis highlights the disparities in the distribution of higher educational opportunity that have been developing since 1979. The disparities across levels of family income are huge, they are persistent, they are growing, and they are generally wider now than they have been at any time in the past.

When contrasted with the public policy objectives of equalizing higher educational opportunity, the performance of the programs created and funded to achieve these objectives must be seriously questioned. Since 1979 equality has deteriorated sharply in the bottom quartile of family income. Since 1980 equality has deteriorated in the second quartile of family income. Since 1989 equality has deteriorated in the third quartile of family income. The programs created to equalize higher educational opportunity are not achieving their objectives at current levels of public funding.

25 Year Slide . . .

. . . Where Will It End?

State Colleges and Universities Share of State Government Expenditures Declined Further in 1992

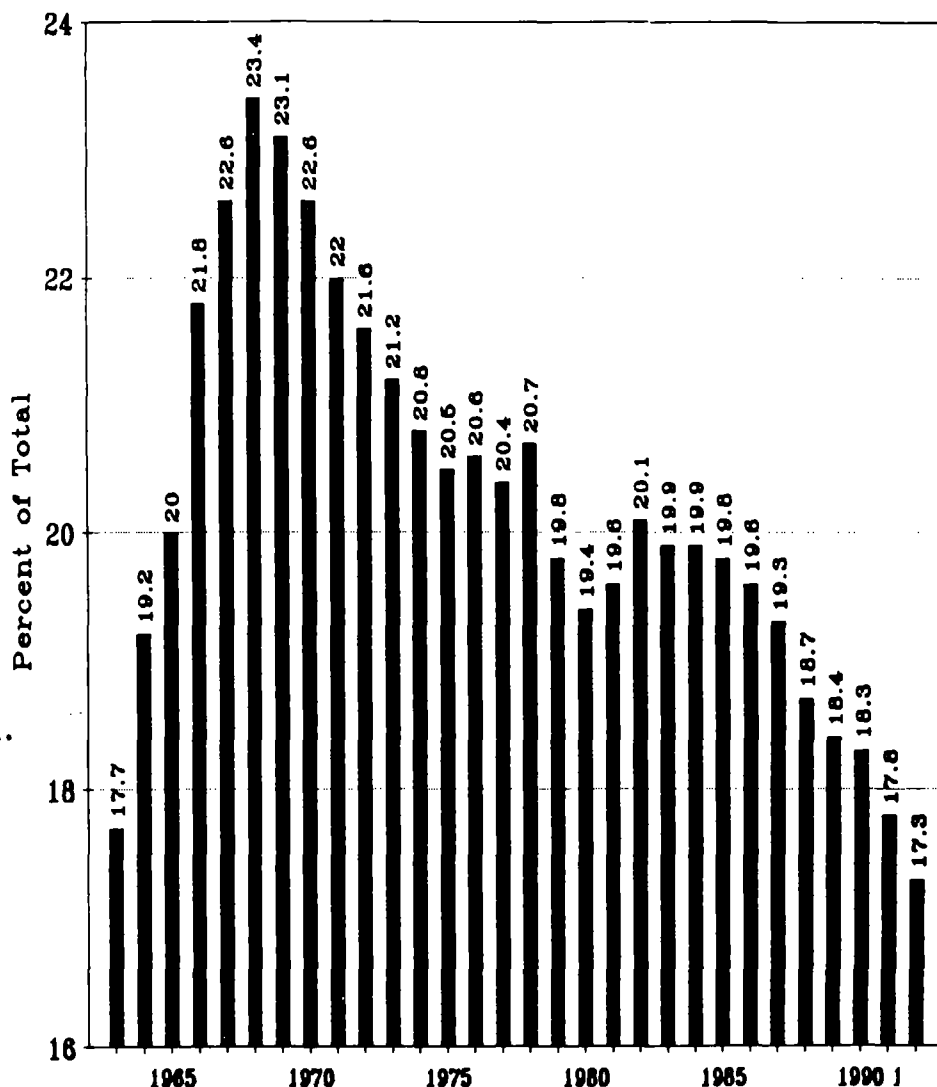
The share of direct state government expenditures that were spent on state colleges and universities declined again in FY1992 to 17.3 percent, from 17.8 percent in FY1991 and 18.3 percent in FY1990.

- This decline continues a trend begun after FY1968 when state higher education's share of state government expenditures reached a peak of 23.4 percent.
- The FY1992 share was the lowest on record, surpassing the previous low of 17.7 percent in FY1963 when the Census Bureau data on state government finances were first reported in the current format.

The analysis of state fiscal data reported here is critical to understanding issues of financing higher educational opportunity for young people. The deterioration in state support for higher education has consequences for opportunity issues such as the capacity, quality and affordability of higher education. The burden of this retrenchment is experienced disproportionately by vulnerable populations such as students from low income, minority and first generation family backgrounds that higher education has had trouble serving in the past.

This analysis of state government financing of public institutions was first reported in the initial issue of OPPORTUNITY in March 1992. Helpful comments on that initial report have led us to extend and refine the earlier analysis of the Census Bureau data. Our refinement not only confirms the original findings, but extends our analysis to the role of state tax appropriations and institutional charges in financing the

Public Institutions of Higher Education's Share of Direct General Expenditures of State Governments
Fiscal Years 1963 to 1992



educational mission of state institutions of higher education.

Data used in this analysis are collected and published by the Census Bureau in its governmental finances series.

U.S. Bureau of the Census. *State Government Finances: 1992*, Set GF/92-3. U.S. Government Printing Office, Washington, DC, 1993.

Total Expenditures

In FY1992 total state expenditures for state institutions of higher education were \$77,105 million.

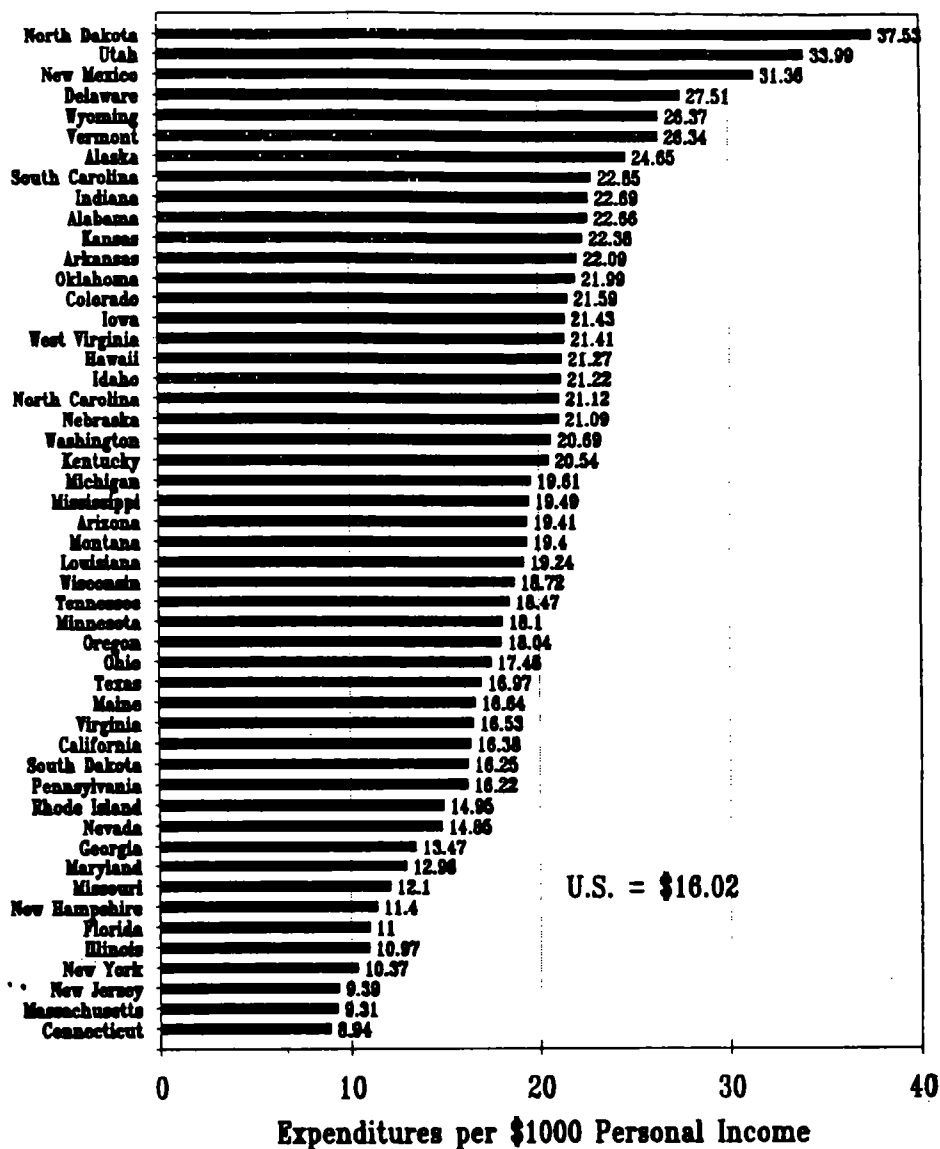
Current operation	\$62,696
Auxiliary enterprises	\$7,673
Other	\$55,023
Capital outlay	\$8,208
Direct General Expenditures	\$70,904
Intergovernmental Transfers	\$6,201
TOTAL EXPENDITURES	\$77,105

The direct general expenditures for state institutions of higher education as a proportion of all state direct general expenditures is plotted in the chart on the previous page. This excludes intergovernmental transfer payments, explained below. This was 17.3 percent, down from a peak of 23.4 percent reached in 1968 as post-World War II babies were flooding colleges and universities. Since the peak was reached in 1968, higher education's share of state expenditures has been displaced largely by welfare and corrections in state budgets.

Total expenditures per \$1000 of personal income for state institutions of higher education, including all of the components in the above table, is shown for each state in the chart to the right. Total expenditures were \$16.02 per \$1000 of personal income in 1992. The range was from \$8.94 in Connecticut to \$37.53 in North Dakota.

Between 1984 and 1992 total expenditures per \$1000 of personal income increased by \$.12. However, there was an enormous range across states. Expenditures went down in 27 states. The largest reductions occurred in Alaska (-\$.86), Georgia (-\$.06), South Dakota (-\$.20), Iowa (-\$.26), Arizona (-\$.26), Minnesota (-\$.29), Wisconsin (-\$.18), and Texas (-\$.05). The states with the largest increases between 1984 and 1992 were North

State Government Expenditures for Public Higher Education per \$1000 of Personal Income, 1992



Dakota (\$9.10), Pennsylvania (\$8.35), reportedly the result of reclassifying some previously private institutions as state universities, e.g. Temple University), Arkansas (\$5.50), Kansas (\$4.60), and West Virginia (\$3.42).

Intergovernmental transfers are state funds passed through to locally administered community colleges. This occurred in 1992 in 26 states only, and 44 percent of the total

occurred in California alone. Other states with large intergovernmental transfers in higher education were Florida with 12 percent of the total, Texas with 9 percent, North Carolina with 7 percent, New York with 5 percent, and Illinois with 4 percent.

In the following analysis we set aside expenditures for intergovernmental transfers, auxiliary enterprises capital outlay. Auxiliary enterprise includes dormitories, dining halls,

bookstores, and athletic events, but excludes public hospitals, agricultural experiment stations and extension services that are reported elsewhere in the Census Bureau report.

We also set aside capital outlay which is usually financed by debt, although revenues from bond sales are not included as state government (or higher education) revenues.

Given these exclusions from our analysis, we are left with "other" state direct general expenditures that define the core educational function of public institutions of higher education. We will return to this point momentarily after first introducing state higher education institutions' revenues.

Revenues of State Higher Education

In FY1992 the revenues of state institutions of higher education were as follows, in millions:—

Current charges	\$28,424
Auxiliary enterprises	\$8,703
Other	\$19,731
<u>Intergovernmental Transfers</u>	<u>\$10,355*</u>
TOTAL REVENUES	\$38,779*

*estimated

Unfortunately, the Census Bureau lumps all intergovernmental transfers from the federal government for education into a single number. Thus, higher education and elementary /secondary education cannot be distinguished in these data. The data are taken by the Census Bureau from the HEGIS/IPEDS institutional survey, and thus referral to original documents should provide these data.

But unfortunately, again, the National Center for Education Statistics *still has not released the 1991-92 HEGIS/IPEDS financial statistics*, reportedly due to editing delays. The most recent data released by NCES is now nearly three years old.

State Tax Support

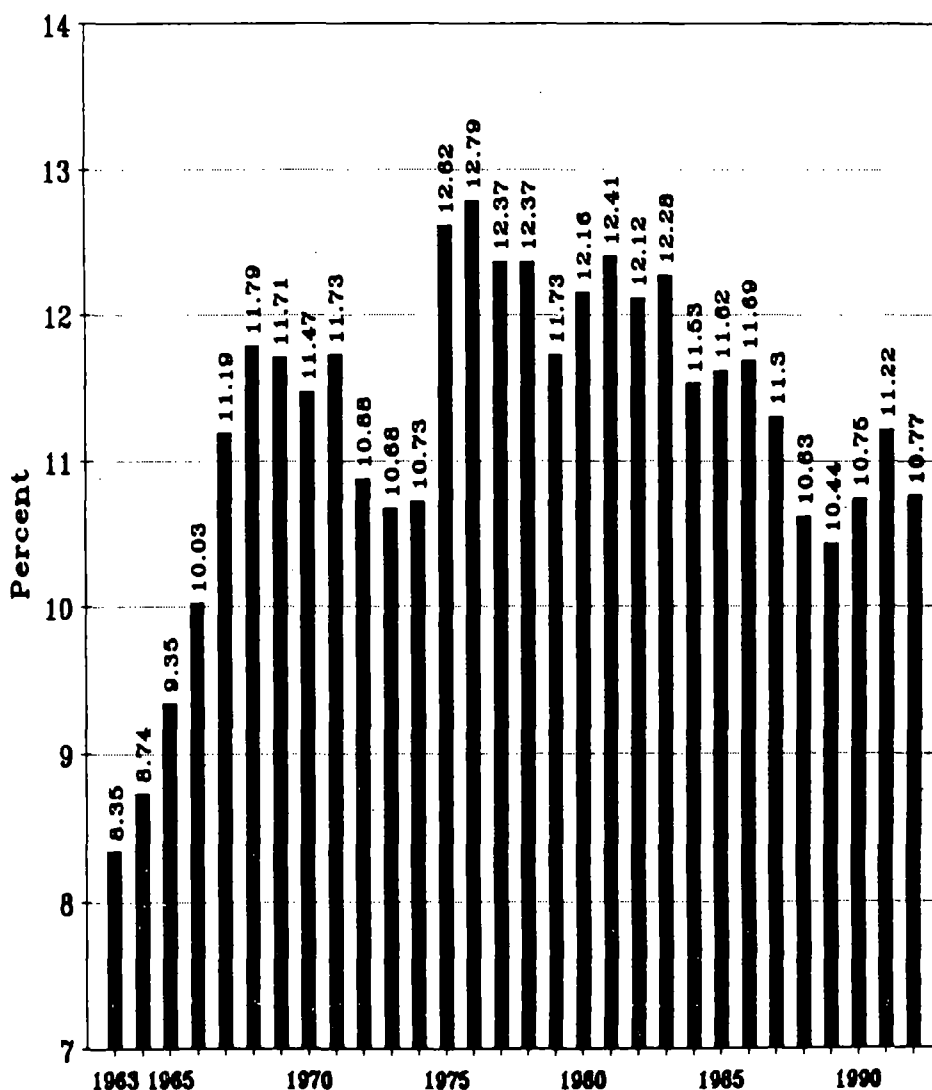
We may estimate the proportion of state tax revenues appropriated to public institutions of higher education for the years 1963 through 1992 from the Census Bureau data. Our formula—involving our exclusionary assumptions—is as follows:

(Current operations expenditures -
Auxiliary enterprises - Institutional
charges) / State tax revenues

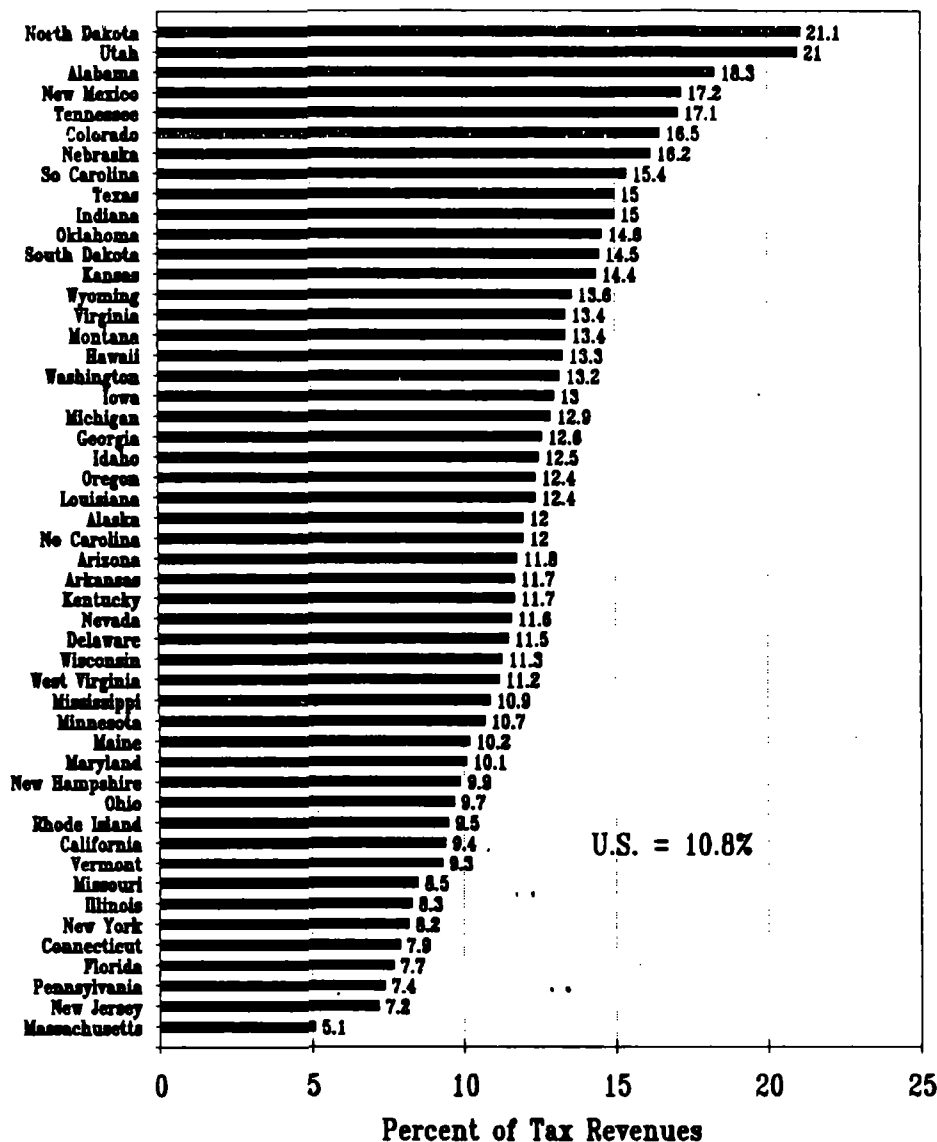
In 1992 10.77 percent of state tax revenues went for the operation of state institutions of higher education. This was roughly similar to the share of state tax revenues provided for the last five years, since 1988. However, this was well below the share provided between 1975 and 1983 when state institutions of higher education averaged 12.32 percent of state tax revenues.

In 1992 state institutions of higher

Proportion of State Tax Revenues for
Operation of Public Higher Education Institutions
1963 to 1992



State Tax Revenues for Operation of State Colleges and Universities, FY1992



education received about \$35.3 billion in state tax revenues for operations. If they had received the average share of state tax revenues that they received for 1975 to 1983 they would have received \$40.4 billion.

The proportion of state tax revenues provided for direct current operating expenditures of state colleges and universities is shown in the above chart for 1992. The proportion ranges from 5.1 percent in Hawaii to 21.1

percent in North Dakota.

Obviously there are many factors that enter into this measure of state tax support for higher education. These may include, depending on the state, the proportion of students enrolled in private colleges and universities, the proportion of enrollments from out-of-state and hence paying non-resident tuition charges, the general stinginess or generosity of the state in its tax effort and allocation priorities, and—

apparently—scale.

Institutional Charges

The second largest source of revenues for state colleges and universities is tuition and fee charges to students. In 1992 35.9 percent of the current operating revenues of state higher education institutions were derived from student charges.

The 1993 share is by far the largest share of state institutions' operating revenues for any year over the last three decades. With the exception of four apparently anomalous years in the early 1970s, between 1963 and 1981 institutional charges averaged 23.9 percent.

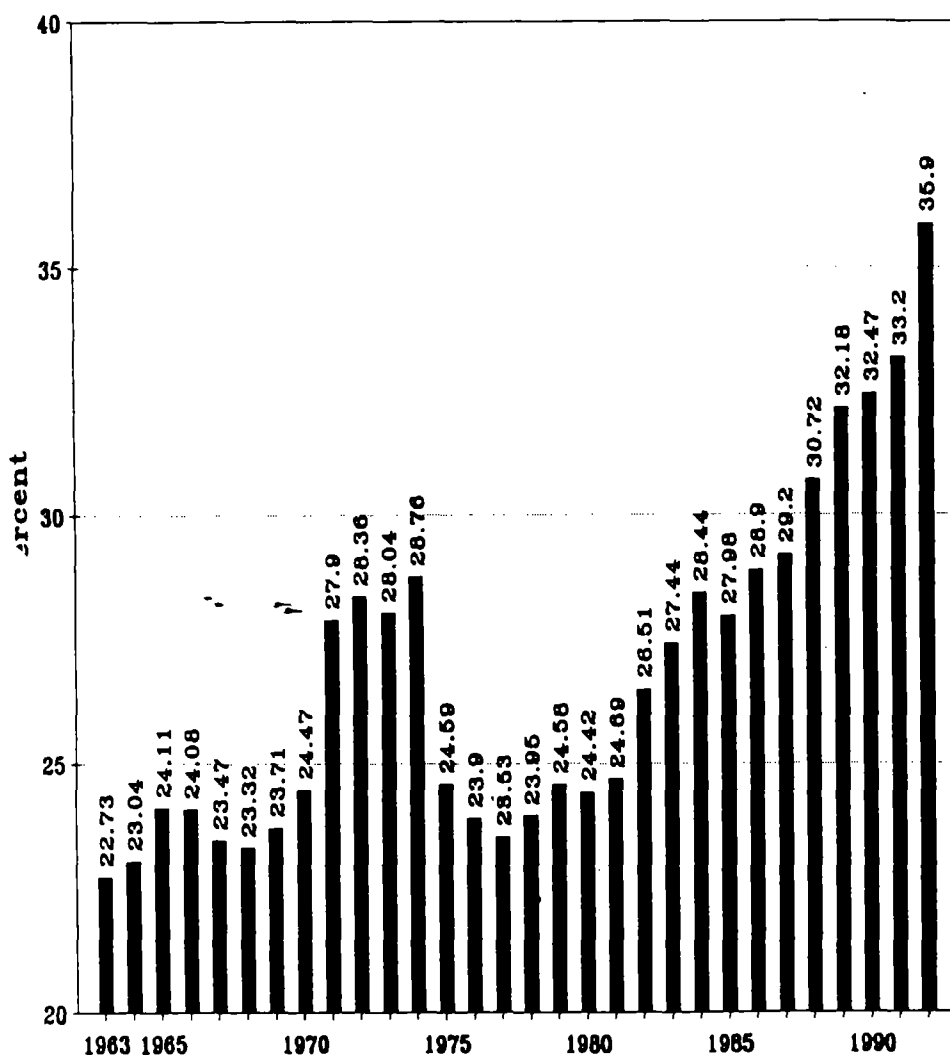
Then, very suddenly in FY1982 (decisions made 1981), institutional charges started their very rapid rise. From 1982 through 1992 the average annual increase was 1.0 percent. The largest increase of all, however, was the most recent: between 1991 and 1992 institutional charges as a percent of operating budgets increased a whopping 2.70 percent.

OPPORTUNITY has reported on this phenomenon often in the past. The decrease in state tax resources allocated to higher education forces institutions to raise tuition and other charges to students to preserve capacity and quality in educational services offered to students.

What this chart illustrates reasonably clearly is the shift in responsibility for financing higher education, from taxpayers generally to students (and their parents) in particular. Since 1981 the willingness (not ability) of Americans to invest in the country's future through the higher education of American youth has diminished considerably.

The very high and growing private rates of return to a higher education

Proportion of Current Operations Expenditures Covered by Institutional Charges in Public Higher Education Institutions 1963 to 1992



investment decision are used to rationalize this shift. In fact a bachelor's degree adds on average about \$466,000 to one's lifetime income over the lifetime earnings of a person with only a high school diploma (see OPPORTUNITY #16). For those who can afford to pay more for their higher educations, the costs are clearly small compared to the benefits.

Moreover, the earnings advantage of

college educated males over high school educated males has been widening almost continuously for the last forty years. In 1950 median annual incomes of male college graduates were 13 percent greater than those for high school graduates. By 1961 the advantage was 28 percent, by 1971 it was 27 percent, by 1981 it was 34 percent, by 1990 it was 47 percent, and by 1992 it was 60 percent (see OPPORTUNITY #18). This pattern is also true for high school graduates

over high school drop-outs. Neither trend shows any sign of letting up.

Institutional charges as a proportion of current operating budgets can also be calculated by state from the C ; Bureau data. The data for 1992 are shown in the chart on the following page.

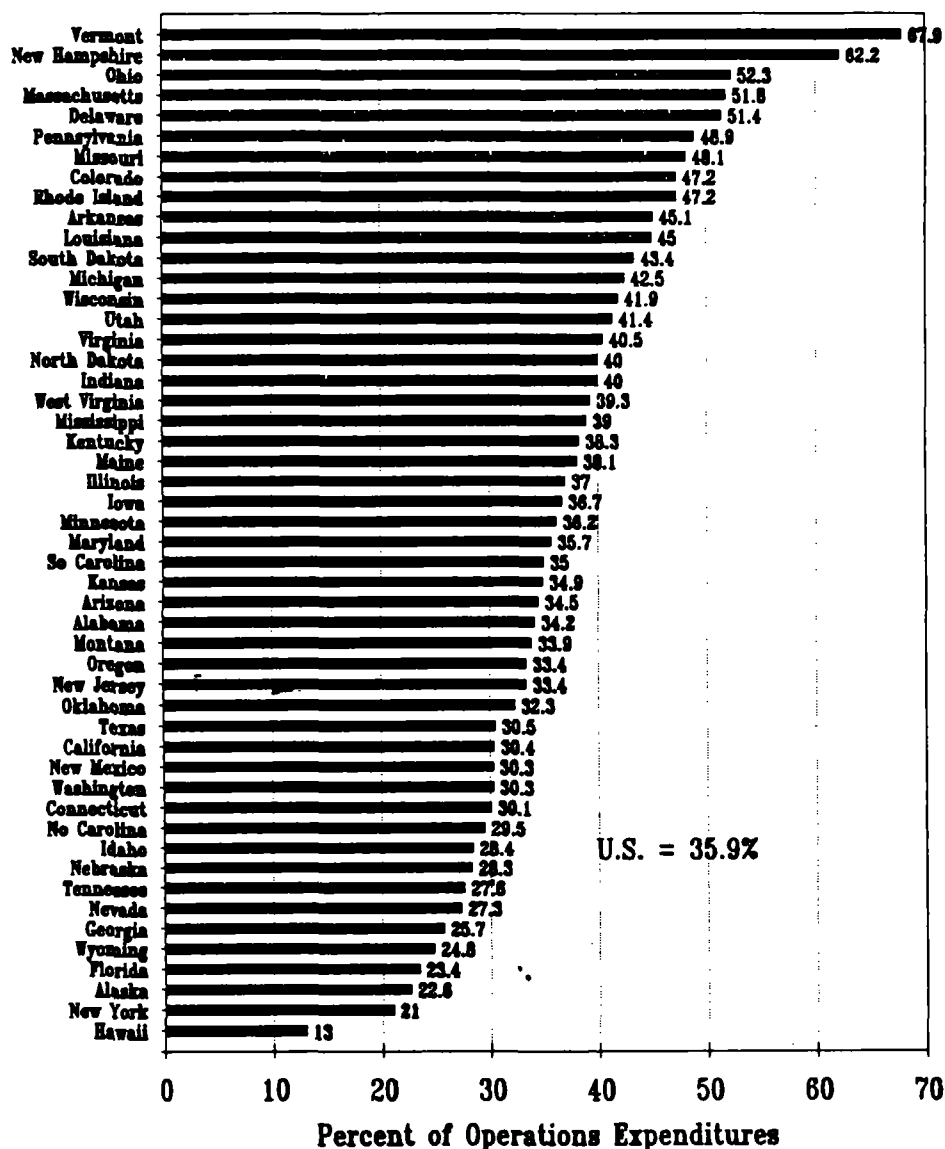
In 1992 the proportion of operating budgets covered by tuition and charges to students ranged from a low of 13.0 percent in Hawaii, to a high of 67.9 percent in Vermont. Generally, states were all over the map on this one, without clear size, region, or other readily apparent correlations with rankings.

Between 1984 and 1992, the proportion of operating budgets of public institutions increased from 28.4 percent to 35.9 percent, or by 7.4 percent. However, the expense across states varied widely, as it usually does.

States with Largest and Smallest Increases in Proportion of Operating Budgets Covered by Institutional Charges Between 1984 and 1992

Massachusetts	+29.6%
Arkansas	+19.2%
North Dakota	+18.4%
Rhode Island	+18.1%
Louisiana	+16.6%
Kentucky	+14.0%
Utah	+14.0%
Wisconsin	+12.8%
UNITED STATES	+7.4%
North Carolina	+2.4%
Hawaii	+1.7%
South Dakota	+1.5%
Idaho	+1.4%
Tennessee	+0.6%
Nebraska	+0.5%
Nevada	-1.9%
New York	-2.2%

Institutional Charges Share of Operating Expenditures for State Colleges and Universities, FY1992



At one extreme, Massachusetts increased the proportion of operating budgets covered by institutional charges by 29.6 percent, from 22.2 percent in 1984 to 51.8 percent by 1992. Massachusetts, of course, has been plagued by prolonged economic recession and state budget deficits.

At the other extreme, New York and Nevada managed to *reduce* the proportion of operating budgets in public colleges and universities that

were covered by institutional charges. New York reduced its coverage from 23.2 percent in 1984 to 21.0 percent in 1992. Nevada decreased its coverage from 29.3 percent in 1984 to 27.3 percent in 1992.

Summary and Conclusions

This analysis has illustrated the diminishing role of state higher education institutions in state finance that has occurred over the last 25

years. Higher education's share of total state expenditures is being displaced largely by growth in welfare and corrections programs.

For higher educational opportunity, the critical issues are the sharply reduced state tax contribution to financing state colleges and universities, and the sharply increased share of operating revenues derived from institutional charges paid by students (and their parents).

There is rock solid evidence that financial transition from state tax revenues to student charges is not occurring without profoundly adverse consequences for the capacity, quality and affordability of higher education. Part of the evidence is presented in the first analysis in this issue of **OPPORTUNITY**: disparities in the distribution of higher educational opportunity for students from different levels of family income have growing since this transition began about 1980.

One of the striking contradictions of higher educational finance that results is this: at the same time that the labor market calls for greater levels of postsecondary education and training and a growing share of government revenues are being by college educated workers, states are cutting back in their higher education investments.

Instead of making investments in human resources that both broaden the base of taxpayers and narrow the population base that consumes resources, states have chosen—*en masse*—to do exactly the opposite. States have chosen to narrow their paying population by curtailing educational opportunity and broaden the population requiring expensive social services—welfare and corrections, or exactly those with higher education. This is myopic, tunnel vision public policy at its worst.

Share of Aggregate Income and Mean Income Received by Each Fifth and Top 5 Percent of Families 1967 to 1992

We reproduce below a table from the most recent Census Bureau report on the money income of families in the United States. The table shows the redistribution of family income that has occurred since about 1980. The more extensive table breaks down these data for white, black and Hispanic families. Although the specific numbers vary between racial/ethnic groups, the overall pattern of income redistribution holds for each group.

(Families as of March of the following year. Mean incomes are in 1992 CPI-U-X1 dollars)

Year	Number (thous.)	Percent distribution of aggregate income						Mean income (dollars)						Mean income (dollars)
		Lowest fifth	Second fifth	Third fifth	Fourth fifth	Highest fifth	Top 5 percent	Lowest fifth	Second fifth	Third fifth	Fourth fifth	Highest fifth	Top 5 percent	
TOTAL														
1992	68,144	4.4	10.5	16.5	24.0	44.6	17.6	9,708	23,337	36,777	53,365	99,252	156,290	44,463
1991	67,173	4.5	10.7	16.6	24.1	44.2	17.1	10,027	23,801	36,930	53,562	98,406	152,267	44,539
1990	66,322	4.6	10.8	16.6	23.8	44.3	17.4	10,555	24,620	37,916	54,528	101,338	159,004	45,785
1989	66,090	4.6	10.6	16.5	23.7	44.6	17.9	10,359	24,912	38,702	55,682	104,644	167,950	46,982
1988	65,837	4.6	10.7	16.7	24.0	44.0	17.2	10,197	24,566	38,228	54,902	100,736	157,397	45,788
1987	65,204	4.6	10.8	16.8	24.0	43.8	17.2	10,157	24,591	38,185	54,650	99,875	156,348	45,553
1986	64,491	4.6	10.8	16.8	24.0	43.7	17.0	10,291	24,206	37,569	53,684	97,784	152,041	44,707
1985	63,558	4.7	10.9	16.8	24.1	43.5	16.7	9,966	23,395	36,190	51,872	93,356	143,291	42,956
1984	62,706	4.7	11.0	17.0	24.3	42.9	16.0	9,835	23,086	35,702	51,055	89,970	134,169	41,931
1983	62,015	4.7	11.1	17.1	24.3	42.8	15.9	9,514	22,480	34,661	49,408	86,921	129,514	40,597
1982	61,393	4.8	11.2	17.1	24.2	42.7	15.9	9,535	22,441	34,375	48,757	85,681	126,248	40,198
1981	61,019	5.1	11.3	17.4	24.4	41.8	15.3	10,497	22,792	34,980	49,117	84,202	123,545	40,234
1980	60,309	5.2	11.5	17.5	24.3	41.5	15.3	10,506	23,594	35,740	49,589	84,915	125,390	40,869
1979	59,550	5.3	11.6	17.5	24.0	41.7	15.8	11,089	24,465	36,950	50,882	86,165	133,486	42,310
1978	57,804	5.3	11.6	17.5	24.1	41.5	15.6	10,918	24,298	36,567	50,383	86,631	130,670	41,760
1977	57,215	5.3	11.6	17.5	24.2	41.4	15.7	10,591	23,554	35,521	49,021	84,040	127,336	40,545
1976	56,710	5.5	11.8	17.6	24.1	41.1	15.6	10,759	23,466	35,094	47,950	81,962	124,054	39,846
1975	56,245	5.5	11.8	17.6	24.1	41.1	15.5	10,513	22,895	34,116	46,716	79,814	120,638	38,810
1974	55,698	5.6	12.0	17.5	24.0	41.0	15.4	10,902	23,800	34,829	47,716	81,601	122,961	39,768
1973	55,053	5.5	11.9	17.5	24.0	41.1	15.5	11,069	24,157	35,494	48,508	83,226	125,601	40,491
1972	54,373	5.5	11.9	17.5	23.8	41.4	15.9	10,769	23,725	34,847	47,588	82,534	126,529	39,694
1971	53,296	5.5	12.0	17.6	23.8	41.0	15.6	10,300	22,682	33,187	44,945	77,412	118,034	37,705
1970	51,848	5.5	12.2	17.6	23.8	40.9	15.6	10,263	23,015	33,278	44,889	77,192	117,543	37,726
1969	51,586	5.6	12.4	17.7	23.7	40.6	15.6	10,455	23,317	33,366	44,697	76,549	117,574	37,674
1968	50,510	5.7	12.4	17.7	23.7	40.5	15.6	10,134	22,329	31,901	42,663	72,900	112,376	35,983
1967	49,834	5.4	12.2	17.5	23.5	41.4	16.4	9,360	21,227	30,510	40,919	72,253	114,316	34,659

Roughly speaking, the rich have gotten much richer, and the poor have gotten much poorer. Those in the middle have not done much better than the poor. For example, the lowest income 20 percent of all families had an average income of \$9708 in 1992. They received 5.2 percent of all family income in 1980, but by 1992 they received 4.4 percent of all family income. Similarly, the second 20 percent of all families had an average income of \$23,337 in 1992. In 1980 this second 20 percent received 11.5 percent of all family income, but by 1992 received 10.5 percent of all family income.

In contrast the top 20 percent of all families had an average income of \$99,252 in 1992. In 1980 they received 41.5 percent of all family income, and by 1992 they received 44.6 percent. But the most interesting gains were at the very top. In 1992 average family income for families in the top 5 percent of all families was \$156,290, compared to \$125,390 in 1980. During this twelve year period, their share of all family income increased from 15.3 to 17.3 percent of the total.

U.S. Bureau of the Census, Current Population Reports, Series P60-184. *Money Income of Households, Families, and Persons in the United States: 1992*. U.S. Government Printing Office, Washington, D.C., 1993.

Florida Education and Training Placement Information Program

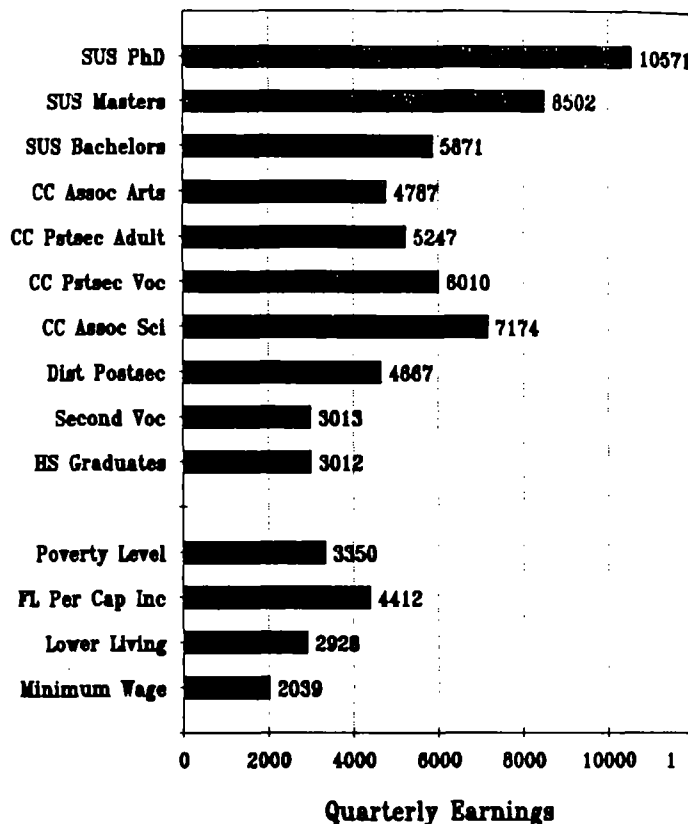
The Florida Education and Training Placement Information Program obtains follow-up data by linking the records of former students to information maintained by several state and federal agencies. It also contacts the employers of former students for information on their job titles and work locations.

FETPIP data have been used to assist in planning and accounting for education programs including technical and vocational programs. Data are provided to administrators and policy makers that describe employment, military enlistment, and continuing education experiences of former students. The data have also been supplied to students to assist them in selecting training program alternatives.

FETPIP has been used to develop follow-up information for public high schools, vocational programs, community colleges, four-year universities, and various training programs. It has developed information on former prison inmates, migrant and seasonal farm workers, Project Independence clients, and JTPA participants.

One of its benefits is the collection of comparable data across a variety of education programs, one of which is earnings. As shown in the chart on the right, quarterly earnings for 1991-92 graduates of various secondary and postsecondary education programs show some surprising differences for 1992. Earnings of community college Associate of Science and Postsecondary Vocational completers were greater than state university baccalaureate degree recipients. For further information call FETPIP staff at (904)487-0900.

Quarterly 1992 Earnings of Florida Graduates
Who Were Students in 1991-92



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Wage-Gap Blues

Strong Growth Brings Jobs to Cedar Rapids, But Many Pay Poorly

Employers in the Iowa City Cut Costs, and Workers With Low Skills Suffer

Hard at Work on the Phone

By DAVID WESSEL

Staff Reporter of THE WALL STREET JOURNAL

CEDAR RAPIDS, Iowa — The unemployment rate here is an enviable 3.6%. Harnischfeger Industries Inc.'s abandoned crane factory is now an efficient foundry and copper mill. Genencor International Inc.'s three-year-old biotech plant is already expanding. MCI Communications Inc. is adding 350 more workers here.

Economically, Cedar Rapids is as good as it is going to get in most of the U.S. Old manufacturing plants have been pruned away, and modern, competitive factories sprout up. The service sector swells. Exports are strong. Unemployment falls.

But there's an underside to this success story: The gap between the jobs that pay well and those that don't is persisting despite a growing economy and an influx of new employers. In this city of 100,000, and elsewhere in the U.S., good jobs are still scarce, and they require training that many workers lack. Meanwhile, there is an abundance of low-skill, low-pay jobs.

"The pieces don't fit," says Frank Levy, a Massachusetts Institute of Technology economist.

Serious Mismatches

The PMX Industries Inc. copper mill is both a sign of renewal and a warning to low-skilled workers who long made a decent living here. Harnischfeger, which once employed 1,350 in this city, laid off the last one in 1989. A year later, South Korea's Poongsan Corp. began investing \$250 million to convert the cavernous facility into its PMX unit's modern mill, which turns scrap metal into four-foot-tall coils of copper alloy that sell for as much as a Chevrolet. However, the PMX plant employs less than a third the workers at the old Harnischfeger factory.

Count the 430 PMX workers among the winners in the new economy. Only a handful wear insulated gloves and come close enough to molten metal to sweat. More typical is Randy Schmidt, a highly trained 31-year-old high-school graduate who works in an elevated, windowed "pulpit" crammed with television monitors, computer screens, digital displays and flashing lights. There, he operates a mill that rolls eight-inch-thick slabs of metal as thin as an eighth of an inch. When the mill is down, he calls up a spreadsheet on his computer to plan processing schedules. With overtime, operators such as Mr. Schmidt earn \$35,000 to \$40,000 a year. The mill hasn't any jobs for the untrained.

On the Losing Side

While Mr. Schmidt is a winner, Dennis Colvin is one of the losers. After 25 years at the Farmstead Foods Inc. meatpacking plant, the 46-year-old father of two lost his job as a ham-boner when the plant closed three years ago. He sold insurance for a while, then worked at a series of part-time jobs before landing third-shift assembly work in January at a nonunion Parker-Hannifin Corp. factory that makes hydraulic hoses. He started at \$6.29 an hour and now makes \$8.29; by fall, he expects to be earning \$10.29 — still 50 cents less than at the packinghouse. Though currently working 58 hours a week, he won't earn as much this year as Mr. Schmidt will.

"The world changed while we were working the packinghouse," says Mr. Colvin, a high-school graduate with little training for high-tech work. "There are no good jobs out there, unless you have a bachelor's degree, that would replace what we had in the packinghouse."

The 1990 Census found more families at the top and substantially more at the bottom in Cedar Rapids than 10 years earlier: 17% had incomes that were less than half the median income — that is, below \$20,000 in 1990 — compared with 12% in the 1980 census. But here and elsewhere, the strength of the economy isn't mitigating the factors that widened the earnings gap in the 1980s to dimensions unseen in the U.S. since World War II. Continued improvement in productivity is the key to increasing the average wage. But even as the average wage rises, MIT's Mr. Levy says, wages of the best-paid workers probably will continue to increase while wages of the worst-paid won't.

Brains Over Brawn

With the economy growing ever more technological and the need to stay competitive against domestic and foreign rivals ever more pressing, employers increasingly prize brains over brawn — to the detriment of those without education or training. Nearly everyone in the Genencor plant has attended college. PMX figures it takes five years to fully train operators at one of its rolling mills.

Unions, which once propped up wages for less-skilled workers, continue to wane here. In the latest blow, LeFebure Corp. is moving a drawer-making plant employing 95 members of the United Auto Workers from Cedar Rapids to Missouri; it expects to employ half as many workers and pay them 40% less. Few of the new employers here have union contracts; the local labor council says union membership has dropped about 15% since 1990 despite a gain in public-employee members.

In downtown Cedar Rapids, you can still smell the sweet, toasty aroma from

Continued From First Page

Quaker Oats Co.'s largest cereal mill, but the cost-conscious company makes 20% more cereal with 20% fewer workers than five years ago. That means 300 fewer \$15.50-an-hour jobs, and the plant manager says the work force will keep shrinking.

Perhaps the one development that might narrow the wage gap is a surge in college enrollments, particularly at institutions such as Kirkwood Community College here. Across the U.S., 63% of the high-school class of 1993 was enrolled in

college the following October, up from 49% in 1980. Economists expect a more educated work force to alleviate the labor mismatch by reducing the premiums college graduates command and raising the wages of less-educated workers because not so many will be fighting for the same jobs. Indeed, the core of President Clinton's strategy for boosting wages is education and job training.

The College-Degree Premium

But education and training don't pay off immediately—or guarantee a good job. Kathy Marsh, a 39-year-old divorced mother of three, struggled to put herself through Mercy College here, hoping to get a public-school teaching job. Unable to land one, she has settled for \$8.30 an hour as a medical assistant at a clinic and gets by with child support, subsidized housing and the earned-income tax credit. Renee Keegan also went back to school for a year to become a licensed practical nurse but couldn't find such a job; she sorts mail at \$8.50 an hour at the same clinic.

Nevertheless, better-educated workers generally do better. The premium paid for a college degree doubled in the 1980s, according to a study by Richard Freeman, a Harvard labor economist, and Larry Katz, also of Harvard and now chief economist at the Labor Department.

The gulf between Americans doing well and those scraping by is tempering enthusiasm for the reasonably strong economic growth. Asked in a recent Wall Street Journal/NBC News poll whether newly created jobs are mainly high-paying or low-paying, a full 72% said low-paying.

"Somewhat surprisingly, despite the recent unambiguous evidence of recent economic improvement, there continues to be deep-rooted foreboding among a number of American families that current and future generations will not live as well as previous ones," Federal Reserve Chairman Alan Greenspan said recently. "The most likely cause is the clear evidence that . . . a significant part of our population is lagging behind the improved standards of living of the majority of our families."

The good jobs in Cedar Rapids are often more pleasant and sometimes more secure than those at the old factories, which were constantly hiring and then laying off workers as business conditions fluctuated. And the good jobs pay enough to realize the middle-class dream of homeownership in an area where the typical house costs less than \$90,000.

Oscar Sanchez, a 31-year-old with two years of college, earned about \$37,000 last year as a technician at Genencor, which uses micro-organisms to make enzymes for laundry detergent. The plant is unlike any of those where he worked previously. The manager doesn't wear a tie. Supervisors are called "enablers." And Mr. Sanchez, who comes as close to being a production worker as anyone else, proudly wields his own business card. He and his wife figure that they can meet the payments on their new three-bedroom house even if she loses her job.

Job Turnover Low

But even in prosperous Cedar Rapids, such jobs are scarce. "The turnover in well-paying jobs is quite low. If you get one, you don't want to leave one," says

Thomas Pekich, Genencor's vice president for North American manufacturing. Genencor's work force here totals 75, and it needs fewer than 15 workers to operate the plant during any one shift. A new Weyerhaeuser Co. paper mill, which will be as long as two football fields when completed, promises to pay more than \$15 an hour but expects to hire only 65 production people.

Although overall employment here is up more than 14,000 since 1979, the city has 9,400 fewer factory jobs. Meanwhile, the jobs in the growing service sector come in both high-wage and low-wage varieties. MCI, the long-distance phone company and a newcomer here, pays software engineers \$50,000 a year and up. But telemarketers and conference-call operators begin at \$14,000—and there are more of them.

The Cedar Rapids Gazette is full of help-wanted ads—for \$6.50-an-hour jobs. The computer at the local employment office spews out plenty of openings to pound computer keyboards all day as \$6-an-hour data-entry clerks. The dozen union workers at CCB Packaging Inc., a supplier to the cereal plants, recently approved a new contract that gave them a 2½% pay raise—to an average of \$5.43 an hour. They get no health insurance.

A poster in the local office of Manpower Inc. advertises temporary assembly work that pays \$4.65 an hour, the minimum wage; a perfect-attendance bonus brings reliable workers up to \$5.27—less than \$11,000 a year. The owner of the local Manpower franchise says his temporary-help business is better than ever. In some weeks, his outfit pays 900 people, more than all but the biggest factories. Wages average \$6.93 an hour; there is no job security and often no benefits—a major consideration to many employers.

Telecommunications Jobs

Now that suburban malls have sucked retail sales out of downtown Cedar Rapids, the new and rehabilitated downtown buildings house what might be considered the low-wage assembly lines of the telecommunications age. They don't make widgets; they make phone calls. Field a fund-raising call from your college, and the caller may be at a desk at Ruffalo Cody Associates in Cedar Rapids. Get a telephone pitch for another credit card, and it could be Apac Teleservices calling from Cedar Rapids. Dial MCI to ask about your bill, and the person on the other end may be here.

In some respects, these jobs are more pleasant than those in the old factories. The workplace is air-conditioned, and injuries are rare. But a pressure-cooker atmosphere prevails. At the MCI facility where operators arrange conference calls, one woman works two keyboards, one with each hand; an electronic billboard reports how many callers are on hold.

And you can't support a family on one of these jobs, many of which are part-time. Only the most proficient full-time veterans earn more than \$20,000 a year. Wages at MCI, which employs 800 telemarketers in a six-story building here, start at \$7.25 an hour; annual earnings typically average \$17,000 before commissions.

"A lot of people here still think they're middle-class," says the Rev. Charles Me-haffey, a local minister. "They're real reluctant to realize they aren't middle-class anymore."

2/2

'Human Capital' Touted in Clinton Economic Agenda

By Mark Pitsch

Washington

In his first 18 months in office, President Clinton and a team of top advisers have crafted a domestic agenda that is intended to serve as the human link in the Administration's economic chain.

Interchangeably referred to as the "human capital" or "lifelong learning" agenda, the blueprint outlines the third leg of an economic strategy that also aims to reduce the federal deficit and to open more world markets to U.S.-made goods.

The human-capital agenda spans a broad spectrum of proposals and programs, ranging from several education-related initiatives and an expanded Head Start program to a newly unveiled plan for overhauling the welfare system.

The critical role that human capital plays in the President's economic strategy stems from a singular belief that permeates the Administration: The federal government must help prepare workers to adapt to the economic forces at work in the rapidly changing, worldwide economy.

"There is . . . a growing connection between the amount and kind of investments that the public sector undertakes and the capacity of the nation to attract worldwide capital," Secretary of Labor Robert B. Reich wrote in his 1991 book, *The Work of Nations*. "Herein lies the new logic of economic capitalism: The skills of a nation's workforce and the quality of its infrastructure are what makes it unique, and uniquely attractive, in the world economy."

Like Mr. Reich, the President "sees education and the related issues absolutely as a foundation for economic growth and productivity," according to Michael Edwards, the manager of Congressional relations for the National Education Association.

Not everyone agrees with the Administration's view of international markets and worldwide competitiveness, however. While it is true that the economy is becoming increasingly global, critics say, a nation's productivity is still determined by the goods and services it sells to its own citizens.

Other critics say that the Administration has produced a hollow agenda and that the money to finance it is just not there.

Nevertheless, Administration officials insist they are taking steps to alter the way the country approaches education and the way the government administers its domestic policy. The goal, they say, is to insure that American workers are the best equipped in the world to take advantage of new national and international markets.

"If this works the way we want," William A. Galston, the President's deputy assistant for domestic policy, said in an interview, "the President will have to-

tally redone the lifelong-learning agenda."

Gaining Momentum

By way of explanation, Mr. Galston suggested that the 103rd Congress be thought of "as a two-stroke engine."

History will record 1993 as the year the Administration and Congress "took care of the macroeconomic issues," he said: reducing the size of the federal deficit, reorganizing federal expenditures, and expanding world markets through the North American Free Trade Agreement and the General Agreement on Tariffs and Trade.

In 1994, he said, the Administration is pushing for reform in four areas that it sees as key components of its human-capital strategy—education and training, health care, welfare, and crime.

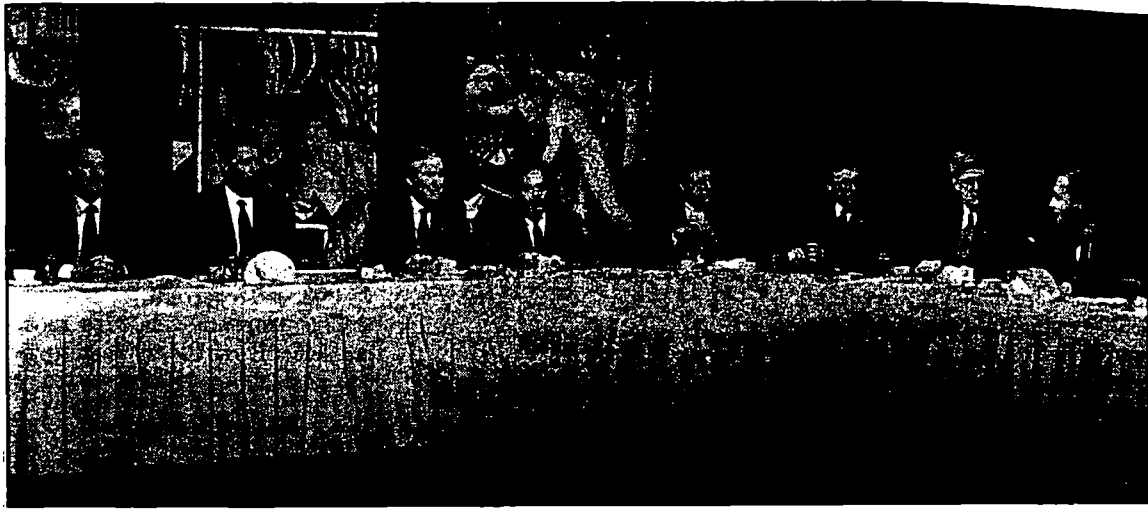
On the issue of education, the lifelong-learning agenda got rolling in 1993 when Congress revamped the system that provides loans to postsecondary students, and it gained momentum this spring when the President signed the Goals 2000: Educate America Act, the School-to-Work Opportunities Act, and the Head Start reauthorization bill. It will receive a boost later this year when lawmakers pass a bill to reauthorize the Elementary and Secondary Education Act.

"If you look at the new economy, it's an economy of ceaseless change," Mr. Galston said. "Jobs are created. Jobs are destroyed. Companies are created. Companies are destroyed. . . . The bottom is dropping out of our economy for people who lack the education and skills to participate."

"In this new economy, lifelong learning is not just a nice thing. It's a necessity," he added.

The Consensus View

But the Administration's strategy is not entirely new. Nor is it particularly partisan.



AP/Wide World

It is a strategy, Mr. Galston said, that builds on "the great national conversation" that took place during the 1980's and early 90's about the direction of the nation's economy and the employability of its workers.

"This thinking has been evolving for more than a decade," said Anthony P. Carnevale, the chairman of the National Commission for Employment Policy, an independent federal agency. "It is the consensus view among both the elites . . . and with the American public."

The national conversation on the nation's workforce spawned an almost endless series of reports and books on subjects ranging from the quality of the nation's schools and the health and welfare of its youngsters to the need for an economy based on high-skills jobs.

Participants included liberals and conservatives, politicians and academics, business leaders and philanthropists, educators and journalists. A number of people now serving in the Administration, including President Clinton and First Lady Hillary Rodham Clinton, were among those taking part.

The conversation produced *A Nation at Risk*, the 1983 report credited with launching the school-reform movement, and sev-



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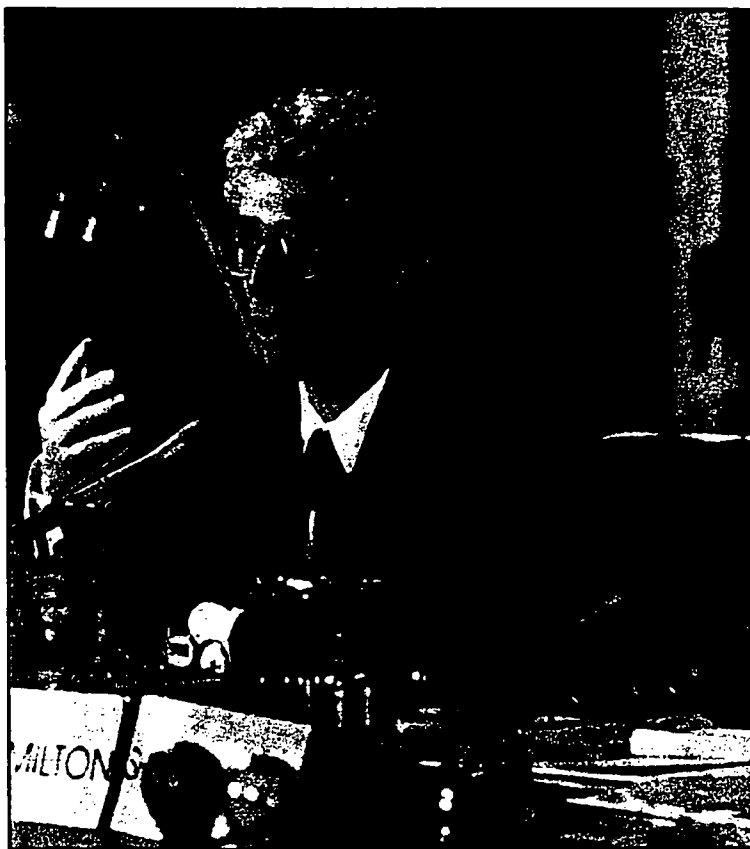
eral influential reports by the Committee for Economic Development, including one by a task force in 1985 that counted among its members the current Secretary of Health and Human Services, Donna E. Shalala.

And it led to several reports from the National Center on Education and the Economy, whose board included Mrs. Clinton and Ira Magaziner, the President's senior adviser for policy development. The center's Commission on the Skills of the American Workforce was chaired by Mr. Magaziner and included David J. Barram, the deputy secretary of commerce.

As Governor of Arkansas, Mr. Clinton was in the thick of the conversation. At home, he won legislative approval for an education-reform package and was among the first governors to explore health-care reform and apprenticeships for noncollege-bound teenagers.

On the national scene, Mr. Clinton served as chairman of the National Governors' Association in 1986-87 when it produced a report on economic competitiveness that focused on the role of improved education. A year earlier, Mr. Clinton served as a co-chairman for "Time for Results," the N.G.A. doc-

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Top left, the "country paper" President Clinton used at the jobs summit in Detroit earlier this year was drafted by an interagency group studying workforce issues over several months. Left, the President articulated the Administration's views on lifelong learning in a speech at the American Council on Education's convention in Washington in February. "In this new economy," says William A. Galston, above, the President's deputy assistant for domestic policy, "lifelong learning is not just a nice thing. It's a necessity."

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ument that laid out an education agenda for governors. Mr. Clinton also led the task force on school leadership and management for that report, while Secretary of Education Richard W. Riley led the task force on school readiness.

In 1989, Mr. Clinton spearheaded the writing of the six original national education goals.

A New Commitment

By the time he assumed the Presidency, then, Mr. Clinton had already developed a human-capital agenda and "was under absolutely

no doubt, no confusion, no hesitation" about it, Mr. Galston said.

What mattered was to convince Congress of its necessity and to implement it.

Mr. Clinton, keeping a campaign promise, created the National Economic Council as a domestic counterpart to the National Security Council. The council was charged with coordinating economic policy out of the White House.

Robert E. Rubin, a Wall Street investor, was put in charge. He chose Gene Sperling, who spearheaded economic issues during the campaign, and W. Bowman Cutter, a former consultant with

Coopers & Lybrand, as deputies.

While Mr. Sperling took charge of the deficit-reduction package, Mr. Cutter convened some of the highest-ranking agency officials to discuss the state of the nation's workforce. They included Undersecretary of Education Marshall S. Smith; Leslie Loble, the acting assistant labor secretary for policy; Douglas Ross, the assistant labor secretary for employment and training; Larry Katz, the Labor Department's chief economist; Mr. Barram of the Commerce Department; Louis C. Finch, the principal deputy assistant secretary for manpower and readiness at the Defense Department; and Peter Edelman, counselor to Ms. Shalala.

According to participants, those meetings resulted in a commitment to a human-capital strategy coordinated out of the White House but permeating the agencies.

"I happen to believe, as a matter of logic and analytics, that human capital is really best thought of as an economic issue," Mr. Cutter said. "In business, the only enduring resource is people."

After seven months of discussing workforce-policy issues, the task force produced a document that President Clinton used as the "country paper" at the G-7 jobs summit in Detroit earlier this year. The paper has not been made public, but Mr. Cutter said the group reached three critical conclusions: that the changing economy necessitates a workforce with greater technical skills; that technology needs to be applied to education and training functions; and that government programs need to be re-evaluated and concentrated on the lowest end of the workforce.

"If we don't bring that sector into job networks and training networks and education networks, it won't be a rising tide that lifts all boats," he said. "It will be a rising tide, but it won't lift that boat."

The group is now engaged in a second round of talks that is examining the "next generation" of edu-

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cation, training, human-capital, and economic-policy issues.

A 'Simplistic' Idea?

However, critics of the Administration's human-capital strategy, even those who agree with it, say it suffers from too much naiveté.

"What sounds like a futuristic, forward-looking, intellectual basis for economic strategy is basically a set of deeply misleading, simplistic ideas," said Paul Krugman, an economics professor at the Massachusetts Institute of Technology who specializes in international trade and finance. "Most professionals on international trade feel the Administration has bought into a 'Gee whiz, by golly, there's a global economy out there' view of the world that sounds smart but doesn't hold up."

While not disputing the value of providing education and training to workers to help improve their skills, Mr. Krugman argues that the Administration's rhetoric on the issue has been misleading.

A country's economic productivity is, by and large, determined by its consumption of goods produced by its workers, he said, not by goods consumed by other countries.

Sue Berryman, an education specialist with the World Bank, said the Administration has "overpromised" on its human-capital agenda and suggested that the Administration's preparation for a high-wage, high-skills economy is a matter of wishful thinking.

Retraining much of the current workforce, she said, is easier said than done; meanwhile, numerous young people do not have the skills or attitudes to become highly skilled workers.

Moreover, she said, investing in a human-capital agenda—a strategy with which she agrees—does not guarantee people jobs. Financially strapped employers will do anything to keep their companies afloat, she said, including firing highly skilled workers.

"It's a strategy of positioning people to do battle in the labor mar-

ket," Ms. Berryman said. "That's the best we can do for them."

Elusive Funding

That, however, is precisely what Administration officials say they are trying to do—set up a system that allows workers to move freely throughout the workforce, especially when they are forced to.

"What we're really trying to do is educate people to be creators of jobs," Mr. Barram of the Commerce Department said.

Other critics note, however, that money to pay for the projects remains elusive.

Max Zwicky, an economist with the Economic Policy Institute in Washington, faults the Administration for forging a deficit-reduction deal that left few federal dollars to support its human-capital agenda.

"Rhetorically, human-capital development is one of their favorite topics, and it's also central to their idea of economic development," Mr. Zwicky said. "But they've boxed themselves into a corner."

In his new book, *The Agenda*, the investigative reporter Bob Woodward details an internal struggle in the Administration between officials who advocated deficit reduction and those who pressed for spending on education and training. The spenders lost.

Administration officials concede that financing the initiatives will be difficult, but say they will continue to fight for funds.

Apart from money, Mr. Cutter said, the Clinton Administration recognizes that it has a responsibility to follow through on its agenda.

"I think there's broad skepticism that government can't do anything at all, and I think that puts a burden, especially on Democrats, to be cold-blooded on making programs work," he said. "We absolutely have to hold government programs accountable for delivering."