

WR Training

EXECUTIVE OFFICE OF THE PRESIDENT

06-Oct-1994 01:48pm

TO: Isabel Sawhill  
FROM: Paul R. Dimond  
National Economic Council  
SUBJECT: Market-Driven reform

Belle,

Won't the market-driven proposal also lead to budget savings for the same number of persons served? If Kennedy's numbers are right that only 50% of federal training dollars are actually spent on services (and the rest goes to layers of overhead), then a market approach with a mix of stipends/loans would enable very large budget savings b/c something like 99% of the dollars would go into actual training (probably leveraged in many instances by additional state and local support for the major education providers, e.g., community colleges and universities).

Perhaps, we could then think more creatively about how Sallie Mae might be turned to building capacity for training in firms and for public community colleges and universities and private training providers -- a modern day, lifelong learning capacity building equivalent of our prior support for Land Grant Colleges. Then, we'd have a G.I. bill for individuals on the demand side, AND capacity-building on the supply side -- both of which are mostly OFF-BUDGET.

If this is so, does it give us a basis for LOWERING any of the payroll taxes, e.g., U.I. (and form a part of a payroll tax cut for working Americans?) Please advise.

Thanks.

Paul

WP-Training

October 6, 1994

MEMORANDUM FOR BILL GALSTON  
GENE SPERLING

FROM: PAUL DIMOND

SUBJECT: ADULT ETR --- MARKET-DRIVEN VS INSTITUTION-  
DRIVEN REFORM

Attached is a sketch of what a market-driven reform of all adult education, training, and reemployment ("ETR") -- not just targeted federal programs -- might look like. To understand the genesis for this proposal, this cover memo explores how such a market-driven reform may better fit the terrain of what now exists than institution-driven (or what Bill calls federalism) reform. This analysis may also help us explore whether there are ways to encourage the states to move toward market-driven rather than institution-driven reform, even within the federalism approach that devolves substantial flexibility to the states for operating targeted federal ETR programs as set forth in Belle's Option 2.

1. K-12 Education. The dominant norm is a public institution -- the public school, operated by some 15,000 local districts, with substantial state support and regulation; in the main, choice is limited to opting out of the public system entirely or paying the costs of housing to relocate to a different neighborhood. Goals 2000 and School-to-Work are premised on influencing institutional reform of this public system --e.g., through establishing national goals, catalyzing voluntary performance standards, encouraging leading edge states to show the way, and mobilizing a campaign for excellence with parents, business, educators, community leaders, and elected officials. I think Bill would rightly characterize this as institution-driven or federalism reform.

2. Adult ETR. In contrast, the vast bulk of public and private investment supports individual choice in a mixed, public-private, but nevertheless largely market-driven system: fees for tuition, payments for training, diverse networks for job-changing and hiring are the means of choice for most students, workers, and firms. Even the large state and local public support for public universities and colleges is driven at the point of access primarily by the choice of users (mostly students, although increasingly firms) through payment of a fee. These public, post-secondary education institutions are usually separate from the general state and local governments and have their own independent base of support (through special districts or largely autonomous charters or separate state-wide elections). Within firms, the vast bulk of expenditures on training the workforce is chosen and paid for by the firm; and increasingly, continuous learning is embedded in the daily work of the workers in the workplace. Finally, new waves of learning programming (whether in videos, books, magazines, cassettes, T.V., or interactive media of phones, computers, and other telecommunication networks) increasingly make learning available to adults wherever they are -- in the workplace, in school, at a learning center, or at home.

3. Already Enacted Adult ETR Reform. Not surprisingly, we have already recognized the market-driven nature of the vast bulk of adult ETR: we are transforming the student loan program to make it much easier for any person to invest in their own chosen course of learning and to repay the costs through a small fraction of their future earnings. As the primary work of learning is done by the learner, and the primary benefit of learning accrues to the learner, this transformation of the student loan program not only fits the market driven terrain of Adult ETR: it also gives the individual the opportunity to take responsibility for their own extraordinary achievement, much as the G.I. Bill succeeded in doing for returning veterans after WWII.

We have also articulated a major goal and several relevant objectives for adult ETR, in Goals 2000:"... (6) By the year 2000, every adult American...will possess the knowledge and skills necessary to compete in a global economy and exercise the rights and responsibilities of citizenship." The objectives for this goal include: "(i)every major American business will be involved in strengthening the connection between education and work; (ii)all workers will have the opportunity to acquire the knowledge and skills, from basic to highly technical, needed to adapt to emerging new technologies, work methods, and markets through public and private educational, vocational, technical, workplace, or other programs; (iii) the number of quality programs....that are designed to serve more effectively the needs of the growing number of part-time and mid-career students will increase substantially...." Note that the first objective seeks to recognize a growing reality in the new economy: in most industries knowledge and skill are increasingly important, and the most valuable asset of firms is the skills of their workers. The second objective seeks to empower workers with the opportunity to take responsibility for learning higher skills. The third objective speaks to increasing the supply of providers to increase opportunities for such learning (for example, as the federal government did at an earlier time with the establishment of Land Grant Colleges). Each of these three objectives is entirely consistent with the market-driven terrain of adult ETR, and none requires an institutional approach to reforming adult ETR.

4. Federal Targeted ETR. What, then, complicates our thinking about the appropriate approach to reform of the predominantly market-driven ETR for most adults and firms? The bulk of federally appropriated dollars (apart from the student loan program) goes to pay for quasi-public, institutional approaches to providing ETR program services to targeted populations -- dislocated workers, disadvantaged, diverse passes at second chances for older youth and adults. Whatever the proposed approach(es) to reforming the crazy quilt pattern of these federally targeted "programs," we ought not let this relatively minor federal ETR tail confuse our thinking: most of the ETR ball game is played on market-driven terrain by adults and firms making choices about where they want to invest their own time and money. Even the bulk of state and local ETR funding supports autonomous public colleges and universities that market their services to individuals and firms.

From this perspective, I ask that you consider the attached outline of a market-driven reform for all adult ETR, starting with the 85-90% of the dollars and transactions that are driven by the market choices of individual adults and firms.

## A MARKET-DRIVEN APPROACH TO REFORM OF ADULT ETR:

### A NEW G.I. BILL FOR ALL AMERICAN WORKERS

#### A. The four minimum elements of market-driven reform of adult ETR could include:

- market (and, to the extent necessary, modify) the student loan program so that it can operate as a career credit line (or skill bank) by which any worker can choose the education and training each demands to upgrade their skills, change jobs, or secure career counseling and job networking services for new job opportunities
- encourage workers and firms, e.g., with Sallie Mae or with state support, to join together to use the federal career credit line and firm funding to provide skills training and to embed learning in the workplace
- mobilize firms, community colleges, universities, and successful specialized education, training and job networking providers to join in a campaign to make their market services more readily available to all workers and firms (e.g., through a new award, high performance workplace extension, skills training as an integral part of technology deployment in the service as well as manufacturing sectors, federal procurement policies with suppliers)
- initiate a sensible, cost effective, user friendly approach to labor market, career, and education provider information, which intermediaries and consumer guides may use to add substantial value to individual, firm, and policy users

I do not believe that any of this necessarily requires legislation, although it could be a part of a legislative package. [N.B.: To be decided under this non-legislative approach is how to regulate the accreditation of "providers" of services eligible to cash-in the learning/career loans; how to implement and to leverage voluntary adult skill standards in Goals 2000; and how to catalyze the development of an alternative to the GED that is valued by employers, as well as higher education providers.]

#### B. Three additional elements of market-driven reform that could be helpful that may require legislation (but not necessarily more funding):

- provide new learning stipends (including support for job search, job networking, and career counseling, as well as a combination of grant/loan support for learning) to veteran American workers who are dislocated after working five years
- individualize extended income support contingent on job search first and shared investment (loan as well as grant) for learning to upgrade skills
- join with States (or other sources of funding) to support (a) firm training of incumbent workers and (b) increasing the supply of education providers (This last provision might get the States and diverse providers more fully on board the total proposal: it could also help to orient the States toward encouraging firms/education providers to develop a learning skill market instead of having

the States use federal "Workforce Development Policy" to try and get control of higher education, which holds a unique position of independence with respect to traditional state and local governments).

In considering this second set of elements, we should examine whether we could pass such legislation through a budget reconciliation process, perhaps under the banner of UI reform and targeting use of the .2% FUTA tax for these three elements, without requiring any authorizing legislation from Education and Labor Committees. Even if such legislation does not pass, however, the President could implement the rest of the market-driven reform as a part of a campaign for 1996 to arm all Americans with the tools they need to take responsibility for competing and prospering in the years ahead.

C. What is the role of "government" and the "UI/ES public office" in this market driven reform? Consider four possibilities:

1. information and clearinghouse functions to which all users should have easy access (perhaps for a fee)
2. gate keeping for dislocated (e.g., qualification for UI benefits)
3. evaluation of providers, firms, markets, jobs, careers
4. non-exclusive provision of job counseling, job-matching, job-networking, talent and job banks

All four of these functions could be devolved to or shared with the states (and/or local labor markets).

D. Finally, what does this say about the reform of the crazy quilt pattern of federally targeted disadvantaged and second chance adult ETR programs? Belle's option 1 is to cash in all of the existing programs (which have no great record of success) for a mix of stipends and learning loans targeted to serve whatever purpose or group is now covered. We could do this across Agencies and for any of the programs that you want. Belle's second option is to devolve authority for consolidation of targeted federal programs to the States; this option could include a package of repealing and consolidating a number of the programs and some mechanism to encourage states to expand market-based reforms of Adult ETR.

My major concern with the second option is that Hill politics may lead to an independent National Workforce Board overseeing state institutional reform based on exclusive regional workforce-UI/ES consortia: this just doesn't fit the adult ETR market-driven terrain, and I don't think it helps the POTUS build a new majority for 1996. If I read the policy and the politics right, adults want and need real choice and opportunity, not the false promise of a new monopoly, governmentally prescribed, institutionally driven workforce "system."

[N.B.: The two major programs for youth ages 16-20 fall into two categories. First, as DoEd recommends, use Perkins secondary ed money to mainstream more youth through learning in the context of work; this fits our institutional reform strategy of Goals 2000 and School-to-Work for the public terrain of K-12 schooling. Second, accept DoL's proposal for a different approach for school drop-outs under JTPA -- build the capacity of intermediaries like CET that will connect drop-outs with a job, provide work support, and encourage learning in the context of work. This fits the market reform approach that we are proposing once any person exits the public K-12 system.]