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America's HOPE Scholarships



**A Tax Cut to Make
14 Years Of Education
The Standard For All**

June 4, 1996

AMERICA'S HOPE SCHOLARSHIPS
A TAX CUT TO MAKE 14 YEARS OF EDUCATION THE STANDARD FOR ALL
June 4, 1996

PRESIDENT CLINTON ANNOUNCES THE HOPE SCHOLARSHIP PLAN TO MAKE 14 YEARS OF EDUCATION -- AT LEAST TWO YEARS OF COLLEGE -- THE STANDARD FOR ALL AMERICANS. President Clinton's HOPE Scholarship Tax Cut makes clear that 2 years of college should be as universal as high school and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life. To further this guarantee, the President announced the following proposals:

- **NEW AMERICA'S HOPE SCHOLARSHIP TAX CUT -- Guarantees 2 Years of Tuition at the Average Community College for Any Student Who Earns a B Average.** Modeled on the successful Georgia HOPE Scholarship program, this new proposal provides all students with a \$1,500 refundable tax credit for full-time tuition in their first year (\$750 for half-time), and another \$1,500 in their second year if they work hard, stay off drugs, and earn at least a B average in their first year. This \$1,500 tax credit will pay for more than the full cost of tuition at the national average-priced community colleges -- and a downpayment at more expensive four-year schools.
- **\$10,000 Tax Deduction for All Education and Training.** The President maintains his \$10,000 tax deduction for tuition for college, graduate school, community college, certified training and technical programs. This encourages lifetime investment in higher education.
- **Scholarship Increases (Pell Grants) for Lower-Income Students:** The President announced that his balanced budget plan increases Pell Grants each year. Indeed, the maximum Pell Grant award will increase by 33% from fiscal 1995 to fiscal 2002. The proposed increase in fiscal 1997 is the largest in the program's 25-year history.

BUILDS ON PRESIDENT'S PLAN FOR GUARANTEED ACCESS TO COLLEGE. The above initiatives build on the President's plan to guarantee that college is both accessible and affordable to every person -- through loans with pay-as-you-can repayment, grants, scholarships, and work study.

- **With the increased Pell Grant program support,** students have access to up to \$5,100 in Pell Grants and student loans for their first year in college, and much more in future years.
- **The new Direct Student Loan program** enacted as part of the President's 1993 Economic Plan is allowing millions of students to borrow in a simpler, less bureaucratic way, and to pay back their loans as a share of their income, and part of the savings from Direct Lending will be returned to students in the form of lower interest payments on their loans.
 - **New Direct Loans With Pay-As-You-Can Option:** Will account for 50% of loans
 - **National Service -- AmeriCorps:** 30,000 students earning up to \$4,725 for service
 - **Pell Grants:** Provides for 7-year expansion, increasing maximum award to \$3,128 in 2002
 - **\$10,000 Education Deduction:** 16.5 million students get deduction for their tuition
 - **Work Study Expansion:** Proposes expansion to 1 million participants by FY2002
 - **Honors Scholarships:** Proposes \$1,000 scholarship for top 5% of every high school class
 - **IRAs for Education:** Proposal allows penalty-free withdrawals for education
 - **Skill Grants:** Proposed \$2,600 Skill Grants to enable dislocated workers to get needed skills

America's HOPE Scholarship Tax Cut

	<u>Page</u>
• 2-Page Summary of the New HOPE Scholarship Tax Cut	2-3
• How the New America's HOPE Scholarship Is Paid For	4-5
• 1-Page Summary of New Pell Grant Increase	6
• 1-Page Summary of \$10,000 Education Tax Deduction	7
• Chart on Cost of College as a Percentage of Family Income	8
• Chart on State-by-State 2-Year College Tuition Costs	9

BACKGROUND ON HOPE SCHOLARSHIPS

Overview. Currently, millions of Americans have access to college through Pell Grants and the federal student loan program, including the President's Direct Student Loan program, but the average student with loans now graduates \$10,000 in debt and many more may not go on to college because they are reluctant to borrow so much money. The annual cost of a public college increased from 9% of the typical family's income in 1979 to 14% in 1994. [Education Department, 1996] *The President's HOPE Scholarship Plan makes it clear that two years of college should be as universal as high school, and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life.*

- **Guaranteed Average Tuition For Two Years of Community College:** The HOPE Scholarship Plan will ensure that students can get up to a \$1,500 refundable tax credit, a Pell Grant, or a combination for tuition in their first year after high school, and another \$1,500 in their second year if they work hard, stay off drugs, and earn at least a "B" average. This \$1,500 credit is \$300 above the national average community college tuition and would make tuition free for 67% of all community college students. It would enable states that set tuition within \$300 of the national average *to make community college tuition free for every student.* The credit would be indexed to inflation each year to protect its value.
- **\$1,500 For The First Two Years At Any College For Students Who Earn At Least a B Average:** While the HOPE Scholarship tax credit is priced to pay for the full cost of two years of community college tuition for students who earn at least a "B" average in their freshman year, the \$1,500 credit can be applied to tuition at any college, from a two-year public community college to a four-year private college. This \$1500 tax credit will be a substantial downpayment for parents sending their children to colleges with higher tuition.
- **\$750 for Half-Time Students:** The HOPE Scholarship Tax Cut is designed to assist parents and current workers who want to further their education. Those who can only go to school half-time because of their job or parenting obligations, are eligible for a \$750 refundable credit per year until they have completed two full years of college. The "B" average requirement also applies to half-time students.
- **Includes 1-Year Certificate Programs:** Students at training and technical programs eligible for Pell Grants under Title IV of the HEA are also eligible HOPE Scholarships.
- **Interaction with the \$10,000 Education Tax Deduction:** Students would receive either the HOPE scholarship or the \$10,000 tax deduction in any year. Eligible students in their first two years or their parents can choose between either the Hope Scholarship or the deduction. The deduction is up to \$10,000 a year per family. The credit is \$1,500 per student.

- **Costs:** The HOPE Scholarship Plan is fully paid for within the President's balanced budget plan. The President's initial proposal for a \$10,000 deduction cost \$35 billion over six years. The new proposal, with the \$1,500 tax credit, costs \$42.9 billion over 6 years. To offset this increase, the Administration proposes to reduce sales source rule benefits, apply an international departure fee, and auction radio DARS spectrum.

In addition, the \$10,000 deduction is also more targeted by conforming the income limits to match the income limits for the proposed expanded IRAs. The deduction had been phased out for joint filers with income between \$100,000 and \$120,000, and for single filers with income between \$70,000 and \$90,000. It will now be phased out for joint filers with income between \$80,000 and \$100,000, and for single filers with incomes between \$50,000 and \$70,000.

- **"B" Average:** To remain eligible for the credit, students must earn at least a "B" average or a 2.75 grade point average in their first year of college or post-secondary school. Based on the National Post-Secondary Student Aid study, more than half of students earn a 2.75 average or better.
- **Students Must Stay Drug-Free:** A student is ineligible if, in accordance with the Drug-Free Post-Secondary Education Act of 1990, he or she has been convicted of committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.
- **Administration:** Administrative issues such as the timing and delivery of the tax credit will require consultation with states and schools to ensure that the plan provides maximum flexibility and efficiency and local control rather than top-down administration. The Treasury Department and Department of Education will work with Members of Congress, Governors, school superintendents, and college financial aid administrators to design the most flexible and efficient system, and to ensure against excessive and abusive tuition increases.
- **Challenge to States.** The President is challenging states to build on the HOPE Scholarship Plan by following Georgia's lead and making scholarships available for four years of college for students who maintain a "B" average. The President is also challenging the 17 States that set tuition above \$1,500 to reduce costs so that with the HOPE Scholarship tax cut, community college will be free for every student.

Paying For America's HOPE Scholarship Tax Cut

Balanced Budget Framework. The President's new America's HOPE Scholarship Tax Cut proposal is completely paid for with specific budget savings so that the President's overall plan continues to reach balance in fiscal year 2002.

Current Education Tax Deduction: \$35 Billion FY 1997-2002. The President's current education tax cut -- \$10,000 deduction -- costs \$35 billion over 6 years (FY 1997-2002) and is paid for within the balanced budget plan that has been certified as reaching balance in 2002 by the Congressional Budget Office.

New Proposal: \$42.9 Billion FY 1997-2002. The new combined proposals would be \$42.9 billion. The breakout of these costs are as follows:

	FY 1997-2002 Cost
America's HOPE Scholarship Tax Cut	\$25.1 Billion
\$10,000 Education Tax Deduction	\$17.8 Billion
TOTAL COST	\$42.9 Billion

The additional \$7.9 billion in net new costs are paid for with specific savings listed below:

	FY1997-2002 Savings
Reduction of Sales Source Rule Benefits	\$3.5 Billion
International Departure Fee	\$2.3 Billion
Auction Radio DARS Spectrum	\$2.1 Billion
TOTAL SAVINGS	\$7.9 Billion

NOTE: While the President's new America's HOPE Scholarship Tax Cut has gross costs of \$25.1 billion over FY 1997 to 2002, the net increase in the President's overall education tax cut is only \$7.9 billion because of savings that take place in the President's \$10,000 education tax deduction.

- Most of those savings (\$10.7 billion) come from families choosing the HOPE tax credit over the \$10,000 education tax deduction.
- The remaining savings (\$6.5 billion) come from lowering the phase out income limits for joint filers from \$120,000 to \$100,000 to conform to the Administration's expanded IRA proposal.

BACKGROUND ON NEW SAVINGS MEASURES

REDUCTION OF SALES SOURCE RULE BENEFITS (FY 1997 - 2002)	<u>SAVINGS</u> \$3.5 Billion
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Description: The proposal would limit the ability of multinational corporations to decrease their U.S. tax liability inappropriately, by reducing the amount of export sales income that they may treat as derived from foreign sources. Under current law, the sales source rule generally permits multinational corporations that also exports U.S. products to treat half of their export profits as income from sales activities, and therefore as foreign source income, even though the economic activity that produced the export profits may have occurred entirely within the United States. The source of income is relevant to the determination of a U.S. taxpayer's foreign tax credit. By increasing the amount of income treated as foreign source, a taxpayer with "excess" foreign tax credits can increase its utilization of foreign tax credits and therefore pay less U.S. tax on the same income. The sales source rule of present law provides generous tax benefits to U.S. exports that also conduct foreign manufacturing or other high-taxed foreign operations, but provides no benefit at all to U.S. exporters that conduct all their business activities within the United States. The proposal would reduce the percentage of export profits that generally is treated as sales (and thus foreign) income from 50 percent to 25 percent.

The provision would be effective for taxable years beginning after the date of enactment.

AUCTION RADIO DARS SPECTRUM (FY 1997 - 2002)	<u>SAVINGS</u> \$2.1 Billion
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Description: This savings proposal would auction 25Mhz of spectrum currently reserved for digital audio radio services (DARS) for subscription based wireless services. The FCC had originally allocated 50 Mhz for DARS, which would provide 4 channels of a national, subscription-based radio service. Due to interference problems with Canada, DARS would be allocated 2 channels instead of 4, freeing up 25 Mhz for auction. The revenues of auctioning 25 Mhz of spectrum are estimated at \$2.1B by CBO and OMB. These auctions could be done in any year.

INTERNATIONAL DEPARTURE FEE (FY 1997 - 2002)	<u>SAVINGS</u> \$2.3 Billion
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Description: The President's FY '97 Budget assumes that the currently expired aviation excise taxes, including the \$6 per passenger international departure fee, will be reinstated in August, 1996. This offset proposal would increase the per passenger tax from \$6 to \$16.

BACKGROUND ON PELL GRANT INCREASE

Overview. The Pell Grant is the main federal grant that allows millions of low-income and middle class families to have access to college. Despite the fact that the President's budget contains well over \$200 billion in discretionary cuts over 7 years, the President's balanced budget builds in a 33% increase in the maximum Pell Grant award from FY1995 to FY2002.

- **\$2 Billion Program Deficit Eliminated.** The projected \$2 billion Pell Grant program deficit was eliminated within the first two years of the Clinton Administration.
- **Record Increase in FY1997:** The President's fiscal year 1997 budget calls for funding to support a \$2,700 maximum Pell Grant -- nearly a 10% increase over the current level -- which would provide more than 3.7 million students with Pell Grants averaging \$1,706 in 1997. This proposed increase in the maximum Pell Grant Award would be the largest increase in the program's 25-year history.
- **President Announces Yearly Pell Grant Increases:** The President's balanced budget contains the following seven-year increase in the maximum Pell Grant awards.

<u>Fiscal Year</u>	<u>Maximum Award</u>
1995	\$2,340
1996	\$2,470
1997	\$2,700
1998	\$2,780
1999	\$2,863
2000	\$2,949
2001	\$3,037
2002	\$3,128

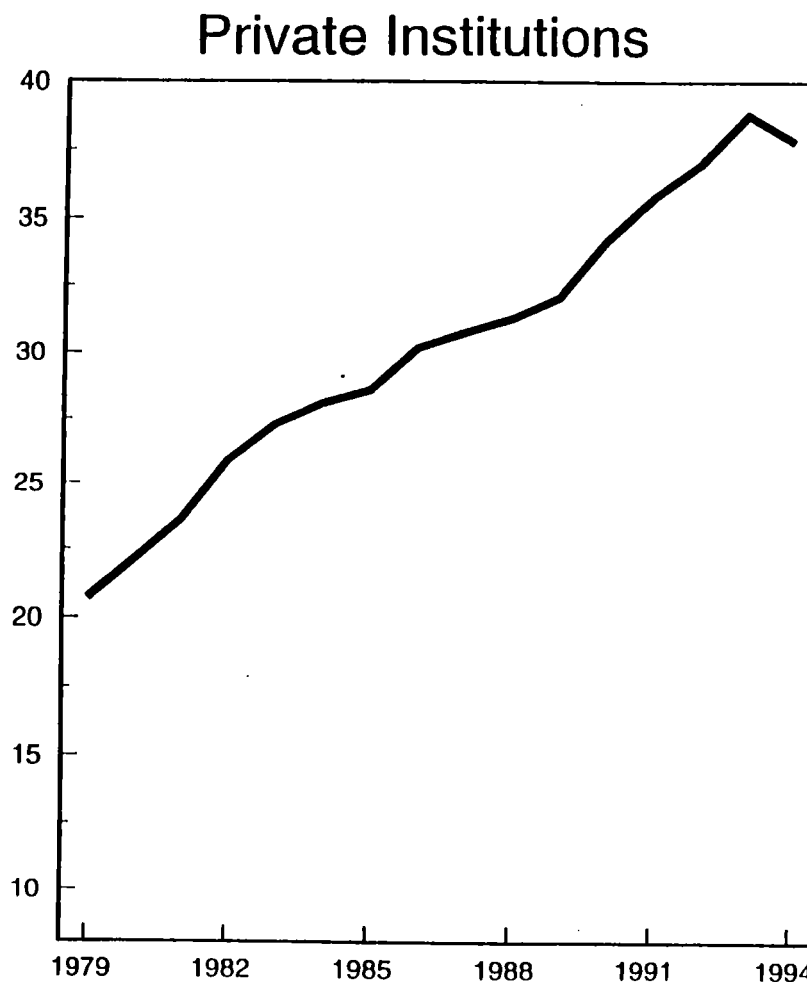
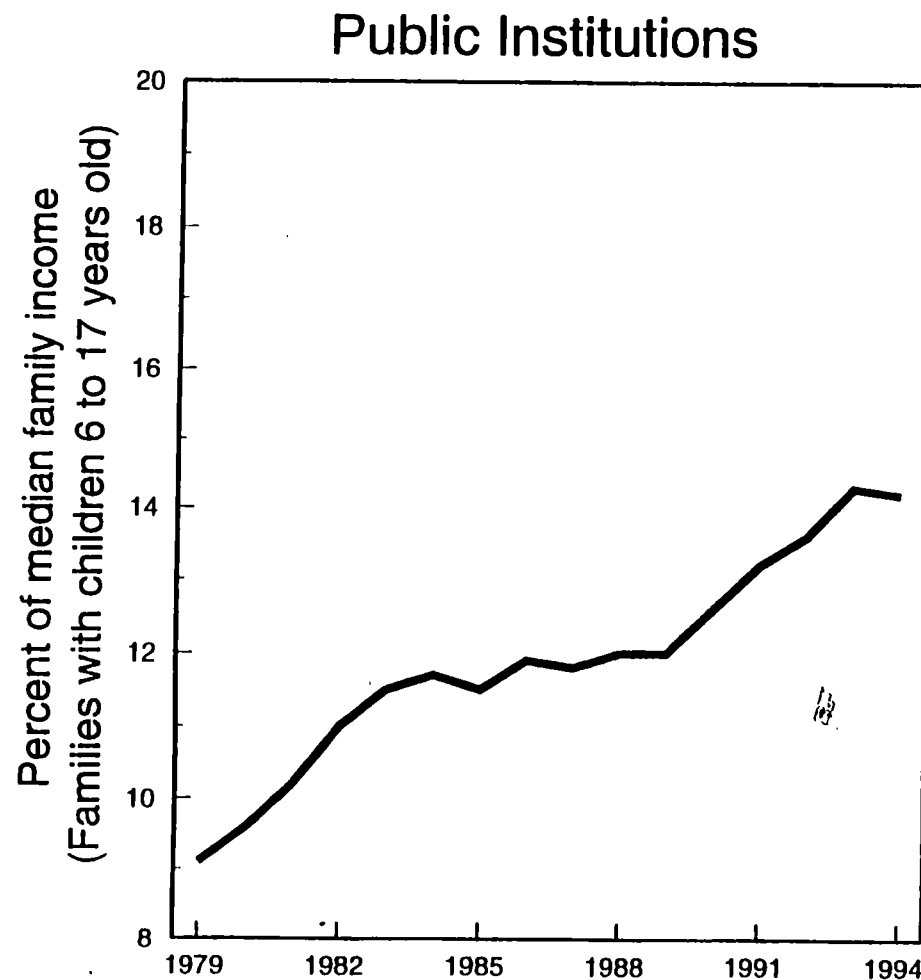
- **President's 7-Year Pell Grant Increase Could Provide 2.7 Million More Grants Than Republican Budget Resolutions:** Both the House and Senate FY1997 Budget Resolutions freeze the budget authority for the Pell Grant program from FY1997 -FY2002. This means that Republicans would provide 2.7 million fewer Pell grants over 6 years, and deny 191,000 students Pell grants in FY1997 alone compared to the President's balanced budget plan. Under the funding freeze assumed in the Republican resolutions, the maximum Pell grant award would decrease 17%, from \$2,470 in FY1996 to \$2,055 in FY2002.

Last year, House Republicans tried to cut the Pell Grant program by \$450 million, denying Pell Grants to 380,000 students in 1996 alone.

\$10,000 EDUCATION DEDUCTION

- **Breadth of Application:** The \$10,000 Education Deduction would be for every taxpayer for the tuition at any education or training program that is at least half-time or related to a worker's career.
- **Supplements Hope Scholarship Tax Cut:** In any year, students in the 13th and 14th grades would receive either the HOPE Scholarship or the \$10,000 tax deduction. Eligible students in their first two years or their parents can choose between either the HOPE Scholarship or the deduction. Students that relied on the \$1,500 tax credit in the first two years of college would still be eligible for the \$10,000 deduction in the remaining years of college or graduate school or for qualified lifelong learning. Students not eligible for the tax credit would still be eligible for the \$10,000 deduction. The deduction is up to \$10,000 a year per family. The credit is \$1,500 per student.
- **Income Limits:** For joint filers, the deduction would be phased out at incomes between \$80,000 and \$100,000. For single filers, the deduction would be phased out between \$50,000 and \$70,000.
- **Unlimited Number of Years:** While the HOPE Scholarship is for the first two years of college, the \$10,000 tax deduction is available any year a family had education expenses. For example, a family of four with an income of \$40,000 and five years of tuition expenses totaling \$10,000 would receive a \$7,500 tax cut over that five-year period.

Cost of College As Percent of Typical Family Income



Source: Department of Education, *The Condition of Education 1996*, p 76.

* Includes Calculation of Tuition, Room and Board

Tuition and Fees at Public Two-Year Institutions

<u>State</u>	<u>Average (1994-95) Tuition</u>	<u>Share of Average Tuition Covered By \$1,500 Credit</u>
AK	\$1,320	100%
AL	\$621	100%
AR	\$865	100%
AZ	\$727	100%
CA	\$363	100%
CO	\$1,227	100%
CT	\$1,520	99%
DE	\$1,266	100%
FL	\$1,064	100%
GA	\$1,019	100%
HI	\$499	100%
IA	\$1,696	88%
ID	\$990	100%
IL	\$1,188	100%
IN	\$1,797	83%
KS	\$1,014	100%
KY	\$1,009	100%
LA	\$769	100%
MA	\$2,435	62%
MD	\$1,857	81%
ME	\$2,188	69%
MI	\$1,411	100%
MN	\$1,965	76%
MO	\$1,227	100%
MS	\$934	100%
MT	\$1,414	100%
NC	\$581	100%
ND	\$1,666	90%
NE	\$1,083	100%
NH	\$2,315	65%
NJ	\$1,762	85%
NM	\$601	100%
NV	\$835	100%
NY	\$2,142	70%
OH	\$2,105	71%
OK	\$1,123	100%
OR	\$1,328	100%
PA	\$1,751	86%
RI	\$1,686	89%
SC	\$1,022	100%
SD	\$2,379	63%
TN	\$907	100%
TX	\$672	100%
UT	\$1,358	100%
VA	\$1,382	100%
VT	\$2,196	68%
WA	\$1,334	100%
WI	\$1,721	87%
WV	\$1,372	100%
WY	\$894	100%

Source: U.S. Department of Education. Estimate of share of tuition and fees covered by the HOPE Scholarship if it has been available in 1994-1995.

America's HOPE Scholarship Tax Cut

Background Materials

	<u>Page</u>
• 2-Page Background on the Georgia HOPE Scholarships	10
• 1-Page Background on the Arkansas Academic Challenge Scholarships	11
• Census Report: "More Education Means Higher Career Earnings"	12-13
• 2-Page Summary on the Returns of Education Investments	14-15

GEORGIA HOPE SCHOLARSHIPS

"The most far-reaching scholarship program in the nation"
-- *Los Angeles Times*, April 5, 1994

PROGRAM DESCRIPTION: The Georgia HOPE program, established by Governor Zell Miller in April 1993, provides full tuition, fees, and books at any in-state public college to any Georgia student who graduates from high school and maintains a B average or better in college.

A TRULY UNIQUE PROGRAM THAT PROVIDES HOPE FOR GEORGIA STUDENTS:

- **Governor Zell Miller.** "Of all the things that I've ever been involved with, It's the one thing that I'm most proud of. We are making college accessible in a way it never has been before in Georgia." [February 12, 1995]
- **Atlanta Journal Constitution.** "Where else in America can children know, from elementary school on, that if they work hard and earn a 3.0 average by graduation from high school, they can fulfill the dream of going to college whether their family has money or not? That's the opportunity created by Georgia's HOPE scholarship program. ...It's a marvelous thing, and it is a solemn promise from the state to its young residents. It is not, however, an entitlement requiring no effort. Students must meet the standards to get the scholarships, and they must keep up the struggle to hold onto them once they enter college." [Atlanta Journal Constitution, September 7, 1994]
- **Barry Fullerton, Vice Chancellor, University of Georgia.** "It's an ingenious program. It's a great public policy, and it has benefited thousands of students." [The Courier-Journal, April 9, 1995]
- **Orlando Sentinel.** "Imagine a state where every student with a B average gets a full college scholarship. ...Don't have that fanciful an imagination? You don't need one. You just need to look north, to Georgia." [Orlando Sentinel, April 8, 1996]
- **Atlanta Journal Constitution.** "It is, quite simply, an effort to help Georgia's young people become well-educated, productive citizens." [Atlanta Journal Constitution, December 16, 1994]

ELIGIBILITY REQUIREMENTS: Students must meet the following requirements:

2-Year and 4-Year Public Colleges/Universities

- For a HOPE Scholarship to a 4-year public college, graduating high school students must have a 3.0 cumulative grade point average on a 4.0 scale or an 80 numeric average and obtain a diploma with a State of Georgia College Preparatory Seal. (In order to obtain the college preparatory seal, students must meet and graduate from the required core college preparatory curriculum.)
- For a HOPE Scholarship to a public college, graduating high school students who do not meet the 3.0 grade in the core curriculum, must have a 3.2 cumulative grade average on a 4.0 scale or an 85 numeric average in other curriculum tracks.
- Students who maintain a B average in a 4-year public college and stay off drugs can continue to receive the same level of support for up to four years.

- Students whose college grades fall below 3.0 can requalify a year later if they bring their grades back up above 3.0.
- Students who are not eligible for HOPE scholarships upon graduation of high school, or who enter college later in life, can obtain HOPE scholarships after their sophomore year if they obtain a cumulative 3.0 grade average.

2-Year and 4-Year Private Colleges/Universities

- Students receive \$3,000 a year in HOPE money, but only if they have and maintain a B grade average.

Technical Schools and Adult Education Institutes

- All students in a diploma or certificate program at a Georgia technical institute are eligible for HOPE.

Universal Requirements

- All students must stay drug free. A Student is ineligible if, in accordance with the Drug-Free Postsecondary Education Act of 1990, he/she has been convicted for committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.

KEY FACTS:

- During the first 3 years of the program (1993-1995), nearly 200,000 Georgia students qualified for and received some form of HOPE scholarship.

<u>HOPE Scholarship Students 1993-1996</u>	
University System	60,682
Technical Institutes	74,830
Private Colleges	45,423
GED Recipients	9,066
TOTAL	190,001

- In the 1995-1996 school year, 70 percent of University of Georgia freshman students received a Georgia HOPE scholarship.
- The racial composition of those receiving HOPE scholarships mirrors that of the overall university system (75% white, 20% black).
- 84% of HOPE students who enrolled in public colleges in Fall 1994 were still in college in Fall 1995, versus 74% of all students.
- A 1995 poll by Georgia State University found that 77 percent of Georgia residents who were aware of the program thought it would lead parents to take a more active interest in their children's education.
- Since the start of the program, enrollment in Georgia's technical and adult education institutions has increased 24 percent. Enrollment increased 8 percent in 1995, alone.

ARKANSAS ACADEMIC CHALLENGE SCHOLARSHIPS

"We need more of our young people going to college and we need them to succeed and stay in college. This program will help them accomplish that goal."

-- Governor Bill Clinton, July 12, 1991

PROGRAM DESCRIPTION: Governor Bill Clinton signed the Arkansas Academic Challenge Scholarships into law on May 5, 1991, creating a guaranteed scholarship plan to promote academic achievement and encourage academically prepared Arkansas high school graduates to enroll in the state's colleges and universities. Through the 1993-1994 school year, the scholarship provided the lesser of \$1000 or the annual tuition. For the 1994-1995 school year, the scholarship was increased to provide annually the lesser of \$1500 or the annual tuition. The scholarship is renewable for up to 3 more years, provided the student meets the continuing eligibility standards established by the Arkansas Department of Higher Education.

REQUIREMENTS:

- **Income Requirement.** For families with one dependent child, income cannot exceed \$30,000 per year. An extra \$5,000 of family income is allowed per child.
- **Grade-Based Awards.** Awards are based on the applicant's meeting minimum standards with regard to the ACT composite score, grade point average (GPA) in the pre-collegiate core curriculum.
 - * Applicants must have a composite ACT score of 19 and a grade point average of 2.50 on a 4.00 scale, in the precollegiate core curriculum.
 - * Applicants not meeting either the grade point average or ACT requirements may still qualify for the Academic Challenge Scholarship if their combined ACT score and grade point average meet satisfactory levels when applied to a selection index (i.e. a student with a 15 ACT would have to achieve a minimum 3.25 GPA; a student with a 26 ACT would only have to have a 2.0 GPA.)
- **All students must stay drug free.** A student is ineligible if, in accordance with the Drug-Free Postsecondary Education Act of 1990, he/she has been convicted for committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.
- **Students must maintain their grades once in college.** In order to retain their scholarship for an additional year, students keep their grades above state-specified levels.

KEY FACTS:

- In 1987, 32 percent of Arkansas students who took the ACT had completed high school pre-college core curriculum. By 1992, the first year of the Academic Scholarships Program, that percentage rose to 48.
- The number of high school students qualifying for and receiving the Arkansas Achievement Scholarship has increased dramatically each year. In the 1991-1992 school year, there were 1,024 recipients. In the 1994-1995 school year, 5,383 students received awards.
- While Bill Clinton was governor of Arkansas, the percentage of high school students going on to college increased by 50% (from 38.2% in 1982 to 57.3% in 1992). The Arkansas "going rate" has remained steady since 1992.

Bureau of the Census Statistical Brief

More Education Means Higher Career Earnings

Is it worth it to stay in school and earn a higher degree? As data from the Census Bureau's Current Population Survey show, the answer is a resounding yes!

This Brief examines the relationship between education and earnings during the 1992 calendar year; it also demonstrates how the relationship has changed over the last two decades. Additionally, it provides estimates (by level of education) of the total earnings adults are likely to accumulate over the course of their working life.

You'll see that more education means greater earnings over a year's time; over the length of one's working life, these differences become enormous. Moreover, this relationship between earnings and education is now even stronger than it was back in the 1970's.

We're more educated than ever.

In 1993, about four-fifths of American adults aged 25 and over had at least completed high school; over one in five had a Bachelor's degree or higher. Both figures are all-time highs.



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Economics and Statistics Administration
BUREAU OF THE CENSUS

Professional degree holders have the highest earnings.

Adults aged 18 and over who worked sometime during 1992 earned an average of \$23,227 that year. But this average masked the fact that the more education they received, the more money they made. (See graph below.) Earnings ranged from \$12,809 for high school dropouts to \$74,560 for those with professional degrees (such as M.D.'s and J.D.'s).

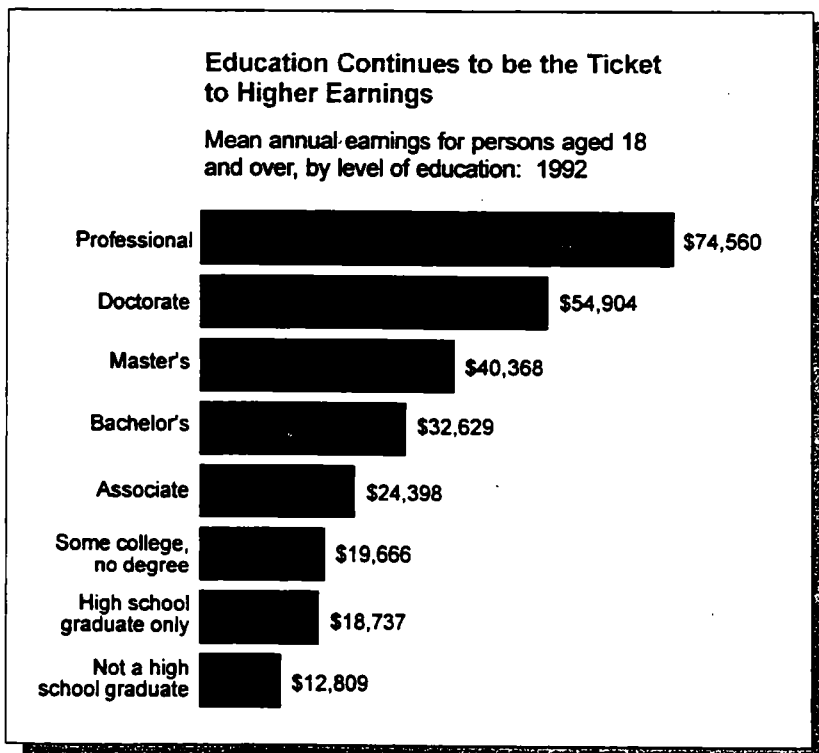
Earnings differences compound over one's lifetime.

Using 1992 data, we estimated the earnings a person would accrue over a typical "worklife." Here's

how we did it. First, we defined a worklife as lasting from ages 25 to 64 — a 40-year period. Then we began our calculations.

We started with high school dropouts. We took the 1992 mean earnings figure for persons of this group who were aged 25 to 34 and multiplied it by 10. The same thing was done for those aged 35-44, 45-54, and 55-64. Then, the four 10-year totals were added up. The result was an estimated lifetime earnings total for high school dropouts. This process was then repeated for each of the other seven educational levels.

These estimates dramatically illustrate the large earnings differences



that develop between educational levels over the long term. As the graph below shows —

- High school dropouts would make (in 1992 dollars) around \$600,000 during their lifetime.
- Completing high school would mean about another \$200,000.
- Persons who attended some college (but did not earn a degree) might expect lifetime earnings in the \$1 million range.
- You could tack on nearly another one-half million dollars for holders of a Bachelor's degree.
- Doctorate and professional degree holders would do even better, at just over \$2 million and \$3 million, respectively.

Lifetime differences may become even more striking in the future.

These estimates of lifetime earnings assume that 1992 earnings levels will stay in effect throughout one's worklife. But the reality is that the value of the dollar continually changes. And recent history shows that the value of higher levels of education has risen faster than that of lower levels. When we compare 1975 and 1992 figures, we see that average earnings —

- Doubled for high school dropouts (from \$6,014 to \$12,809).
- Rose 2.5 times for those who were high school graduates only (from \$7,536 to \$18,737).
- Nearly tripled for holders of Bachelor's degrees (from \$11,574 to \$32,629).
- Tripled for those who held advanced degrees (from \$15,619 to \$48,653).

Keep in mind that in 1992 the consumer price index (which measures yearly changes in the value of the dollar) was 140, 2.5 times what it was in 1975. This means that the earnings of high school dropouts did not even keep up with infla-

tion, and high school graduates just barely managed to keep pace. Real wages rose only for persons with education beyond the high school level. If these patterns continue, lifetime earnings differences between low and high levels of education will become even more dramatic than current levels indicate.

More information:

Several Census Bureau reports have information on the relationship between earnings and education. These include —

■ *Educational Attainment in the United States: March 1993 and 1992*, Current Population Reports, Series P20-476. Stock No. 803-005-00077-0. \$8.50.

■ *What's It Worth? Educational Background and Economic Status: Spring 1990*, Current Population Reports, Series P70-32. Stock No. 803-044-00020-1. \$3.50.

■ *Money Income of Households, Families, and Persons in the United States: 1992*, Current Population Reports, Series P60-184. Stock No. 803-005-30031-5. \$19.

■ *Education in the United States*, Series 1990, CP-3-4. Stock No. 003-024-08742-1. \$41.

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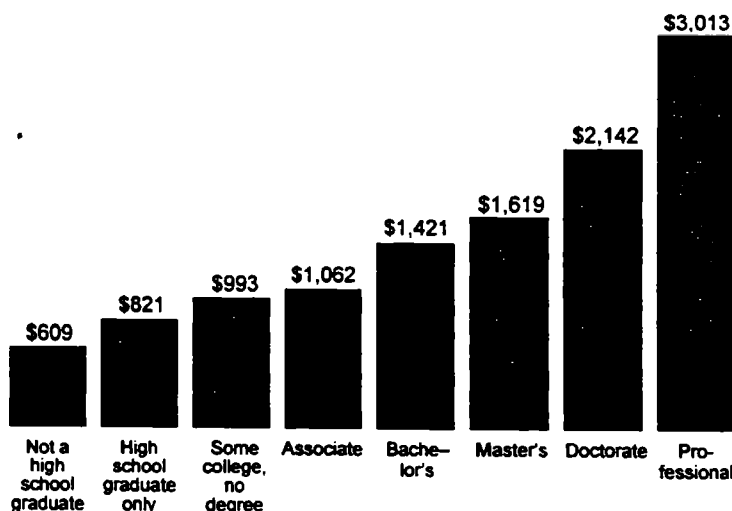
Earnings and education —
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This Brief is one of a series that presents information of current policy interest. It may include data from businesses, households, or other sources. All statistics are subject to sampling variability, as well as survey design flaws, respondent classification errors, and data processing mistakes. The Census Bureau has taken steps to minimize errors, and analytical statements have been tested and meet statistical standards. However, because of methodological differences, use caution when comparing these data with data from other sources.

Go to College, Make a \$Million

Estimates of worklife earnings, by level of education: 1992
(In thousands of dollars)



ECONOMIC RETURNS TO INVESTMENTS IN EDUCATION AND TRAINING

- Empirical studies indicate that each additional year of formal schooling is associated with a 6 to 12 percent increase in annual earnings later in life. [Kane and Rouse, 1995; Ashenfelter and Krueger 1994; Angrist and Krueger, 1991]
- This earnings benefit is not limited to education at four-year colleges; it also accrues from attendance at community colleges. [Thomas Kane and Cecilia Rouse, Labor Market Returns to Two and Four-Year College: Is a Credit a Credit and Do Degrees Matter American Economic Review, Vol. 85, No. 3, 1995.]
- The wage premium for better-educated workers has expanded dramatically over the past fifteen years. In 1979, full-time male workers aged 25 and over with at least a bachelors degree earned on average 49 percent more per year than comparable workers with only a high school degree. By 1993, the difference had nearly doubled, to 89 percent. [Economic Report of the President 1996, page 191.]
- Economists have long argued over whether education causes ~~higher~~ earnings, or whether those with better earnings prospects -- for example, because of greater innate ability -- simply consume more education. Recent analyses of compulsory schooling laws (which force students to consume more education regardless of their innate ability) and wage differentials between twins (who should have similar levels of innate ability) strongly suggest that schooling actually leads to higher earnings. [Joshua Angrist and Alan Krueger, Does Compulsory School Attendance Affect Schooling and Earnings; Quarterly Journal of Economics, November 1991; Orley Ashenfelter and Alan Krueger, Estimates of the Economic Returns to Schooling from a New Sample of Twins, American Economic Review, December 1994.]
- A college graduate is 43 percent more likely to be working in a job with a pension plan than a high school graduate and a college graduate is 27 percent more likely to have a job with health care coverage than a high school graduate. [Based on data from the Bureau of Labor Statistics, various years, Current Population Survey.]
- Since the early 1980s, high skill jobs are growing the fastest. Jobs requiring high skill levels grew by 32% over the period 1984-1994 while jobs requiring low skill levels grew by only 7%. [Based on data from the Bureau of Labor Statistics, various years, Current Population Survey.]

- Job displacement studies show that better-educated workers are less likely to lose their jobs than less-educated workers, although this advantage has declined over time. If better-educated workers do lose their jobs, they are more likely to find new jobs (which are more likely to be full-time), and they tend to suffer smaller proportional earnings losses than less-educated workers. [Henry S. Farber, The Changing Face of Job Loss in the United States, 1981-1993, Department of Economics, Princeton University, March 12, 1996.]
- Training workers also has significant payoffs. According to academic research conducted by Lisa Lynch before she became Chief Economist at the Labor Department, a year of either on-the-job training or formal training for workers raises wages by about as much as a year of college education. [Lisa Lynch, Private Sector Training and the Earnings of Young Workers, American Economic Review, Vol. 82, No. 1, 1992.]
- Other studies conclude that firm-provided training seems most effective when combined with other innovative workplace practices. [U.S. Department of Labor, High Performance Work Practices and Firm Performance, 1993; David Levine, Reinventing the Workplace: How Business and Employees Can Both Win (Washington: Brookings, 1993).]
- Education and training boost economic growth. Data from the Bureau of Labor Statistics suggest that the rise in the average educational attainment of the workforce accounted for one-fifth of the annual growth in productivity between 1963 and 1992. [Economic Report of the President 1996, pages 191-2.]
- International evidence reveals that, all else equal, those nations with the highest school enrollment rates in the early 1960s tended to enjoy the most robust growth in subsequent decades. [N. Gregory Mankiw, David Romer, and David Weil, A Contribution to the Empirics of Economic Growth, Quarterly Journal of Economics, Volume 107, May 1992.]