THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release November 30, 1994

STATEMENT BY THE PRESIDENT ON DIRECT COLLEGE LOANS

Today the Department of Education announced that its new direct lending program has reached the congressionally mandated benchmark of 40 percent in new loan volume for the next academic year. A total of 1,495 schools will participate in this new program. The program will provide $8 billion in loans to two million students in the next school year.

The American people want a federal government that works better, costs less, and expands opportunities for all Americans. The new direct lending program is an important example of reinventing government to better meet the people's needs.

It will reduce complexity and costs for millions of student borrowers. And the option to repay loans as a percentage of income over time will reduce burdens on young families and make it easier for young people to serve their communities and their country.

The new direct lending program is good news for taxpayers as well. Financial analysts in a recent Morgan Stanley newsletter have already described this new program as a "budgetary winner" that will "lower government spending and reduce the deficit." Over the long term, we expect to save taxpayers $4.3 billion once this program is fully up and running. Direct lending represents the most innovative student financial aid program since the creation of the Pell Grant program in 1973, more than 20 years ago.

Government can work better, cost less, and direct lending proves it.

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to: DISTRIBUTION
fax #: AS INDICATED
re: DIRECT STUDENT LOANS & IRS
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The attached draft reflects decisions taken at our meeting on December 1, 1994, and is forwarded for your review and comment. Please confirm receipt by Noon, December 5, 1994.

Please return your comments to me by NOON, TUESDAY, December 6, 1994. We hope to return a "clearance draft" to you on December 7, 1994, midmorning.

Thank you.

DISTRIBUTION LIST WITH FAX NUMBERS, December 2, 1994:

Gene Sperling	(202)456-2878
William Galston	(202)456-2878
Scott Gould	Hand Carry
Robert Carver	(202)622-5046
Heather Maloy	(202)622-5067
Ed Emblom	(202)874-0634
Carolyn Tavenner	(202)622-6536
Barry White	(202)395-4875
Lowell Dworin	(202)622-0236
Theo Lubke	(202)456-1605
Pat Smith	(202)395-4875
Ed Verburg	Hand Carry
Mike Bloom	Hand Carry
Alan Cohen	Hand Carry

From the desk of...

Alexander J. Basso
Management Analyst
U.S. Treasury Department
1500 Pennsylvania Ave., NW (2454)
Washington, DC 20220

tel: (202) 622-2290
fax: (202) 622-2232

DRAFT 12/2/94

MEMORANDUM FOR THE PRESIDENT

FROM: [to be determined]

SUBJECT: EDUCATION STUDENT LOAN PROGRAM WITHHOLDING AND DEFAULT REDUCTION: OPTIONS FOR IMPLEMENTATION

This memorandum presents four ways to realize the Administration's vision to use wage withholding to repay loans and to reduce defaults under the Student Loan Reform Act of 1993 (the Act).

Before passing the Act, Congress deleted an Administration proposal that would have enabled IRS to participate in loan collection if the Secretaries of Education and Treasury believed such to be feasible. Congress substituted a requirement that the two Departments study and report on the feasibility of IRS participation. Therefore, the responses to this memorandum will also be used to shape the response to Congress.

This memorandum provides background on the new direct loan program and IRS issues, discusses each of the four options, and sets forth the recommendations of each of the principals, based on their analysis of the complex tradeoffs posed by each option.

I. Vision

[Theo's points follow. They are illustrative only . . . .

The Administration envisions a program that:

- *Makes it easier for hardworking Americans to attend college by making borrowing simpler and repayment less restrictive--so that "nobody will be able to say they can't afford a college loan";*

- *Bases one loan repayment option on income (ability to pay), enables borrowers freedom to choose the type of employment desired with the ease of flexible repayment options;*

- *Gives borrowers the flexibility to choose a repayment plan that meets their current needs and allows borrowers to switch among repayment plans throughout the repayment period as their needs change.*

- *Provides borrowers with a convenient repayment process, giving them the choice to have their loan repayments--particularly income contingent repayments--automatically* *deducted from their wages through wage withholding.*

- *Reduces borrower defaults. . . . End of Theo's points.]*

A team from Treasury, Education (ED), OMB, and the White House set out to determine how this vision could be fulfilled.

II. Background

Direct Loan Program. The Act created a Federal Direct Student Loan program to be phased in over five years, with total direct loan volume rising from 5 percent in the first year to at least 60 percent in the fifth year, or nearly $18 billion dollars. The new program will improve loan access and borrower service, simplify administration, reduce defaults, and improve collections. It will also save the taxpayers money by eliminating middlemen and subsidies that do not benefit students.
The program offers borrowers several repayment plans: income contingent ("pay-as-you-can"), graduated, extended, and standard-fixed. Borrowers get maximum flexibility to switch plans and obtain deferments and forbearances. They are also offered several repayment methods, such as coupon books, checks, and bank debits (which are similar to wage withholding). In addition, a voluntary employer wage withholding program is being developed. Although still in the early stages, student feedback and school participation rates indicate that the loan program is an enormous success.

- At a recent round of national forums, student feedback was clearly enthusiastic, especially with regard to the flexible repayment plans. This was pointedly expressed at the Presidential roundtable at the University of Michigan.

- Currently, 104 schools are participating (representing the loan volume permitted by statute); approximately 2,300 schools applied to participate in the second year, but ED has selected the 1,500 needed to meet the statute's goal of 40 percent of the loan volume. Others must wait for the next round beginning in July 1996. School participation is voluntary. ED cannot require schools to participate. Schools participate because the program is more responsive to students, less burdensome to administer, and permits quicker receipt of funds.

Under the old program 85% of borrowers repay on schedule; in general this will not change under direct lending. However, defaults should be reduced through the use of wage withholding and the new income-contingent "pay-as-you-can" plan, which at least 18 percent of borrowers are expected to select. Payments contingent on the ability to pay will reduce the likelihood of non-payment and increase collections over time. Some of those who cannot pay will be able to remain in good standing (albeit accruing interest).

ED is operating all aspects of loan origination, disbursement, and accounting through the use of contractors, replacing the less efficient bank and state agency decentralized structure of guaranteed lending. Because contractors provide monthly tracking and billing of borrowers and repayers direct lending can be managed more effectively. Frequent contact is essential to maximize service and minimize defaults.

Default collection methods that have proved to be particularly successful under the guaranteed loan program will be retained. This includes the most effective method, an ED/IRS Tax Refund Offset program started in 1986, which has increased collections by 43 percent and has yielded over $600 million in annual revenues. Also, an IRS computer matching program has helped ED locate debtors and as a result has improved overall collections by 5 to 10 percent. Finally, ED is implementing new administrative wage garnishment authority to increase collections.

IRS Issues. IRS participation in loan servicing has been viewed from several perspectives. The IRS is in the process of modernizing its 1960's tax system and reinventing tax administration. Improving the voluntary compliance rate to 90% is a major IRS goal. Voluntary compliance, tax refund fraud, and the IRS's efforts to deal with these problems will continue to receive intense Congressional review. Additionally, Congressional has cut the Administration budget requests for the modernization program.

In addition to resource considerations, the IRS concentrates its collection in higher dollar value cases than does ED (which deals with an average defaulted student loan debt of $2,800). The IRS does not, cannot within its current system, and will not under tax system modernization, maintain monthly account data on taxpayer status. Validation of taxes paid and owed, reflecting reconciliation of employer reported data and individual tax returns, does not occur until some six months after the close of the tax year. Nevertheless, as discussed below, we have identified several approaches that will involve the IRS in varying degrees.

III. Options

We considered four options for servicing and collecting direct loans: (1) IRS establishing a special student loan operation; (2) IRS using the current tax system for loans repaid through wage withholding only (ED doing all other functions); (3) ED running its current operation with incentives to business to maximize the availability of wage withholding; and (4) ED running the operation with a mandatory requirement on firms with ten or more employees to offer withholding. Each option addresses two key components of the President's vision: wage withholding and default reduction. Below is a description of how each option would be implemented.

Option 1. IRS Student Loan Special Operations (Federal FTE or Contractors)

Once legislation or other legal authority is obtained, *Option 1* permits IRS involvement in all aspects of student loan collections. This option, which could be implemented in phases, provides all borrowers the full range of service from billing through collection.

ED would originate the loans. IRS would service and collect all repayments through a loan collection system separate from the tax system. This would offer borrowers maximum flexibility in terms of repayment plans and methods, including wage withholding.

In Phase I, ED's direct loan contract would be transferred to the IRS for program administration. Under Phase II, the IRS either would create a new system separate from the tax system or continue to contract student loan program administration. In addition, Phase II would require all employers to withhold and report student loan payments to the IRS separate from tax withholding. Employer withholding of student loan payments would be tracked on a real-time basis and require frequent reporting to both IRS and borrowers to ensure a high level of employer compliance. In addition, assuming proper legislative authority, IRS could bolster collections through the use of tax data that it otherwise maintains.

Customer Service. In Phase I, comparable to that currently being provided by ED; in Phase II, borrowers would have the option of wage withholding with the same access to information and flexibility to switch plans as other borrowers.
Political Considerations. Positive: For those who believe IRS involvement will enhance collection efforts. Negative: tax writing committees especially may resist IRS involvement. Employers will resist an additional government mandate regardless of the cost. Student associations have lobbied against IRS participation, doubting IRS efficiency and customer service. Financial institutions offering guaranteed student loans may use IRS participation as a tactic to discourage school participation in direct lending.
Default Rate and Collections Impact. Some anticipate that having borrowers deal with the IRS may enhance the motivation to repay. However, IRS experience with other non-tax issues, such as tax refund offset programs, indicates that tax compliance declines when the IRS attempts to collect non-tax debts from taxpayers.
Budget Consequences. See Tab. IRS would need continuing additional resources so that its primary task--the collection of taxes--would not suffer. The estimated cost to IRS is $600 million for Fiscal Year 1999, based on the use of approximately 6,800 FTEs to collect 4.3 million loans in repayment and approximately one million defaulted loans. If IRS administered ED's contract, as in Phase I, the estimated annual cost is $850 million, the same as ED's expected cost. ED estimates that its costs would be reduced by $750 million. Costs may be covered within ED's baseline funding for loan administration.
Burden to Businesses. See Tab. The estimated annual cost is $1.7 billion spread over ____ million employers, assuming 30 percent of all borrowers elect wage withholding and there are 20 million borrowers.

Option 2. Split Servicing: IRS Uses the Tax System for Wage Withholding

Legislation for this option would provide for IRS involvement in student loan collection for a targeted population that can most benefit from using wage withholding: borrowers who earn wages would be able to repay student loans through the tax structure, with which they are familiar. Employers would not need to keep any separate accounting records, or provide any loan information to either IRS or the borrowers.

Under *Option* 2, IRS would collect loans whenever borrowers elect to repay through employer wage withholding. ED would continue to collect under all other repayment methods, would track borrowers financially unable to make payments, and would perform servicing functions for all repayers (providing loan account data and counseling, processing deferments and forbearances, and approving switches between repayment plans and methods).

Borrowers choosing *Option 2* wage withholding would have to file a tax return to report the loan repayments as a tax. Upon filing, insufficient or delinquent tax payments would be solely an IRS tax responsibility.

Customer Service. This option would provide wage withholding for borrowers who are employed and have sufficient taxes withheld from their salary to satisfy their total tax liability, including the loan repayment. Borrowers who were unemployed, self-employed or do not elect wage withholding could not participate and would receive no benefit from this program. Borrowers who elected withholding would not be able to monitor or evaluate, on an ongoing basis, the effect of loan payments on principal and interest. This would limit their ability to change repayment plans, but they would have a convenient repayment process. Electing borrowers' tax returns would be more complicated and borrowers would be subject to full IRS collection procedures if they underestimated either their loan or tax liabilities.
Political Considerations. Positive: For those who believe IRS involvement will enhance collection efforts. No additional burden on employers. Negative: the same as *Option 1*. In addition, the tax-writing committees may oppose the conversion of defaulted student loans into tax liabilities, which would increase IRS accounts receivables. They may also fear the impact on tax compliance.
Default Rate and Collections. For those electing withholding, the possibility of student loan defaults as currently defined is eliminated. However, these borrowers might owe additional taxes. Low dollar delinquencies, which are now collected by ED, would not be collected because they would fall below the IRS delinquency threshold.
Budget Consequences. See Tab. The IRS would need additional resources. Using the tax system would require approximately 4,500 additional FTES at a cost to the IRS in FY 99 of $370 million. ED estimates its costs would be reduced by $500 million based on the assumption that most borrowers likely to default would elect IRS withholding. As in *Option 1*, costs could be met by a transfer of funds already identified in the ED mandatory loan administration fund.
Burden to Businesses. See Tab. This option poses no additional burden to employers.

Option 3. ED carries out all loan functions and provides incentives to business to maximize availability of wage withholding. IRS enhances debt collection capability.

This option builds on the current direct loan program. It would provide all borrowers the full range of service from billing through collection, including complete flexibility in choosing and changing repayment plans and methods. ED would retain responsibility for all aspects of student loan collection and servicing, using its current system regardless of how borrowers elect to repay.

Under the authority provided by the Omnibus Reconciliation Act of 1993, IRS will be providing ED with adjusted gross income and filing status information about borrowers who choose income-contingent repayment. ED would seek additional legislation so that IRS could share additional tax return information on income-contingent and defaulting borrowers to enhance collections.

As part of *Option 3*, ED would launch a public information campaign encouraging employers to provide voluntary wage withholding as an inexpensive employee benefit, similar to the savings bond program or bank debit option (which would not end if jobs change). Large employers (covering 80 percent of all employees) would be likely to participate because of existing automated payroll capabilities. ED would provide software and technical support to employers who requested such assistance.

Customer Service. Wage withholding would be an available option to 80 percent of the borrowers who might want it. Wage withholders would gain the same access to information and flexibility to switch plans as all other borrowers.
Political Considerations. Positive: same as *Option 2*. Negative: some borrowers would be denied the withholding option, because their employers don't participate or not employed in wage withholding jobs.
Default rate and collections impact. Some anticipate that wage withholding may reduce the default rate.
Budget consequences. Approximately the same as projected cost of current ED system ($850 million in FY 99). Budget neutral, those costs are assumed in current baseline estimates.
Burden to Business. See Tab. Based on the assumption that twenty million borrowers are in repayment, with 30 percent electing to repay through voluntary employer withholding, the estimated annual cost is $0.5 billion.

Option 4. ED Carries Out all Functions with Mandatory Participation for Firms with Ten or More Employees.

This option closely parallels *Option 3*. The difference is that wage withholding would be available to nearly everyone who is employed as a wage earner. Legislation would require businesses employing 10 or more employees to participate.

Employer reporting to ED would remain the same under a mandatory system as under a voluntary system, assuming close to full compliance with the law. Reports of noncompliance would subject employers to some compliance reporting and compliance reviews.

Customer service. Positive: As in Phase II or *Option 1*, wage withholding would be an available option for nearly all employed borrowers, an increase of about 5 percent over *Option 3*. Wage withholders would gain the same access to information and flexibility to switch plans as all other borrowers. Negative: as in *Option 1*, employers would incur the

costs of an unfunded mandate.
Political considerations. Many employers would oppose an unfunded federal mandate. Payroll associations report widespread dissatisfaction with the increased number of government mandated wage withholdings and the complexity involved. Congress is likely to resist enacting legislation that imposes additional burdens on business.
Default rate and collections impact. The impact is the same as under *Options 1* and *3*.
Budget consequences. Approximately the same as projected cost of current ED system ($850 million). Budget impact on ED is expected to entail only a minimal increase, assuming close to full employer compliance. Employer noncompliance is expected to be modest.
Burden to business. Assuming close to full compliance, burden is expected to be the same as under *Option 1*. The estimated annual cost is $1.1 billion.

IV. Summary Analyses

Below we assess the costs and benefits of each option based on the following criteria: customer service, political considerations, default rate and collections impact, budget consequences and burden to businesses.

- Customer Service

  - Except for Phase I of *Option 1* and *Option 2*, all options provide comparable borrower service.

  - *Option 2* trades off reduced borrower service (no real time access to data) against the reduced cost to employers because of use of the regular tax system. The use of the tax system may be viewed by some borrowers who would otherwise elect wage withholding as a negative customer service factor. Similarly, *Option 1* may be viewed negatively, even though in that option loan debt is not tax debt.

  - Focus groups indicate borrowers are concerned about privacy, especially regarding wage withholding.

- Political Considerations

  - Student associations have expressed opposition to any involvement by the IRS, as in *Options 1* and *2*. Those associations and the opponents of direct lending, the banks and secondary markets, could play on student fears to pressure schools to stay out of direct lending.

  - All options require legislation in varying degrees and with different potential reactions. The employer mandate of *Options 1* and *4* would likely arouse the greatest opposition. All options call for the ability of IRS to release or use information on individuals now not made available outside the tax system;

privacy and disclosure concerns may be raised.

- Any legislation putting greater control over the program into Treasury (i.e., *Option 1* and 2) will be resisted by the education community and probably the House Education and Labor and Senate Labor and Human Resources committees, even under possible new configurations in the 104th Congress.

- *Options 1* and *2* could be viewed by those concerned about the quality of tax administration as detrimental to IRS' ability to carry out its primary mission.

- Default Rate and Collections

  - Some believe that IRS administration of student loan collections in *Options 1* and *2* may reduce loan defaults. On the other hand, IRS (unlike ED) does not focus its limited resources on collecting small debt and voluntary compliance with the tax laws will decline. Under *Option 2*, where loan debt becomes tax debt, it is not likely such debts will be collected. The great majority of defaulters do not have the money to repay, which leaves IRS no better than ED as a debt collector.

  - With the additional income and employment information, proposed under *Options 3* and *4*, ED would be able to improve default collections.

- Budget Consequences

  - Under *Options 1* and *2*, IRS requires continued new funding. Those resources could be taken from the existing ED estimates in the mandatory baseline for loan administration.

  - If under *Option 1* IRS establishes a separate unit with 6,800 Federal FTE, those FTE are above current estimates and would have to come out of some other agency's allocation to remain within the statutory government-wide FTE reduction rules. If *Option 1* is done by contractor, the FTE requirements are already in ED's ceiling. *Option 2's* FTEs would require ceiling adjustments, reducing other agencies' allotments by 4,500.

  - *Option 3* is ED's current system, and requires no new funding or FTE. *Option 4* could require $500,000 to pay for the employer incentives and 20 additional FTEs.

- Burden to Businesses

  - Regardless of the relatively small burden imposed under *Options 1* and *4*, the business community will argue that it is an unfunded mandate and will object.

- While *Option 2* is mandatory on businesses because it involves the tax system, no additional burden would be imposed.

- In *Option 3*, there is no mandated employer burden. The perception changes from a government mandate to an inexpensive benefit.

V. Recommendation

VI. Decision

_____*Option 1.* *IRS Student Loan Special Operations (Federal FTE or Contractors)*

_____*Option 2.* *Split Servicing: IRS Uses the Current Tax System for Wage Withholding*

_____*Option 3.* *ED with Incentives to Business to Maximize Availability of Wage Withholding*

_____*Option 4.* *ED Carries Out all Functions with Mandatory Participation for Firms with Ten or More Employees.*

Summary of Student Loan Progra[illegible]ptions and Costs

(All dollar amounts are in millions)

Options and Costs	*Service Entity*				
	Internal Revenue Service			Department of Education	
	Special Operation		Using the Current Tax System	Voluntary Withholding	Mandatory Withholding
	Using Federal FTEs	Using a Contractor			
Estimated Program Costs (FY99)					
- IRS	$600	$750	$400	$0	$0
- ED	$100	$100	$400	$850	$850
- Total Cost	$700	$850	$800	$850	$850
Budget Consequences					
- IRS	$600	$750	$400	$0	$0
- ED	($750)	($750)	($450)	$0	$0
- Net Incremental Cost	($150)	$0	($50)	$0	$0
Burden to Businesses	$1,700	$1,700	NA	$500	$1,100

Notes:

1 All IRS and ED cost estimates are for FY99.

2 Burden Estimates represent the cost to businesses when the direct loan program reaches its sized capacity of 20 million borrowers in repayment. It is assumed that under a mandatory withholding program, 6 million borrowers would elect to repay through payroll withholding. Under the voluntary withholding program, 4.5 million borrowers would elect to repay through employer withholding.

3 Costs include the cost of collecting the existing inventory of defaulted student loans from FFELP.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO: Bill Galston / Gene Sperling

ORGANIZATION:

PHONE NUMBER:

FAX NUMBER:

FROM: Frank Holleman

PHONE NUMBER:

FAX NUMBER: 401-0596

MESSAGE:

12 PAGE(S) TO FOLLOW

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

February 7, 1995

MEMORANDUM

To: Paul Dimond
Bill Galston
Gene Sperling

From: Frank Holleman FH
Chief of Staff

Subject: Revised Consolidation Plan

On January 31, I faxed you the proposed Direct Loan Consolidation Plan sent from Secretary Riley to the President. The plan has been revised in one respect, Section 6, and today the revised plan was sent to the President, with a cover letter. The revision proposes that the Department, at least during the first year, not allow single FFELP loans, which are repayable over 10 years, to be consolidated into direct consolidation loans, also repayable over 10 years. Borrowers with single FFELP loans would be permitted to obtain a direct consolidation loan if they select another repayment option, such as the income contingent option.

For your information, attached is the Secretary's cover letter of today's date and the revised plan.

Attachment

UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

February 7, 1995

Honorable William J. Clinton
The White House
Washington, DC 20500

Dear Mr. President:

On January 31, 1995, I transmitted to you the Department of Education's proposed plan for implementation of the Direct Loan Consolidation Program. In Section 6, we discussed the issue of consolidation of single FFELP loans payable over ten years into direct consolidation loans also payable over ten years. We recommended that the Department would not promote such consolidations and that the Department would, where appropriate, counsel against them; however, if a borrower insisted upon consolidating a single FFELP loan to a 10-year plan, we recommended that the borrower be permitted to consolidate in that way.

My staff and I have thought further about this issue and would like to revise the proposed plan submitted to you. Our recommendation is that, during the first year of direct loan consolidations, the Education Department not consolidate single FFELP loans, payable over ten years, into direct consolidation loans payable over ten years, for the following reasons.

As we stated in the proposed plan transmitted to you, we believe the Department has the legal authority to consolidate a single FFELP loan into a single direct consolidation loan with a ten-year repayment plan. However, underlying the design of our plan is the conclusion that we should proceed cautiously, consistent with our ability to handle the administrative arrangements of a complicated program during the first year. For that reason, we recommended consolidating only up to one million loans the first year, about 5% of the outstanding loans, and a careful approach to publicizing the program. The statute expressly provides the Secretary discretion to "not offer such loans if, in the Secretary's judgment, the Department of Education does not have the necessary origination and servicing arrangements in place for such loans."

Of all borrowers seeking consolidation, those with single loans who want to remain in a ten-year repayment plan have the least need to consolidate. Borrowers with multiple loans need the benefit of being able to make one loan payment to one lender. Borrowers, even those with a single loan, can benefit from the additional repayment plans offered by direct consolidation loans, including the income contingent option. However, borrowers with a single loan who are seeking to consolidate but retain their present ten-year method of repayment are primarily receiving the benefit only of lower interest rates. During this first year, when we will be facing the difficulties of beginning a new program, we believe we should focus our resources on borrowers who consolidate more than one loan and/or take advantage of repayment options other than the ten-year repayment option they currently have.

Further, some members of Congress have expressed the belief that such consolidations are, in reality, refinancings rather than consolidations. They therefore believe that such consolidations are contrary to the intent of Congress in enacting the program and should not be included in our direct loan consolidation program.

In addition, under our proposed direct loan consolidation plan, borrowers with a single FFELP loan can still obtain a direct consolidation loan if the borrower wants to select a repayment option other than the ten-year method. A borrower with a single FFELP loan would be able to obtain a direct consolidation loan with the extended payment option (more than ten years), the graduated payment option, or the income contingent option. All would permit those borrowers to choose a lower monthly payment, if the borrower decides that a lower monthly payment is what the borrower wants or needs.

For these reasons, we believe it is the better course not to allow borrowers with single FFELP loans to consolidate into direct consolidation loans with a ten-year repayment option, during the first year. This approach is consistent with our decision to proceed cautiously the first year as we develop our administrative ability to handle this program. As indicated in the plan I sent you on January 31, at the end of six months we are going to evaluate the plan as a whole; at that time, we can consider how the program has operated in this respect also and decide how to proceed in the future.

Therefore, enclosed is a revised version of the plan I submitted to you on January 31, which contains this recommendation in Section 6.

Yours sincerely,

Dick Riley

Richard W. Riley

Enclosure

Federal Direct Consolidation Loan Program Roll-Out Plan

This document sets forth the proposed plan for rolling out the Federal Direct Consolidation Loan Program and specifically discusses the following:

1. Legislative Authority for the Federal Direct Consolidation Loan Program
2. Benefits to Borrowers
3. Benefits to Taxpayers
4. Consolidation Test Project
5. Implementation Process
6. Consolidation of Single FFELP Loans
7. Access
8. Timing
9. Savings

A PLAN FOR IMPLEMENTATION OF THE FEDERAL DIRECT CONSOLIDATION LOAN PROGRAM

The plan has been prepared in response to the President's announcement that the Secretary should submit to him by the end of January 1995 a plan for implementation of the Direct Loan Consolidation Program.

1. Legislative Authority for the Federal Direct Consolidation Loan Program

In the 1993 Omnibus Budget Reconciliation Act, Congress expressly provided that, in certain circumstances, borrowers would be permitted to consolidate Federal Family Education Loan Program (FFELP) loans currently in repayment into the Federal Direct Consolidation Loan Program. In new section 428C(b)(5) added to the Higher Education Act, Congress provided that if "...a borrower is unable to obtain a consolidation loan from [his/her] lender" or if the borrower "...is unable to obtain a consolidation loan with income-sensitive repayment terms acceptable to the borrower from [his/her] lender,..." the Secretary "...shall offer any such borrower who applies for it, a Direct Consolidation Loan." Thus, a borrower who satisfies either of the two conditions can obtain a Direct Consolidation Loan.

That same section goes on to provide that a borrower who applies for a Direct Consolidation Loan may repay it "...as requested by the borrower...either pursuant to income contingent repayment...or pursuant to any other repayment provision under this section."

In summary, Congress allowed an FFELP borrower to consolidate his/her FFEL debt (as well as other Federal educational loan debts) into a Direct Consolidation Loan if the borrower could not obtain a consolidation loan or a consolidation loan with income-sensitive repayment terms, acceptable to the borrower, from his/her lender. This plan describes a measured way for the Secretary to implement this Congressional design.

The current outstanding FFELP loan portfolio is approximately $<u>60</u> billion representing some <u>20</u> million borrowers. These loans are held primarily by lenders and secondary markets; loans in default are held by guaranty agencies and the Department of Education.

2. Benefits to Borrowers

Direct loan consolidation provides important benefits to borrowers in repayment. (a) Borrowers can choose from a variety of repayment options, including the income-contingent, or pay-as-you-can option. (b) Borrowers thus have the opportunity to lower their monthly payments and adjust the repayment of their student loans to meet their current financial and personal needs. This includes, for example, borrowers with families, borrowers starting new businesses, and borrowers who decide to do community work. All can benefit from these repayment options. (c) In this way, direct loan consolidation gives borrowers flexibility and more control over their lives, by allowing them to select the repayment method that best fits their personal situation. Just as borrowers may choose to lower their monthly payment, borrowers may also change repayment options and repay their loans more quickly, if they choose to do so. (d) In addition, borrowers who are dissatisfied with the service they are receiving from their lenders will have the option of moving to another loan servicer. As a result, direct loan consolidation should encourage better servicing of student loans by all lenders and loan servicers.

At the same time, the choice is in the hands of the borrower. No borrower in repayment is required to seek a Direct Consolidation Loan. Direct Consolidation Loans are all about choice, options, and competition.

3. Benefits to Taxpayers

The Direct Consolidation Loan Program is designed to convert outstanding loans into Direct Loans. Direct Loans utilize Federal funds at the Government's borrowing rate. As a result of this change, the net savings of the loan program would be approximately $420 million for every one million consolidations. If consolidations occurred at the rate of one million per year over the next five years, the net savings would amount to as much as $2 billion.

4. Consolidation Test Project

As a result of the publicity generated following the President's October 1994 press conference and a few articles in the press, the Department received approximately 100,000 inquiries about the Direct Consolidation Loan Program. The Department has selected the first 35,000 of these inquiries for a consolidation test. The purpose of this test is to determine:

- the understanding of the information and forms which were mailed;
- the type, size, and age of loans being consolidated;
- the effectiveness of the computer system.

Based on the information obtained from this test, we will revise and improve the material and processes, as appropriate, to insure effective implementation.

These first 35,000 inquirers were sent a brochure that described the Direct Consolidation Loan Program and the Individual Education Account (IEA) repayment options available under it. The brochure included a tear-off coupon that requested information about the borrowers' outstanding loans. Interested borrowers were told to complete the coupon and return it to the Direct Loan Servicing Center. As of January 16, over 14,000 of the 35,000 inquirers who were sent the brochure had returned the coupon with loan information.

When received at the Servicing Center, estimated monthly repayment amounts are calculated under the various IEA options for each borrower. That information, along with an application for consolidation and other information, is mailed back to the borrower.

Those borrowers who are seriously considering consolidation are instructed to complete the application form and return it to the Servicing Center. They are also given a toll-free number to call if they wish to speak to a counselor who can assist them in making their decision about consolidation under the Direct Loan Program.

When applications are received, the loan holders are contacted to determine the exact payoff amount, payoff checks are generated and mailed, the note is processed, and the Direct Consolidation Loan is entered into the Direct Loan Origination subsystem. Once the loan is booked, it is forwarded into the Loan Servicing system where it joins the stream of all other loans in terms of communications, bills, and payment processing.

As of January 16, 55 persons completed the process and their loans are now being consolidated. Furthermore, these 55 persons were called by the Department and they indicated that the material they received provided them with the necessary information needed to make their decision.

5. Implementation Process

The Department is recommending a phased-in approach, with our goal to consolidate no more than the loans of one million persons (approximately 5% of those in repayment) in the first calendar year. We plan to achieve this through a controlled public information campaign consisting of 4-6 information announcements placed in major newspapers in key cities plus public service announcements (PSAs). The cities in which the announcements will run will be selected based on estimates of loans in repayment in a State. They will be scattered throughout the country and the

Department will adjust its public information campaign based on the level of responses received.

After an assessment of the test materials and procedures, the Department will make all necessary revisions in preparation for rolling out the Direct Consolidation Program. Specifically, the Department is planning the following steps:

1. Send informational brochures to all inquirers beyond the initial 35,000;

2. Send application forms and other material to those persons who respond to this information;

3. Assess the impact of the controlled information campaign and adjust the approach, as appropriate;

4. Reassess the operation of the Direct Consolidation Loan Program after 6 months; based on that review, make any appropriate modifications and revisions to the program;

5. Develop a 5-year plan based on the results of the 6-month review.

If the Department is overwhelmed with requests after its initial information campaign, it is prepared to handle additional volume after a three-month delay to gear up. If such a delay is necessary, the inquirers will be notified and provided with a new response date.

This low-key, considered approach will allow the Department to implement the Direct Consolidation Loan Program while gathering the necessary information for assessing its efforts and making modifications as necessary. The Department will track the results as follows:

- Number of Inquirers
- Number of Inquirers who follow up with loan information
- Number of Inquirers who actually submit consolidation loan application forms
- Number of loan consolidations completed and volume of loans
- Distribution by type of loans and dollar amounts of loans consolidated
- Distribution of consolidation borrowers by income
- Time required for process
- Number and types of questions raised by inquirers
- Appropriateness of communication and forms.

One area to which the Department will pay special attention is the certification on the Direct Consolidation Loan Program Promissory Note. The borrower certifies that he or she has contacted his or her lender and was either unable to obtain a consolidation loan or was unable to get acceptable income sensitive terms on the consolidation loan. Some concern has been expressed that the Department has not made that requirement visible enough and this 6-month period will provide the opportunity to ensure that this certification is highlighted and to determine whether any type of validation is appropriate.

The Department will proceed carefully, as set forth above, and monitor its results. We will adjust our plans based on our actual experience.

6. Consolidation of Single FFELP Loans

The Department has the statutory authority to consolidate single FFELP loans, payable over ten years, into direct consolidation loans, also payable over ten years. However, some Congressional staff representing their members have taken the position that it was never Congress's intent to permit consolidation of single loans for the purpose of interest rate reduction. It is their position that consolidations of such loans are in reality only refinancings.

While the Department reads the statute to permit such consolidations, the statute also expressly grants the Secretary the authority to "not offer [direct consolidation loans] if, in the Secretary's judgment, the Department of Education does not have the necessary origination and servicing arrangements in place for such loans." This plan otherwise, in the proposed limit on the number of direct loan consolidations and the planned publicity for the program, recognizes the need to proceed cautiously with this program, consistent with the Department's administrative capacity to handle the work it will entail.

The Department therefore recommends that, during the first year, borrowers with single FFELP loans, payable over ten years, not be permitted to consolidate into direct consolidation loans with a ten-year repayment plan. Such borrowers do not have the same need for consolidation as borrowers with multiple loans or borrowers with single loans who seek one of the other repayment options (such as the income contingent option). During the first year, the Department's administrative resources should be allocated to those borrowers with the greatest need for direct loan consolidation. Borrowers with single FFELP loans would be permitted to obtain a direct consolidation loan if they seek a repayment option other than the ten-year plan they currently have.

As stated above, at the end of six months, we will evaluate the progress of the program and can consider this issue again at that time for future years.

7. Access

One of the major criticisms against the full implementation of the Direct Consolidation Loan Program is the concern that it will cause access problems for students still in the FFELP. The Department believes that this concern is unfounded.

The first priority of the transition from the FFELP to the Direct Loan Program is to ensure that every eligible student attending an eligible institution not yet participating in Direct Loans continues to be able to obtain a loan through FFELP. The Higher Education Act, however, does not impose any affirmative obligation on private lenders to make FFELP loans. Although the Act and the Secretary's agreements with the guaranty agencies do require the agencies to have lender-of-last-resort (LLR) programs for their designated areas, most of the agencies do not have the legal authority, funding and/or operational capacity to make the loans themselves if they cannot find lenders to do so on their behalf. In fact, none of the LLR programs that has been approved by the Department to date provides for loans by the guaranty agencies themselves.

Congress anticipated the possibility of loan access problems during the transition, and the Student Loan Reform Act of 1993 enhanced the Department's tools to deal with that possibility. Although to date, the transition has seen only isolated loan access problems, there is a remote possibility that there could be systemic problems as a result of the substantial economic and structural changes taking place in the student loan programs, particularly the Direct Consolidation Loan Program.

Loan access problems could relate to particular schools or geographic areas or, in the most unlikely case, could be systemic. Those relating to particular schools have tended to arise from the unprofitability of the loans to schools with high default rates, and such loan access problems are likely to be small in magnitude. Those relating to particular areas would arise from a geographically uneven withdrawal of lenders as the lending community contracts during the transition; and such problems could be solved by lenders from other areas, since the loans themselves would likely still be marginally profitable to a lender that was otherwise in the business. The solution for a systemic problem would depend upon the excess operational capacity of the remaining lenders.

The tools available to the Secretary for loan access problems are the following:

- Jawboning
- Lender of Last Resort (Student Loan Marketing Association)
- Lender Referral Fees

- Federal Advance

Detailed descriptions of each of these options are set forth below:

a. Jawboning. The Department has always pursued all reports of loan access problems that have come to its attention. In these cases we have ascertained the facts from the schools or students involved and then urged the pertinent guaranty agencies or lenders to make the loans.

b. Lender of Last Resort [Student Loan Marketing Association (SLMA)]. SLMA is legally obligated to act as Lender of Last Resort (LLR) in all geographical areas. The language of the pertinent statutory provision is different from that for the guaranty agencies. SLMA's legal responsibilities are reinforced by the Secretary's power to increase its offset fee of 0.3 percent of all loans held to 1.0 percent if it does not substantially comply with a request to make LLR loans. Last spring the Department negotiated with SLMA a comprehensive certificate of insurance for $200 million of LLR loans. The Department also recently arranged for SLMA to make unsubsidized Stafford loans in Texas, when the guaranty agency there was unable to arrange for the regular lenders to do so. The use of SLMA to solve access problems involves no added cost to the Government and will be the next option after jawboning.

c. Lender Referral Fee. The Secretary is authorized to enter into lender referral agreements with guaranty agencies for them to assist students in finding willing lenders. A fee of 0.5 percent of all resulting loans may be paid to the guaranty agencies for their services; contrary to the normal prohibition of fee-splitting, the agencies may share this fee with the lenders. Since this authority has never been used, it is uncertain whether some portion of this relatively small fee would be sufficient to cause a lender to make a loan otherwise viewed as not economic, and whether the Department could effectively prevent its use on loans that would have been made without it. The regular guaranty agency system would have to be used to distribute lender referral fees, because the Transitional Guaranty Agency (TGA) does not have existing lender relationships. Of all the available tools, the lender referral fee is the only one that would result in increased costs for the Government.

d. Federal Advances. The Secretary is authorized to advance funds to guaranty agencies for LLR loans. There is no statutory limit on this authority, although the funds would have to be apportioned by the Office of Management and Budget (OMB) before any advances could actually be made. The guaranty agency is to be paid a fee established by the Secretary for the service, presumably in lieu of any interest payments. Although the

Secretary is not authorized to advance funds directly to other potential lenders, including SLMA, for this purpose, the guaranty agencies are free to pass on the Federal advances under similar arrangements. LLR advances would come from program funds, which are not limited in amount. The cost of the advances for budgetary purposes would probably be based on funding rates, guaranty agency fees, anticipated defaults and possibly internal administrative expenses, rather than the amounts of the advances themselves. Operationally, Federal advances could actually be made within a matter of days after authorization by the Secretary and apportionment by OMB. Since the guaranty agencies would be only a conduit in the process, the Department would use the Transitional Guaranty Agency (TGA) exclusively for this function. SLMA would be the first choice to make the LLR loans under this approach, but other secondary markets and banks might be needed in the event that the demand exceeded SLMA's operational capacity.

8. Timing

As soon as a roll-out plan is approved and the processes are operating effectively, the Department will begin implementing the Direct Consolidation Loan Program.

It is anticipated that the implementation will be underway within 4-6 weeks after approval of the final plan and the processes are operational. As previously discussed, at the end of the first 6 months of full operation, the Department will assess the success and effectiveness of the effort and make whatever modifications may be necessary.

9. Savings

It is difficult to determine the interest in consolidation since this will be the initial effort in announcing the various IEA repayment options. As previously discussed, on the basis of cost estimates the net income to the Federal Government will increase by approximately $420 million dollars for every one million loan consolidations, or as much as $2 billion over a five-year period, if a million consolidations occur each year.

It should be noted that the Direct Consolidation Loan Program, as in the case of the Direct Loan Program, will be operated by private firms under government contract, not by a large influx of Federal employees. We anticipate that less that 5 additional FTE Federal employees will be needed to implement this plan.

As the program expands, additional contractors will be selected through the standard government contracting system.

THE WHITE HOUSE

Office of the Press Secretary

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PRESIDENT CLINTON AT THE 77TH ANNUAL MEETING OF
THE AMERICAN COUNCIL ON EDUCATION

Hyatt Regency
San Francisco, California

11:45 A.M. PST

THE PRESIDENT: Thank you very much. Thank you, Juliet, and thank you ladies and gentlemen. Your welcome was worth the five- hour plane ride. (Laughter.) I want to congratulate you all on this meeting, and I want to thank Juliet for her leadership and also say to Frank Jenifer, whom I know will carry on the Council's outstanding work and strong leadership in higher education, I wish you well, and I'm delighted to see you again.

I want to thank the entire American Council on Education Board of Directors for endorsing our Middle Class Bill of Rights. It will build education and training across America, and I want to say a little more about it in a few moments. You will have to play an important role in making it a reality, and I know that you'll be interested in what I think you have to do along with what I have to do.

Let me say at the outset what an honor it is for me to be here with my longtime friend, our Secretary of Education, Dick Riley. He has really done a wonderful job, and I am very, very proud of him. And he is responsible for the fact that we had the most successful year last year in promoting advances in education in the Congress in at least 30 years in the United States, and I thank him for that. (Applause.)

I'm also glad to be here for the second straight year and to have Juliet's suggestion that maybe I should thing about becoming a college president when I am once again unemployed. (Laughter.) Now, before we came out here, she gave a slightly earthier description of why I should think about that. She reminded me that President Kennedy, when asked why he wanted to be president said that the pay was pretty good, a nice house came along with the job, and you work close to home, and that was like a lot of college president's jobs. (Laughter.)

Over New Year's I met a college president who told me that we had a lot in common with people who run cemeteries. He said, you know, if you run a cemetery, you've got a whole lot of people under you, but nobody's listening. (Laughter.) On the hard days, when you're about to cry, you can think of that and laugh a little bit about it. (Laughter.)

We have more in common than that. You are the keepers of a great trust of this nation, the most diverse network of learning in the entire world. It's a spur for our economy and a magnet for our people and for people and ideas from all around the globe. I come today as someone who spent some of the happiest years of his life teaching in colleges and universities, as someone who worked as a governor tirelessly to advance the cause of education and now, in this job, as your partner in a very important mission at a very important time in our country's history.

Our job -- yours and mine together -- is to redefine the partnership to empower our people through education and through training to face the demands of this age. That's really why I ran for president. I believe it is the responsibility of our generation to work together to preserve the American Dream for all Americans, and to ensure that we move into the next century still the strongest country in the world.

And I think the best way for us to do that is by building a new partnership in our country between Americans and their government and between one another. I've called that partnership The New Covenant -- more opportunity in return for more responsibility, and a renewed sense of citizenship and community. In that New Covenant, government's responsibility is to expand opportunity while shrinking bureaucracy, to empower people to make the most of their own lives, and to enhance our security abroad, but here at home as well.

At the same time, we have to demand more responsibility from every citizen in return -- more responsibility for our country, for our communities, for our families and for ourselves.

As we end this century, we are facing dramatic changes in our economy,. our government and our daily lives. As we move away from the Cold War into the Information Age, we face a world that is both exciting and very challenging, a world where knowledge is the basis of wealth, creation and power, and where technology accelerates the pace of change. In a world like that, those who have the skills to prosper will do far better than any generation of Americans has ever done. But those who lack the ability to learn and to adapt may be left behind no matter how hard they work.

That is part of the frustration of America today -- that there are so many of our fellow Americans who are working harder and harder and harder, and never feeling that they're rewarded, feeling that they're falling further behind, having less time for their children, having less time for their spouses, having less time for the things that we know as the quality of life, and just plowing ahead. It leads to people having too much anxiety and too little hope, and it leads to special responsibilities for all of us.

At the heart of all three of the responsibilities that I said the federal government has -- expanding opportunity, empowering people, enhancing security -- is your work: education. It is, indeed, the essence of The New Covenant. Now, more than ever, education and training are the keys to opportunity for every American, and the future will only make that more true. They will only work, of course, if individuals also assume the responsibility for themselves to get themselves educated, and to impart the value of education to their children, to their families and throughout their communities. But it is clear that the key to opening the American Dream for all Americans as we move into the next century is our ability to broadly spread the benefits of education.

For more than two decades, I have not budged from this conviction. I had, as it turns out, for this job the good fortune of growing up in a state which itself was burdened in America's greatest explosion after World War II for lack of education. And I have worked now for about 20 years, relentlessly, to constantly change the role of government so that it wastes less money and does fewer things it shouldn't, but so that at the same time, it serves people better. It insists on accountability, it promotes excellence, but it especially emphasizes educating people.

America now must do that if we have any hope of preserving the American Dream in terms of all of our people, in terms of an expanding middle class instead of one that is shrinking and constantly being divided between the haves and have-nots, not in terms of money, but in terms of education. As a governor, I invested more in education, and in higher standards for our students, for our teachers and for our schools, and in trying to make it easier for our young people in my state to go to college.

The Nation At Risk Report, back in 1983, confirmed the crying need for changes in our public schools, and I was glad to work on trying to change the conditions in ours. At the end of the decade, I was proud to be one of the governors who reached out across party lines to work with the Governors Association and with President Bush and his White House to craft a new national education goals -- goals which we then wrote into law in the Goals 2000 program, and which we are doing our best to help schools all across America to achieve on their own.

From the first day I became President, we have been committed in this administration to reinventing government in all areas, but especially in education. Our approach is not -- and I repeat, is not -- to micromanage anything. We have deregulated the federal government's role in education, in the public schools and elsewhere. We have worked to inspire reform at the grass roots level. We have recognized that our job is to define a road map, clear standards of excellence and then to work to empower every one in this society to reach those standards through education, to support the educational institutions all across this country, to support the students and the families to help them to reach those standards of excellence.

Instead of defending the status quo, we have worked to change it. We've abolished 13 of the eduction programs we inherited. We have cut another 38 programs that we thought were less than essential. We have consolidated 70 more programs in the budget I have just sent to Congress. And all of this is designed to empower students and working people, not educational bureaucrats; to help teachers to do their job, not to help the federal government to regulate more.

Others have talked about such things, but our administration has actually cut over a quarter of a trillion dollars in federal spending, we have reduced more than 300 domestic programs, we have eliminated more than 100,000 people from the federal payroll, and we have used the savings from the payroll reduction to put 100,000 more police officers on our streets in community policing settings, not run by the federal government, but people who work at the grass roots level on the problems they confront every day.

We are on our way, if no other law passes, to cutting more than a quarter of a million people from the federal payroll and putting all those resources back into making our communities more secure. And the budget I have just sent to Congress proposes another $144 billion in spending cuts. But my strategy is eliminating yesterday's government to meet the demands of today and tomorrow, to give us a leaner, but not a meaner government; to cut government to reduce the deficit and to increase our investments in the future --in education, in technology, in research, things like Head Start and Goals 2000, and the defense conversion programs we supported, and the medical research programs we supported.

These things make us stronger as a people. They build opportunity, and they demand responsibility, and they are good for America. We should be discriminating in this work we are doing. We should move beyond rhetoric to reality. Let others talk about cutting spending; we have done it, and we'd like some more help. But we have to realize why we're doing it. We're doing it to lift the country up and bring the country together and move the country forward, not to find some way to divide us in a new and different way so we have more rhetoric, more hot air, and less progress. Let that be our commitment: to do better. (Applause.)

You know, now I admit that some in the new Republican Congress see education in another way. They think education at the national level is just another area to cut and gut. Their proposals will cut investments in our future and increase the cost of student loans to our neediest students to fund tax cuts for the wealthy. They will limit the availability of lower-cost direct loans to middle class students to increase profits for the middleman in the student loans, even though that means a higher deficit. Indeed, the only thing they have proposed spending more money in education on are funds going to middlemen by limiting the amount of the direct loan program, by cutting it off, just as it's becoming more and more successful.

And some of them don't want to reinvent the Department of Education as I have done to make it stronger and leaner and more effective, they want to abolish it altogether. Well, I think Dick Riley's worth the money. (Applause.)

And so, I want you to know that to all of this, I will say, no. I will fight these proposals -- every step of the way. And I want you to join me in fighting them, too.

The fight for education is the fight for the American Dream. It is the fight for America's middle class. It is the fight for the 21st century. It should, therefore -- and I emphasize "it should therefore" -- be a bipartisan fight. When we passed the Elementary and Secondary Education Act last year, drastically reducing regulation, emphasizing more help to poor children in need, giving teachers and school principals more flexibility, it had bipartisan support.

Look, I want to work with this new Republican Congress to help America. We support many of the same initiatives. I supported them when they passed the bill to apply to Congress all the laws they put on private employers. I have supported our common efforts to reduce the burden of unfunded mandates on state and local governments. I have supported giving more flexibility to the states in pursuing welfare reform and health care reform. I've supported the line-item veto. But we clearly have our differences.

Look at the student loan reforms. We eliminated the middlemen and got the funds directly to the schools and the borrowers which meant -- unbelievably -- lower fees, lower interest rates, easier repayment choices for students, it meant less paperwork, less red tape, less bureaucracy to administer the programs for colleges and universities, and it meant much, much lower costs to the taxpayers.

Our proposal, when fully implemented, will save the taxpayers $12 billion over a six-year period, while lowering the cost of college loans to the student, and reducing the hassles to you. That is Reinventing Government at its best. That is the new Democrat approach. It ought to be the new Republican approach. But, instead, they want to cap these loans. I want to expand them. I want to include all the schools and all the students who want to be a part of this program by 1997. Your choice, but I'll be darned if I want to cut it off from you when I know that it will help you.

They want to pay for the tax cuts in their Contract For America by eliminating the student loan subsidy so that we start charging interest on the loans to our poorest students while they're in college. That costs $2 billion a year. That adds 20 percent on the average to the cost of going to college for some of our neediest students to pay for tax cuts. It is not right. That would be the biggest cut in student financial aid in the history of the United States.

Our approach is to help students and their hard-working parents to cut bureaucracy, to reduce the deficit by not subsidizing noncompetitive middlemen. I might add that those who wish to compete for student loans are now doing it in many places for lower costs than they were providing when the government was giving them a locked-down guarantee because of the competition from the direct loan program.

Now, that is our approach. The other approach would increase the cost of education, would keep the bureaucracy and the red tape, and would increase the deficit by guaranteeing billions and billions more in no-risk funds to middlemen in the student loan system. It is wrong. It is wrong. And we should not stand for it. And I hope you won't stand for it. I hope you'll stand up and fight for it. (Applause.)

Now, as you well know -- and I want to emphasize -- we are not talking about a give-away. This Department of Education has gotten tougher on enforcing laws against default. And the default rate has dropped by one-third. The net annual cost to the taxpayers has fallen by almost two-thirds since we have been in office, from $2.8 billion to $1 billion, because we're enforcing the laws against default. I think it is wrong to default on your student loan. This Department of Education has gotten tough with scam operators masquerading as higher education. And every one of you wanted us to do that.

Now, with this progress, I hope we can continue to remove the regulatory burdens from many of the strong institutions with proven records of responsibility; that's what you want us to do. That's his Valentine present to you. (Applause.)

But that's the way we ought to be doing this. Secretary Riley will work with you to find a better way of balancing the flexibility you want with our obligations to the taxpayers. But the point is, other people talk about this stuff, but when I showed up in town two years ago, I found a student loan program that was too costly, helping too few people, gave too few options to the borrowers with a red-tape headache to you, and the taxpayers were being ripped off. And we've tried to change it.

Now, when we proposed these direct student loans, our opponents and those who wanted to protect the status quo said that the federal government was completely incapable of administering a loan program. Well, they weren't right; they were wrong.

I got a letter that was sent to Terry Hartle by Jerome Supple, the President of Southwest Texas State in San Marcos. It's a big school now; it has 21,000 students. It distributes grants and loans in excess of $23 million. President Supple wrote about what direct lending has meant to his school. He also wrote to me, but Dick Riley gave me this copy of his letter to Terry Hartle, and I like it better than what the speechwriters put in, so I'm going to write what he actually said. (Laughter and applause.)

This is what he said: "We are aware of the concern of some members of the financial community about the shift to direct lending, and can understand the concern for a loss of revenue. However, the savings to the government and the improved service to other students offered by direct lending are of greater importance. The other argument that the federal government cannot effectively administer such a program and much rely on the expertise of the private sector is counter to our experience."

Listen to this: "The results have more than met our expectations. We have gone from an institution that was scrambling to meet our students' need, often after classes have started, to an institution that was one of the first in the state to get awards out last fall -- so early, in fact, that it had a positive effect on our admissions program.

While the direct lending program has shared some of the some of the credit for the improvement of our financial aid services with our hard-working and talented staff" -- there's a good politician -- (laughter) -- also true -- "there is no doubt that direct lending allows us to serve our students better. And finally," he says, "it is legitimate to express concern about the ability of the Department of Education to manage the direct lending program and full capacity, but the experience to date suggests they can do this very well. It is rare that the federal government creates a program that both saves money and improves service to its constituents." (Applause.)

Listen to what the students say. I got a letter from Marie Lyons, a 40-year-old student -- rather more typical these days. She wrote to me to say that she had given up hope on going to college. But with our loan reforms, she's been able to go to Murray State University in Kentucky, studying criminal justice. She'll be the first person in her family to graduate from college.

You know, we can't take hope away from people like Marie Lyons, and all the other people now that are flooding back into your institutions -- into the community colleges, into the four-year institutions, because they know -- they're way ahead of the politicians. They know what they need to do to make good lives for themselves, and they're coming to you. They're coming to you in record numbers. But people like that deserve the best opportunity we can give them. They are very responsible; they are working hard. They are people from all races and income groups and backgrounds with a million different life stories; but they are chasing a common dream. Because of people like that, we should not abolish the Department of Education, either. We should not do that. (Applause.)

You know, everybody talks about this being the information age. The White House and now the House of Representatives are in this little friendly contest to see who can do the most high-techy stuff on Internet; and call us on the computer and see what we have to offer; read the administration's budget. But if this is true, if the new economy really is based more than ever before on knowledge and skills, we have to do more of education and undercutting education at this time, saying that this is not a national concern, that would be like undercutting the Department of Defense during the Cold War. We won the Cold War because we stayed strong. And we will win the fight for our own future and a place in the 21st century if we stay strong with education. That is what we should do. (Applause.)

You know our future depends upon it. As President, as has already been said, I've worked pretty hard for us to do well in this new war for the minds and hearts of our people and for the future. And I do think one of the smartest things I ever did was to appoint Dick Riley as the Secretary of Education. One of the reasons is, I find that once you become President, sometimes people -- even people you think know you very well all of a sudden don't really tell you what's on their minds. It drives me nuts since I don't mind hearing what's on people's minds. Sometimes they don't want to hear what's on mine in return when they tell me, but it's okay. (Laughter.) But one of the things you need to know about the Secretary of Education is, we've been friends since I was barely old enough to shave -- he always tells me what's on his mind. (Laughter.) And what's on his mind is you and your students and the future of this country.

So I'll say again, we're cutting inessential education programs. We've saved more money by going to the direct student loans than they can save by cutting out the people who work at the Department of

Education. Who are we trying to kid here? He is worth the investment; the other people who work there are worth the investment.

We are not running education, but we are trying to energize it and create opportunity and shine a light to the future. This is a classic battle, and we ought to fight it and win it together. -- not just the battle to save the Department of Education, not just a battle for the direct loan program, not just a battle against increasing the cost of student loans, but the larger issue -- and I will say again -- this ought to be a bipartisan battle that we fight so that we can meet our responsibility to prepare our children for the 21st century and so that we can make the most of our own lives.

For two years, we have done everything we could do to prepare our people for the new economy. Last year when I came before you, I presented a comprehensive agenda for lifelong learning. I'm proud to report that with the last Congress, we did produce a tremendously successful record in achieving that agenda. We reformed Head Start and expanded it by 30,000 more children. And next year, I want to expand it again by at least that many. That's why we're cutting inessential programs, not only to reduce the deficit, but to put the money where the people need it. I think the taxpayers want the Head Start program expanded. (Applause.)

We passed the Goals 2000 program, and, for the first time, we spell out a national understanding of what our young people must learn to compete in the world. This goes right to the heart of the whole approach of the national role in education -- not trying to tell people how to teach or regulate how they spend every day and every hour, or control them through a blizzard of paperwork, but to set national standards and then give state and local governments the control, the power, the opportunity, and, where we can, the resources to get the job done, to give them the flexibility through waivers of complex federal rules and reforms like charter schools and public school choice. And to do it with no new federal regulations to diminish state and local control. I'm proud of that.

The way we're running that program is the way the federal government ought to relate to the states in the area of public education. We are raising the bar for everyone. All of our young people are going to have to do better. I think we all know that. All of our parents and grandparents are going to have to help our young people to do better. All of you in this room now accept as a truism that we have the best higher education system in the world, but that we have to do better in our school systems K-12, and we are all going to have to teach the higher standards, to work the higher standards, to learn the higher standards.

Our communities, our businesses, they're going to have to pitch in and do more. And our young people, we know -- and let me say this with all sincerity and convictions -- we know that too many of them are still trying to learn in atmospheres that are too dominated by violence and drugs. They can't walk down the halls or learn in the classrooms because they're afraid for their safety, then all the reforms will not be successful.

That's why our making our school environment safe and disciplined and drug-free are important to all the other standards being achieved, and why we have worked so hard in this administration and in this Department of Education to make sure that all of our legislative efforts included the safe schools initiatives.

You know, some young people -- I ought to emphasize, too, because I know who all is out here -- don't plan to go on to four-year colleges.

And that's fine. If they don't plan to do that, we also have to make sure that they have the academic strength and skills they need to compete.

That's what our school-to-work opportunities act was all about -- to reinvent the relationship of high school to the world of work and the work of post-high school education with high standards that enable our students to learn in class and to begin to reach out into the real world. Along with their classroom learnings, they are learning real jobs, dealing with real people, and we expect them to go on to some post-high school education as well.

We're not doing this with a big national bureaucracy; we're doing it with grants and advice and help and support to let every state set up a flexible network, working with employers and schools and the post-secondary educational institutions to make sure that we fill this enormous gap in the American system. There are too many of our young people still who, neither get a four-year college degree or at least have a good school-to-work transition they way many of our competitors do.

These reforms -- every one of them -- will make sure that more capable students are coming into your institutions, which means you'll have to spend less time bringing them up to speed. I know that would be a relief to all of you. A lot of us have been working on it for years and years, but I believe it will make a difference.

Something else we did last year that I'm very proud of that two or three of you have already mentioned to me today is our national service program, AmeriCorps. It already has 20,000 Americans taking responsibility for improving their country at the grass roots level and earning some money to go to school. It is a very, very important thing for this country, and I am very proud of it.

Americans like the 16 members at the University of California at Berkeley, who have 750 of their classmates tutoring middle school students and helping four local police departments set up neighborhood watch programs. Now, that's just one example of hundreds I could give you of what a modest federal investment can do to get a big result. Eighty-nine members of AmeriCorps in Texas immunized -- listen to this -- 104,000 infants in Texas two summers ago. (Applause.)

In Simpson County, Kentucky, AmeriCorps members are teaching second-graders to read, and they've already raised the reading levels there from two years behind the official standard to one year ahead of it. Now, again, some people in the new Republican Congress say that AmeriCorps is a waste of money, bribing people to do service, an expensive way to send people to college. I say it's about the best thing that's happened to this country in a long time. (Applause.) I'm going to fight to keep it, and I hope you'll fight for that, too. And for all of you that have had AmeriCorps projects on your campuses and with your students, I thank you, and I hope more of you will ask to do it.

We've got a lot more work to do. We have to protect the Pell Grants, and as Juliet said, my budget raises the maximum grant by 12 percent. We all know the Pell Grant program got in trouble, and we had to make it solvent again, and it hasn't kept up with the economy. But this is a good step in the right direction.

We've got to preserve the work-study program, the other campus-based programs that we all know are important to the students on your campuses. And we've got to keep moving forward on university-based research with expanded investments and less red tape. I do not believe that it is the right thing to do to take universities out of the partnerships we now see forming. In defense conversion, for example, where we are doing remarkable things with the decline of the defense budget, taking some of that decline and putting it into partnerships between universities and private companies with some federal investment and a whole lot of private investment. Again, there are some in the new Congress who say, let's get rid of all that. That's our competitive edge -- research, development, mind work, making connections, moving forward.

All of this is an agenda that works. In his State of American Education address earlier this month, to which Secretary Riley alluded, he said that America is turning the corner from being a nation at risk in education to being a nation on the move. Well, you've got my word: I will fight for the education and training reforms that will keep us on the move. And I want you to fight for them, too, and we will win because the American people are for us.

Now, that's why I have proposed this Middle Class Bill of Rights, because I want to emphasize what we still have to do. We can't just preserve what we've got; we've got to keep going forward. All over this country there are people who are saying, well, I read about this recovery and I know we've got 6 million new jobs; but it's not affecting me, I still feel insecure and uncertain and I haven't gotten a raise. The Middle Class Bill of Rights, I think, should be called the Bill of Rights and Responsibilities because, like all the other things we've been talking about today, you can't take advantage of it unless you act responsibly. It does offer a tax cut for people, but only if they're behaving responsibly -- raising their children; educating themselves or their children.

From your point of view, the most important parts of it are a tax deduction for the cost of education after high school; an IRA that you can withdraw from tax-free for education and for other purposes like buying a health insurance policy; and the collapse of 70 of the government's training programs into a program which a person who's eligible for federal training help because he or she is unemployed or working for a very low wage can draw on and just take the money, up to $2,600 a year, to an institution of his or her choice, getting around the federal bureaucracy, getting around all the programs and going direct to a lot of you.

Now, this is a good thing, and I thank you for endorsing it. But I need your help to make it happen. Why is it a good thing? It's a good thing, first of all, because it will lower the cost of living for hard-working people who have gotten no benefit out of this recovery yet. But instead of just giving them a quick fix, it lowers their cost of living because it increases their standard of living over the long run by putting the money into education. It is the right way to give tax relief to the middle class. It is consistent with long-term control of the deficit. It is consistent with a commitment to long-term economic growth. And I ask each of you to do what you do best now -- to help teach people about this, to talk about it; because this resolution is really nice, but what we really need is for every member of Congress to hear from every college president; every dean of students; every member of every board of trustees; every student body president; every student organization in the country, hey, don't take the interest subsidy away; hey, don't stop us from getting the direct loans; hey, pass the Middle Class Bill of Rights.

Education is the key to our future. It ought not to be a partisan issue. If there is one thing in the wide world that ought to unite us on the way to the next century, it should be our common commitment to explode the potential of our people. I need your help; I want your help; you can do it. But the resolution has to be a first step, not the last step. Be heard in every office of every member of Congress in the United States, and we will have a great victory.

I need you; I want you to do it; I'm confident you will. Thank you very much. (Applause.)

END12:21 P.M. PST

THE WHITE HOUSE

Office of the Press Secretary
(San Francisco, California)

For Immediate Release February 14, 1995

PRESS BRIEFING
BY
DEPUTY ASSISTANT TO THE PRESIDENT
FOR ECONOMIC POLICY GENE SPERLING

Aboard Press Plane En Route to California

11:25 A.M. EST

MR. SPERLING: I just want to give a preview of what the President's speech is going to be on today. We think this is a very important speech. I think that for all the times that there are differences and disagreements on things that stray into just politics and personalities, today this is a speech that really gets us to where we should be, which is a fundamental policy difference between the President and many of the members -- not all, but many of the members, particularly the leadership, of the Republican Party.

I think it is about a fundamental difference in the role of the federal government in education and in empowering people to invest in themselves, and particularly in the role of the federal government in terms of allowing people to get higher education and access to college.

If you look in the package, there is about three pages -- it says, drawing the line on education, which very much lays out six areas that I think there is a very clear, crisp policy differences between us and many in the Republican leadership. And they are six areas in which the President today will lay down a marker that he will fight them every step of the way on these issues, and that we will have, I think, a good and honest national policy dialogue. A lot of the people we disagree with on these issues are honorable people who we agree with in other issues. But this is just a fundamental policy difference.

If you look at the first -- I think if you want to look at a very fundamental difference, the first issue is expansion of the new student loan reform program. In 1993, the new student loan reform program was passed. It allowed for direct lending, and it allowed students to get an individual education account where they could have flexible repayment systems. I mean, it's pretty simple. The old system had the federal government subsidize 8,000 middle men, essentially guaranteeing them a certain amount of profit, while federal taxpayers took most of the rest. What the direct lending program did was it took out the middle man -- it took out the middle man and the result was lower fees for students, saving them $2 billion over five years for students, and saving the government $4.3 billion over five years. So it's more convenient for students. It saves them money. It saves the taxpayers money.

Now, we are now at the point, our administration, where some of these things can be judged by just looking at how these things are working. The way it worked is that five percent of the schools came in in the first year, 104 schools. In the second year it went up to 40 percent of the loan volume, so we have an additional 1,495 schools. The record on the first 104 schools is extremely positive. And I would encourage anybody here to go talk to the 104 schools; we don't have to have a hypothetical debate on this.

If you look at the articles that have been written -- we included the Newsweek article, Jane Bryant Quinn from February 6th; the Chronicle of Higher Education article -- if you look in The Washington Post today, you have the head of the -- student financial aid administrator saying nearly every experience of the 104 has been positive. Many of you went with the President to Michigan at Dearborn where we did a roundtable and where the University of Michigan president talked about that it was just dramatic. Now students can go directly to their college and get their loans directly from there at lower costs.

So now what we have is we have the Speaker saying he'd like to eliminate direct lending and we have Congressman Goodling, who I should point out is a person that this administration has been able to work with on issues, but where we disagreee -- he wants to limit and say that only 40 percent -- that we have to limit it to what it is right now, at 40 percent of the schools that are coming in to Fiscal Year '95.

Now, here you have a popular program; you have people talking about allowing choice, and here's a chance to allow the other 60 percent of schools to come in and participate in a streamlined federal program that saves them money, that's more convenient, and I think it's pretty simple why it's happening -- there are 8,000 middle men who have a direct financial interest in keeping the old system going. This is a very simple debate -- this is a very simple policy issue between what's good for students and what's good for the consumer bankers and guaranty agencies and their lobbyists. It's between students and bankers and their lobbyists. And we are going to come down on the side of students and that's where we're going to stay. And I think that we will have a lot of support if people leave the ideology behind and look at the 104 schools.

The second issue is on what -- where there is just a clear difference between us -- is on whether we want to dismantle or protect and expand the current college access programs. We believe very much that the Pell Grants, that the in-school interest subsidy for students are just absolutely critical building blocks in allowing people to go on and get higher education.

We have increased the maximum Pell Grant by 12 percent, to go up to 26-20' next year; it would be the highest ever. We are trying to protect programs like the in-school interest which says that when a student who is on a subsidized Stafford loan, 4.5 million students are in school, their interest does not accrue. This makes a dramatic difference. If you are a student who borrows $17,000 over four years, if the Republicans take away this benefit, that loan, rather than paying back $17,000, would go up $3,100 to $20,000. The student's monthly payments would go up 18 percent. That is a dramatic difference and would have a major effect on college access.

Q Now it never accrues to the student, that interest is never due to the student -- it's in perpetuity for the loan subsidized by the government?

MR. SPERLING: The student pays that without having to pay the -- the interest does not accrue while they're in school. Once they leave school the interest does accrue if they're not paying it back.

Q The interest, in effect, is paid by the government during the time he's in school?

MR. SPERLING: Yes.

Q But I guess what I'm trying to ask is does it then decrease by a net amount the interest the student has to pay on the sum total of the loan?

MR. SPERLING: It's quite simple. If you are a student and you had borrowed at the maximum amount and you had $17,100, you would start paying off $17,100. If the interest -- if this benefit is taken away, you would start off paying $20,000.

Q Three years of interest on a $17,000 loan.

MR. SPERLING: So now, they have called for eliminating this that is a saving, according to CBO, of $9.56 billion. It was called for elimination -- in the Kasich* Fiscal Year 1995 budget called for eliminating the in-school interest subsidy, and then again, when we challenged them to come forward with some suggested savings during the '94 campaign, they put out a list of savings and again listed this as an option that they would use. And they have never backed off from that.

The higher education community is opposed to this; we are opposed to this. Two-thirds of the people who benefit from this are families making under $30,000, and I think this really is an issue of fundamental priorities.

We all want to reduce the deficit. How are you going to do it? They're going to say that they need this for deficit savings. But while they're trying to save $2 billion a year, hurting aid for 4.5 billion students, they proposing a $170-billion capital gains tax cut over 10 years. Now, that's not about the deficit reduction, that's just about priorities. And we think it is very misguided priorities to try to get your savings from something that we think is a critical investment in higher education and increasing people's standard of living.

Q Now, this is not on the table right now, as opposed to the first one? This is in the Kasich budget proposal of last year, but it's not actually being advocated right now? You think it might be, but it isn't, right?

MR. SPERLING: I think it is very much out there. It was in the Kasich proposal. It was one of the savings put forth in the $176 billion in savings they put forth during the Congress. If they'd like to back off this, if they would like to respond to this by saying they don't want to do that, we welcome them to join us in calling for protecting this program. But that's not what we've heard.

We've also heard, on January 31st, the Speaker talked about replacing the Pell Grant program. That's a January 31st speech. We've also seen both in the Kasich budget, cutting in half the campus-based aid program, which is the program --it's three programs; the Perkins loans, the supplemental educational opportunity grant program, and the work-study. That, too, they would cut in half, at a savings of $2.87 billion in outlays over five years.

In terms of the -- going back -- the direct lending program that I mentioned is HR-530. That is the bill number that caps direct lending at 40 percent and does not allow it to go on its current path, or even the accelerated path that we now propose that would allow over the next few years every school to join the direct lending program.

The third issue where, again, I think there is a clear line is on national service. Now, one thing that was strange was that when the Speaker spoke of replacing the Pell Grants, he spoke about wanting to tie college aid to people working. That's exactly what national service does -- gives people a grant for college or higher education if they serve their community. We believe, again, that we do not have to be just at a hypothetical phase, this program is in place.

I'm sure that if somebody digs far enough they're going to find some imperfections, but I think the overwhelming weight of the evidence is that this is a tremendous program, that it is a great bang for its buck because it is doing several things at once. It is, at a very low cost, helping people -- helping police officers fight gang crime in the community; helping disaster victims; helping all sorts of community service; at the same time, building a civic sense of responsibility and giving people aid to college in a way where they've earned it and worked for it.

Again, we hope there will be bipartisan support for this. Specter, Stevens, Leach, Chafee, Gunderson supported national service. We're hoping that others will support it. We should point out that the way that the state commissions are appointed by governors, they're bipartisan -- there are many Republican governors who have appointed commissions that are successfully running this proposal. And again, I think that this is a clear line that we are drawing and that we will fight for and fight them at every turn to protect the national service.

The fourth issue, again on college access, is the President's proposal to give families up to $10,000 deduction for college tuition or higher education. Now, we are hopeful Republicans will come to the table and help us pass this. This has been the proposal that has been the most innovative and the most popular, and we think that there will be bipartisan support.

But right now, while we are hoping to find -- while we have laid out savings to pay for this, the House Contract proceeds looking for savings for $170 billion over 10 years for a capital gains tax cut that is retroactive and where 70 percent of the benefits go to people making over $100,000, and a neutral cost recovery boondoggle that is so expensive and is such a giveaway that I think it is making the Republicans blush. And I will definitely be willing to predict -- and at least hope --that the sensible Republicans will convince the House leadership to give up this proposal. And certainly, if they were to give up this proposal and the $100 billion they need over 10 years to fund this, they could come to the table and do something for the six to 12 million people who would benefit from the college tuition tax credit.

Fifth, I think is another stark division -- I think is the role of the federal government in playing a leadership role in elementary and secondary education. What we have been promoting in Goals 2000 is, I believe, exactly what the American public supports. It is federal leadership, while allowing reform to take place at the grass roots -- bottom-up reform. The Goals 2000 that is being attacked is a straw man. The Goals 2000 that Secretary Riley and the Republicans helped support is one where the federal government plays a leadership role, but in encouraging and empowering communities to come up with their own plans, with community-oriented, citizen-involved plans.

We do believe there is a national role in education. We do believe that we have a national interest that goes beyond any school, any community, any state. And I think that has served this country well. Now there is more of an economic reason for being concerned about having a national success in education, and the federal government does play a limited role, compared to local government, but it's historically been an important one. We're going to fight to protect Goals 2000 and to expand it, and we will oppose the efforts to abolish the Department of Education, which sends the wrong message to the country, and it sends the wrong message to the world about our commitment to investing in young people and making sure that our students are getting skills that will allow this nation to compete in the global economy.

Finally, a sixth issue is Head Start. November 11th, right after the election, Head Start was one of the proposals that the Speaker said could be on the table. On January 16th, CBS reported the Judd-Gregg' list of cuts that he'd been cast to come up with to help the Senate Republicans look for savings to fulfill their pledge or contract, included a 50 percent cut in Head Start. And there have been serious conversations about including Head Start in a block grant. We are absolutely opposed to any of these proposals. Head Start is a national success story. Over the last few years, there has been a positive review of it, a sense that even though it's been a success, it could be better.

There was a bipartisan group put together with the administration that came up with new goals with Head Start, that made it focus more on quality, it made sure there was more focus not just increasing the numbers, but making sure the young people being served were being served well. Those reforms are in place, and of all the places to go looking for savings while you're throwing away money on something like the neutral cost recovery, there's just no excuse for thinking about taking it from poor children and Head Start and a program that has been a success story.

So today is the day when people want to know, where is the President going to draw the line, where is he going to lay down a marker. He's going to lay it down here. It is a fundamental difference of priorities, and it is a fundamental difference of economic priorities. The President believes very deeply that the skills and education of the American people are absolutely fundamental to our ability to raise standards of livings and keep America the most powerful economic force in the world going into the year 2000. That's what he believes in, that's what he's going to talk about today, and that's what we will fight for during the next six years.

Q Gene, is he going to ask the council not to use these new availability of deductions, or your hope that you can have continued access to direct loans? Is he going to urge them not to raise tuition? Because that's a criticism some people have said that they could do now with these expanded funds available for education, they just turn around and raise tuition?

MR. SPERLING: I think that, first of all, tuition did skyrocket during the '80s. It even was up faster than health care. But over the last few years, the competition among colleges has become more fierce. The demographics put them in more of a competitive mode. We believe that the marketplace will be working, but I believe that one of the President's messages over the next couple of months will be in the sense of the New Covenant, that we have mutual responsibilities, and when the federal government is making an effort to make college tuition more accessible that colleges and the state legislators that control them should not take advantage of that.

But while I think we will challenge them, I think that the marketplace and the competitiveness for students will be the main driving force that will keep tuition costs down.

Also, remember -- certainly, college tuition tax credit does lower costs by 15 percent or 28 percent for a family, but they're still bearing a large cost, and if a college raises tuition, families are going to feel it, and they're going to hopefully, as you would expect, go to other colleges that are doing a better job of keeping their costs down.

Q talk about merging the Department of Education and the Department of Labor.

MR. SPERLING: Our feeling is that the Department of Education and the Department of Labor have been able to work extremely well together on the School-To-Work, Goals 2000 and other issues. But we support keeping the Department of Education and keeping the Department of Labor. Certainly as the President goes forth reinventing government, we are willing to look at many reforms and challenge the departments, but we believe that right now, those reforms can take place fast within the Department of Labor, and within the Department of Education separately. We think they're performing well and will be going even further through the Vice President and the President's Reinventing Government process.

But there is no question there is apparently Congressman Gunderson, according to the newspapers, has proposals to perhaps merge them, but I think there are obviously other people who are interested in eliminating the Department of Education; certainly some prominent Republicans have spoken out on that. Some of them are certainly people who have honorable records on education, but we just believe they're fundamentally misguided and wrong, and that they are making their case by setting up a straw man about Goals 2000 and not looking at what a very decentralized bottom-up, grass roots-type of reform the Secretary of Education is leading.

Q Will the President specifically threaten to use a veto on any of these six issues?

MR. SPERLING: I think a wise strategy by any White House is not to rush to give out their veto strategy. I think he is going to say that he will fight them at every turn. Certainly, the veto is a powerful weapon in his arsenal. But when and on what and in what circumstances he will use it, I will leave it to the President to tell you.

Q The House, as you know, is debating whether to change the money in the Crime Bill from funding 100,000 police to block grants for citizens and states. Is the President going to be able to resist talking about that today, and essentially stepping on this message of education? Because that is today's story back in Washington.

MR. SPERLING: Well, he's speaking at the American Council of Education. Clearly, this is where we're going to be drawing the line today. I think the story is that the President, this week, is laying out places that he is going to go to the wall to fight the Republicans on issues -- or, some Republicans - - on issues that he believes deeply in. So I think the common theme is that the President is using this week to draw the line on some very fundamental issues: 100,000 cops is one, and the role of education and particularly higher education for this country's future is the second one. And I think that is the thread that ties today and the weekend together.

Q foreign policy issues?

Q How about the foreign policy issues involving the peacekeeping, and Secretary Shalala's letter yesterday on --

MR. SPERLING: I'm going to tell you that you're getting out of my range, and I'm going to let you ask Mr. McCurry about those questions.

Q Foster -- he's going to the wall for Henry Foster, too.

MR. SPERLING: Again, I'm going to stay within my policy area.

Q your policy area, Gene, there's some confusion. This tax deductibility for education, this would be a so-called "above the line" deduction, available even to people who did not itemize their tax returns, right?

MR. SPERLING: That is correct.

Q So this is not just a sop to upper middle class people with college kids that some people have tried to say that it is?

MR. SPERLING: No, it is an above-the-line deduction that would be available for people who did not itemize, and that will be one of the things that will make it very popular, we believe.

Q In some of these areas he's asked for really big increases, like AmeriCorps, which might be hard to justify down the road. Is this kind of a symbolic gesture on his part, or does he actually think he can get Congress to develop a full funding of AmeriCorps, which is already bigger than the Peace Corps?

MR. SPERLING: We're proud of the fact that it's bigger than the Peace Corps. We think that having 33,000, and hopefully 47,000 young people who are out in the community, making low wages to serve their community, to help solve social problems as a way of learning how to work in their communities and being community leaders and going to college is a tremendous thing, and we're proud of the fact that it could get to be larger, and I think we want to do everything we can to move towards the President's goal of having 100,000 young people engaged in national service through AmeriCorps. I think that the proof will be in the pudding, and I think that right now the stories you are hearing are very positive stories about very enthusiastic young people, working in communities where organizations have bid for them, where state panels have worked to set things up. This is another example of national leadership where the implementation and the design happens at the local level, it happens with the private sector. You have IBM, GE, many large companies working together to make this happen.

As to whether we'll get the increases we want, we're going to fight like hell to get them. We'll do the best we can, and we'll make the best case we can. Certainly, on some of these programs, it will take a big fight just to hold the line. We understand that. That doesn't mean we're not going to fight for the full amounts that we believe in. We've been able -- we are very proud that we've been able to bring the deficit down now -- it's projected to be $616 billion over five years, and still be able to find additional spending cuts so that we can increase exciting new programs like national service. And, ultimately, if we'd put ideology aside, if people look at the direct lending program and ask whether it's working, if they look at national service and ask whether it's working, the proof will be in the pudding. And if it turns out that you need to go slower at some point based on the facts, that's fine.

But people should also be willing to say that these programs are working and that they're successful. We should be willing to admit that, put ideology aside and give more people a chance to have these opportunities.

THE PRESS: Thank you.

END11:55 A.M. EST

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

April 25, 1995

MEMORANDUM FOR LAURA TYSON, NEC
GENE SPERLING, NEC

FROM: MARTIN N. BAILY, CEA MNB
ALAN KRUEGER, DOL AK
DAVID LEVINE, CEA DL
HALSEY ROGERS, CEA HR

SUBJECT: The Impact of Education on the Economy

We enclose the review you have requested of the evidence on the effects of education on the economy. A one-page summary is enclosed. Please circulate as you see fit. We feel that it might be worth giving a short briefing on the issues to interested NEC participants. We have collected copies of the references that can be made available to anyone who wants to review the original studies.

Attachments
Summary
The Impact of Education on the Economy

THE IMPACT OF EDUCATION ON THE ECONOMY: EXECUTIVE SUMMARY

- The educational level of the U.S. workforce has risen, both over the long term and over the past twenty years. U.S. students compare unfavorably to those in other nations on tests of math and science. Test scores have been increasing in the U.S., especially for minorities.

- There is a very well-established relationship between the amount of education of workers and higher earnings. There is debate about the causes of this correlation, but the weight of the evidence strongly suggests that providing additional education will increase individuals' subsequent earnings. The return to education has been rising.

- The evidence shows that compensatory preschool education programs such as Head Start improve subsequent school achievement. The evidence is not yet available to provide a full evaluation of "school to work"-type programs but the initial evidence is favorable.

- Education and training pay off for workers who already entered the labor market. Worker training is generally an essential ingredient in the adoption of high performance workplaces.

- Increased education is associated with better social outcomes, such as less criminal behavior and better health. This suggests education is a good investment for society. However, the causal link between education and improved social outcomes is not as well established as for education and earnings.

- Programs that make education cheaper or more available appear to increase the amount of education.

- Children who experience poverty between ages 6 and 15 are two to three times as likely to drop out of school as non-poverty students, with adverse effects on their subsequent economic and social performance. The cost to society of having children in poverty is substantial.

- There is mixed evidence on the impact of increased per pupil spending on school performance. The 1966 Coleman Report and several subsequent studies suggested little linkage between dollars spent and student achievement. More recent analysis suggests school resources do affect test scores and there is evidence suggesting that increased school resources do add to subsequent student earnings.

- Since education raises the earnings and productivity of workers, most economists conclude that it contributes to overall economic growth. Evidence from cross-country comparisons generally supports the conclusion that education contributes to growth.

April 25, 1995

THE IMPACT OF EDUCATION ON THE ECONOMY

I. THE EDUCATIONAL LEVEL OF THE U.S. WORKFORCE HAS RISEN IN RECENT YEARS.

American workers now have more years of formal education than ever before. Recent years have seen the continuation of three heartening trends. First, more students are finishing high school. In 1973, 14.1 percent of 16- to 24-year-olds were high-school dropouts; by 1993, the rate had fallen to 11.0 percent. Part of this improvement is due to increases in the graduation rates of African American students, whose dropout rates have fallen much more sharply than have dropout rates for white students. Second, more high-school graduates are attending college. Since 1980, the percentage of high-school graduates who enrolled in college following graduation has increased from 49 percent to 62 percent. As new workers have replaced older, less educated workers, the share of the labor force with a college degree has also increased, from 16 percent in 1973 to 29 percent in 1993. Third, total graduate-school enrollment has grown almost as rapidly as undergraduate enrollment, in percentage terms, over the past two decades; among full-time students, growth in graduate enrollment has been much faster than in undergraduate enrollment. The result of these three trends has been a more educated labor force: average years of education per worker climbed from 11.8 in 1973 to 13.0 in 1990.[1]

Test scores have also risen, although they remain unimpressive by international standards. Over the past decade, test scores in mathematics, science, and verbal skills have generally risen for children of almost all ages and racial and ethnic groups. These test-score gains have been largest among African American students. Despite the gains, there remains room for further improvement: U.S. students continue to trail students from most other industrialized nations on international achievement tests in math and science.

II. FORMAL EDUCATION CREATES SUBSTANTIAL ECONOMIC BENEFITS, BOTH FOR THE INDIVIDUAL AND FOR SOCIETY.

More educated workers earn more, and the gap is increasing. In 1994, for example, the median full-time worker with at least a bachelor's degree earned 74 percent more per week than the median full-time worker with only a high school degree; this gap was only 36 percent in 1979. The rewards to education and training are one of the most well-established

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[1] U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics, 1994*; and U.S. Department of Labor, Bureau of Labor Statistics, *Labor Composition and U.S. Productivity Growth, 1948-90*, December 1993.

findings in economics.[2] Positive returns to education and the recent increase in returns have been documented for a wide range of foreign nations, as well as for the United States.[3]

Labor demand in high-skill occupations is increasing. Taken together, the two trends noted above—the greater numbers of college graduates, and the increasing earnings gap between college and high-school graduates—suggest that demand for higher-skilled workers must have increased in recent decades. And indeed, occupational evidence supports this view. From 1984 to 1994, whereas employment growth in occupations whose workers have low levels of education averaged only 7 percent, employment growth in high-skill occupations averaged an impressive 32 percent.

There is some debate about the cause of the correlation between education and earnings. One problem is that people with high ability are disproportionately likely to receive above-average education, but would also have been disproportionately likely to receive high wages even if they had not received so much education. In addition, education can pay off for an individual because education is credential that signals high ability, even if little is learned at school. To the extent those with more schooling would be more productive anyway, or that schooling is just a rat race for credentials, then increasing educational attainment will not raise national output.

Nevertheless, much of the evidence indicates that the economic rewards to education accrue because schooling actually makes students more productive as employees, and not primarily because schooling screens out low-ability students. One recent study showed that a year of college education increases earnings by 5 percent to 10 percent, even controlling for family backgrounds or test scores in high school. This result holds not only for four-year institutions, but also for community colleges.[4] Another study examined identical twins, who obviously share similar family characteristics and identical genes, and found that each year of additional schooling raises later earnings of the more-educated twin

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[2] Willis, Robert, "Wage Determinants: A Survey And Reinterpretation of Human Capital Earnings Functions," in Orley Ashenfelter and Richard Layard, eds., *Handbook of Labor Economics*, Volume I, Elsevier Publishers, 1986.

[3] Psacharopoulos, George, "Returns to Education: A Further International Update and Implications," *Journal of Human Resources*, Volume 20, Fall, 1985; and Freeman, Richard B., and Lawrence Katz, "Rising Wage Inequality: The United States vs. Other Countries," in Freeman, Richard B., ed., *Working Under Different Rules* (New York: Russell Sage Foundation), 1994.

[4] Kane, Thomas J. and Cecilia Rouse, *Labor Market Returns to Two and Four-Year College: Is A Credit a Credit and Do Degrees Matter?*, Working Paper #311, Industrial Relations Section, Princeton University, December 1993.

by about 13 percent.[5] A third study found that each additional year of schooling due to compulsory-schooling laws raises earnings by 8 percent (although statistical problems limit the precision of this estimate).[6]

III. LEARNING THROUGHOUT THE LIFE CYCLE HAS HIGH PAYOFFS.

Head Start and similar compensatory pre-school programs have substantial economic payoffs. Critics of Head Start-style programs have noted that although the programs substantially increase the IQ test scores of participant children relative to non-participants, this test-score advantage disappears by the end of grade school. But studies that have looked beyond this narrow measure of intelligence show that despite the erosion of IQ test-score effects, preschool programs can give a persistent boost to academic achievement. Compared with other students with similar characteristics, graduates of Head Start-style programs are less likely to be held back in school, less likely to be classified as special-education students, and more likely to graduate from high school. As a result, the program appears to yield net benefits not only for participants but also for the taxpayer.[7]

"School-to-work"-type programs can be successful in improving student outcomes. Recently, substantial governmental efforts have been devoted to strengthening the link between high schools, community colleges, and the workplace. Although these efforts are in many cases too recent to have produced results that can be evaluated rigorously, preliminary results are encouraging. For example, California's Partnership Academies, which combine high-school education with career-focused training and work experience, have apparently been quite successful in reducing dropout rates among program participants.[8] More definite results are available for established programs targeted at high-school dropouts, such as the highly successful Center for Employment Training in San Jose.

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[5] Ashenfelter, Orley, and Alan B. Krueger, "Estimates of the Economic Returns to Schooling From a New Sample of Twins," *American Economic Review*, December 1994. Other studies of twins have found smaller, but still positive, effects.

[6] Angrist, Joshua and Alan Krueger, "Does Compulsory School Attendance Affect Schooling and Earnings?," *Quarterly Journal of Economics*, Vol. 61, No. 4, November 1991.

[7] Barnett, W. Steven, "Benefits of Compensatory Preschool Education," *Journal of Human Resources*, Vol. 27, No. 2, Spring 1992.

[8] Hayward, Becky, and G. Tallmadge, *Evaluation of Dropout Prevention and Reentry Projects in Vocational Education*, draft final report, Research Triangle Institute, November 1993; and Stern, David, et al., "Benefits and Costs of Dropout Prevention in a Program Combining Academic and Vocational Education: Third-Year Results from Replications of the California Peninsula Academies," *Educational Evaluation and Policy Analysis*, Vol. 11, No. 4, 1989.

Education and training for experienced workers have economic benefits as well. One recent study concluded that each year of education provided through a Pennsylvania program for older displaced workers increased earnings by some 7 percent.[9] And a recent study of the Job Training Partnership Act, a Federal program providing training for economically disadvantaged clients, found that participation increased the earnings of adult males by 10 percent and the earnings of adult female participants by 15 percent. These earnings gains were one and a half times greater than the costs invested to produce them.[10]

Firm-provided vocational training has positive economic impacts for participants and employers. For workers, a year of either on-the-job or formal training raises wages by about as much as a year of college education.[11] There is also evidence that firm-provided training leads to productivity gains. A survey of small manufacturing firms in Michigan that received training grants from the state government found that the additional training provided by manufacturing firms significantly raised productivity by reducing wastage.[12] Another study of formal training programs in manufacturing firms found that firms that introduced training programs in 1983 had productivity growth that was 19 percent faster, on average, than at other firms.[13]

Some evidence suggests that training is most effective when combined with other innovative workplace practices. In practice, companies that train their workers well tend also to have adopted other innovative practices—for example, pay systems that reward productivity, as well as management structures that give frontline employees the ability to suggest and implement improvements in the product and workplace.[14] Several studies suggest that taken together, these policies are more effective than training alone.

Evidence of the effectiveness of these human-resource practices comes from a variety of industries. In manufacturing, a multiyear study of steel finishing lines showed that plants

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[9] Jacobson, Louis, Robert LaLonde, and Daniel G. Sullivan, *The Returns to Classroom Training for Dislocated Workers*, unpublished manuscript, September 1994.

[10] Bloom, Howard S., et al., *The National JTPA Study: Overview of Impacts, Benefits, and Costs of Title II-A*, Abt Associates, February 1994.

[11] Lynch, Lisa, "Private Sector Training and the Earnings of Young Workers," *American Economic Review*, Vol. 82, No. 1., 1992.

[12] Holzer, Harry et al., "Are Training Subsidies for Firms Effective? The Michigan Experience," *Industrial and Labor Relations Review*, November 1993.

[13] Bartel, Anne, "Productivity Gains from the Implementation of Employee Training Programs," *Industrial Relations*, forthcoming.

[14] U.S. Department of Labor, *High Performance Work Practices and Firm Performance*, 1993; and Levine, David I., *Reinventing the Workplace: How Business and Employees Can Both Win* (Brookings, 1993).

using highly innovative human-resource management systems (i.e., that had incentive-based pay and employee involvement as well as training) had the highest productivity: these plants were in operation 98 percent of scheduled time, compared with only 88 percent of the time at companies with traditional work practices.[15] Another study concluded that high-involvement steel minimills not only excel in quality and productivity but also enjoy lower employee turnover.[16] Moreover, these results are not unique to the steel industry. A comparison of productivity in several industries in the U.S., Germany and Japan found that adopting best-practice production processes generally required extensive worker training.[17] A worldwide study of the automobile industry found that a coordinated change to an involvement-oriented human resource system can simultaneously improve product quality and productivity.[18] Studies of the electrical components industry and of companies with flexible manufacturing systems have found similar results.[19]

Although most of the detailed studies are in manufacturing, high-involvement human-resource policies--that is, policies that give all employees the ability, incentive, and power to improve constantly their workplace and the product—also appear to yield benefits in service industries. One study of 850 publicly held service companies discovered that high-skill, high-involvement work practices predicted organizational performance: a one-standard-deviation increase in the measure of high-performance work practices correlated with a reduction in employee turnover of more than 1 percentage point (for example, from 14 percent to 13 percent per year). It also correlated with 16 percent higher sales per employee (controlling for capital per worker and research and development spending), raised annual cash flow by $3,800 per employee, and raised the market value of the company by more than $18,000 per employee.[20]

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[15] Ichniowski, Casey, Kathryn Shaw, and Giovanna Prennushi, "The Effects of Human Resource Management Practices on Productivity," unpublished manuscript, March 1994.

[16] Arthur, Jeffrey B., "Effects of Human Resource Systems on Manufacturing Performance and Turnover," *Academy of Management Journal*, Vol. 37, No. 3, 1994.

[17] Baily, Martin Neil, and Hans Gersbach, "Efficiency in Manufacturing and the Need for Global Competition," *Brookings Papers on Economic Activity: Microeconomics*, forthcoming.

[18] MacDuffie, John Paul, "Human Resource Bundles and Manufacturing Performance," University of Pennsylvania, Wharton School of Management, June 1993.

[19] Cutcher-Gershenfeld, Joel, "The Impact on Economic Performance of a Transformation in Workplace Relations," *Industrial and Labor Relations Review*, Vol. 44, January 1991; and Jaikumar, Ramchandran, "Postindustrial Manufacturing," *Harvard Business Review*, Vol. 64, November-December 1986.

[20] Huselid, Mark A., "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," *Academy of Management Journal*, forthcoming.

IV. EDUCATION AND TRAINING ALSO HAVE NON-ECONOMIC BENEFITS.

Higher levels of education are associated with better health outcomes, more effective child-rearing, greater political participation, increases in charitable giving, and less participation in crime. Higher levels of education improve health behaviors and decrease mortality rates, and more educated individuals also appear to be better parents to their children.[21] Some of these outcomes produce positive externalities for society as a whole, and not simply for the educated individual; examples are the lower crime rates and lower rates of infectious disease that are associated with education. These results should be interpreted with some caution, however, due to uncertainty about whether these relationships reflect causal links (see below).

Society pays large costs for each individual who fails to reach his or her educational potential. High school dropouts are far more likely to be convicted of crimes than are those with higher levels of education. For example, on any given day in 1992 almost one-quarter of all males between 18 and 34 who had not received a conventional high school diploma—but less than 4 percent of those who had—were either in prison, on probation, or on parole. Based on 1992 figures, the present value of total prison, parole, and welfare costs over an adult lifetime for each individual who does not graduate high school averages $69,000. Costs are only about $32,000 for each high school graduate who does not attend college, and just $15,000 for each person who has attended college.[22]

Theoretically, it need not be the case that education causes law-abiding behavior. It is conceivable, for example, that certain innate traits lead some young men both to drop out of school and to commit crimes, so that compulsory education for those young men would do nothing to reduce their propensity to commit crimes. However, the evidence in Section III indicates that students who attend more schooling not because of innate differences, but for reasons such as compulsory schooling laws, nevertheless enjoy higher earnings. These results indicate that the higher earnings of the more educated are not due solely to innate differences in ability. Although this is not direct evidence, these results suggest that higher levels of education would also reduce crime and welfare dependency.

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[21] Haveman, Robert, and Barbara Wolfe, "Schooling and Economic Well-Being: The Role of Non-Market Effects", *The Journal of Human Resources*, Volume 19, Number 3, 1984.

[22] *Economic Report of the President*, U.S. Government Printing Office, February, 1995, pp. 187-188. Figures are present value discounted at 4% annual rate for costs of prison, welfare, and parole between the ages of 18 and 54, based on 1992 data. The costs of prison and parole do not include the costs borne by the victims of crimes, which are probably much higher.

V. FAMILY INCOME AND TUITION COSTS AFFECT EDUCATIONAL OPPORTUNITIES.

Borrowing constraints mean that college costs may have a particularly large effect on educational attainment. If capital markets functioned perfectly, any student for whom the returns to education were greater than the interest rate would be able to borrow enough to cover tuition and living costs. Thus low- and high-income students with similar abilities would be expected to enroll in college at similar rates. But in practice, future earnings tend to be far less effective as collateral than are physical assets such as houses. As a result, students cannot necessarily borrow enough to cover the costs of education. Thus college costs matter more than they should: even when costs are low enough to make education a good investment for a low-income student, they may be too high for him or her to stay in school. A variety of evidence suggests that by easing the borrowing constraint, government can substantially increase educational attainment.

Lower college tuition leads substantially more students to enroll in college. The net cost of college education appears to have a substantial impact on the likelihood of college enrollment for low-income students. For example, one recent study has found that students from states with low public-university tuition levels are more likely to attend post-secondary education than students from other states, even after controlling for a wide variety of other factors that could cause this difference.[23] Because the effect is stronger for low-income students than for high-income students, it seems likely that borrowing constraints do indeed constrain educational attainment, implying a role for government.

Government aid can also play an important role in driving down the cost of college, and thus inducing more students from low-income families to attend. There is a substantial amount of evidence that for low-income students, the availability of grant aid strongly increases the likelihood of participation in further education.[24]

The low levels of educational attainment of low-income students (caused both by borrowing constraints and by other risk factors) are costly in terms of lost future productivity. For poor children, rates of school completion and advancement to post-secondary education are much lower than for other children. For example, children who

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[23] Kane, Thomas, "College Entry By Blacks Since 1970: The Role of College Costs, Family Background, and Returns to Education," *Journal of Political Economy*, October 1994. See also Manski, Charles, and David Wise, *College Choice in America*, Harvard University Press, 1983.

[24] McPherson, Michael, and Morton Shapiro, *Keeping College Affordable: Government and Educational Opportunity*, Brookings Institution, 1991, p. 214; Hauptman, Arthur M., and Maureen McLaughlin, "Is the Goal of Access to Post-Secondary Education Being Met?," Washington, D.C., American Council on Education, 1988; Jensen, Eric L., "Financial Aid and Educational Outcomes: A Review," *College and University*, Spring 1983; Leslie, Larry, and Paul Brinkman, *The Economic Value of Higher Education*, McMillan, 1988; Manski and Wise, *op. cit.*

experience poverty between the ages of 6 and 15 years are two to three times more likely to drop out of high school than are students who never experience poverty. A recent study commissioned by the Children's Defense Fund, which added up the costs of low educational achievement for the 14.6 million poor children in 1992, estimated that each year that these children spend in poverty costs the economy somewhere between $36 billion and $177 billion in reduced future productivity and employment. (Again, these estimates assume that the productivity benefits of a year of education are as large for poor students as they are for the average student.)

VI. ARE WE JUST THROWING MONEY AWAY BY SPENDING IT ON SCHOOLS?

The evidence on the payoff to school resources is mixed. This is probably not surprising; it is inherently very difficult to estimate the effect of school resources on student achievement because schools with troubled students (e.g., many from single-parent families) may need to spend more on everything from metal detectors to attracting teachers, yet still show below-average test scores or other results.

The Coleman Report—which in 1966 found only a weak relationship between school resources such as class size and standardized test scores—has had a huge impact on the policy debate. Many subsequent studies also have found an insignificant relationship between test scores and school inputs,[25] and a majority of educational researchers probably hold this view.

More recent evidence finds that more generous school resources have beneficial effects on student test scores. An important recent study re-analyzed previous research and came to a very different conclusion—that the literature had too many statistically significant findings to support the view that school resources have no effect on test scores.[26] In addition, the only large-scale, randomized experiment on class size and student achievement ever performed in the U.S.—the Tennessee STAR experiment on grades K-3— concluded that students performed better if they were assigned to smaller classes. Smaller class size had especially beneficial effects on test scores for low-income students and for black students. (A number of researchers have criticized the implementation of the experiment, but there is no strong reason to doubt the conclusion.)

In contrast with the test-score literature, most studies that look directly at the relationship between school resources and students' subsequent income or educational attainment tend to find a positive association. Because test scores have only a weak relationship with economic outcomes, such as subsequent income, it is important to look at

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[25] Hanushek, Eric A., "The Economics of Schooling: Production and Efficiency in Public Schools," *Journal of Economic Literature*, Volume 24, September 1986.

[26] Hedges, L.V., "Does Money Matter?," unpublished working paper, University of Chicago, 1993.

the relationship between school spending and economic outcomes. A recent review article concluded that on average, a 10 percent increase in school resources leads to a 1 to 2 percent increase in students' annual income later in life.[27] However, other studies have raised methodological concerns with this literature, and have argued that there is an insignificant relationship between school resources and students' subsequent income. This remains an unsettled issue, but we think a case can be made that school resources lead to higher income for students down the road.

VII. EDUCATION CONTRIBUTES TO ECONOMIC GROWTH.

New evidence emphasizes that education is an important determinant of the speed at which the economy as a whole grows. A large body of literature has shown that countries with the highest initial levels of education in 1960 or 1965 typically grew the fastest in subsequent decades.[28] One recent study, in trying to pinpoint just how education makes its contribution, has shown that countries with better-educated labor forces are better able to take advantage of technologies developed in other countries;[29] this factor is likely to have contributed to the growth successes of Japan and the East Asian newly industrialized countries. Sketchier evidence suggests that even within countries, states and regions with better-educated labor forces grow more rapidly.[30] Theoretical economists also emphasize that a well-educated workforce can raise the productivity of R&D (for example, because new innovations are implemented more quickly), generating the technological improvements that are the crucial ingredient in long-term growth.

The cross-country evidence for an education growth effect is not irrefutable, however. The central difficulty with these cross-country analyses is that countries that "got education right" also got many other things right. That is, countries with high levels of education tended to be those with high investment rates, low inflation rates, a strong export orientation, and stable political systems—all of which are believed to contribute to growth. As a result, disentangling these factors to determine which of them has contributed most is no easy matter. Still, most growth economists believe that in combination with other factors,

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[27] Card, David, and Alan Krueger, "The Economic Return to School Quality: A Partial Survey," Princeton University, 1994.

[28] See, for example, Barro, Robert J., "Economic Growth in a Cross Section of Countries," *Quarterly Journal of Economics*, Volume 106, May 1991; and Mankiw, N. Gregory, David Romer, and David Weil, "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, Volume 107, May 1992.

[29] Benhabib, Jess, and Mark M. Spiegel, "The Role of Human Capital in Economic Development: Evidence from Aggregate Cross-Country Data," *Journal of Monetary Economics*, Vol. 34, 1994.

[30] Holtz-Eakin, Douglas, "Solow and the States: Capital Accumulation, Productivity, and Economic Growth," *National Tax Journal*, Vol. 46, No. 4, 1993.

education plays an important role.

Educational improvements have contributed significantly to postwar economic growth in the United States. If we accept the proposition that more educated workers are paid more because their education makes them more productive, then we can estimate education's growth effects directly by measuring increases in the educational attainment of the workforce. Using this method, the Bureau of Labor Statistics estimates that between 1963 and 1992, improvements in education added 0.3 percentage points per year to the growth rate of GDP—meaning that education accounted for about 20 percent of per-capita income growth over that period. This estimate depends crucially on the assumption that the earnings effects of education equal its effects on the economy's productivity, however. If in fact education is just signalling, then 0.3 percentage points is an overestimate; if instead education has positive spillovers, then the actual contribution of education may be even greater. Training and on-the-job learning also contribute to economic growth, although we have no estimates of the magnitude of these effects.

Educational improvements for lower-skilled workers can help ensure that they benefit fully from economic growth. Factors that contribute to growth, such as technological advancement and increased trade, sometimes benefit higher-skilled workers disproportionately. The computer advances of recent years, for example, have probably contributed to economic growth while simultaneously shifting labor demand toward the high-skilled workers who can best use the new technologies. To keep lower-skilled workers from being left behind by growth, it may therefore be necessary to increase their levels of education and training.

May 29, 1996

MEMORANDUM TO GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Stats for the Princeton Speech

EDUCATION AND ECONOMIC GROWTH:

- A study by the World Bank found that better-educated countries grow faster: a 10-percentage point increase in school enrollment raised income growth by 0.3 percent.

  SOURCE: World Bank, "The East Asian Miracle", Oxford Univ. Press (1993), page 48. *"An increase of 10 percentage points in the primary or secondary school enrollment rate would raise per capita income growth by 0.3 percent."* The estimate is based on cross-economy regressions for 113 economies between 1960 and 1985.

EDUCATION AND JOB GROWTH:

- In the next decade, 44 percent of the new jobs will require some form of education or job training beyond a high school degree.

  SOURCE: Bureau of Labor Statistics.

- During the next decade, about one-half of the 30 fastest growing occupations will require education or training beyond a high school degree. This includes occupations such as systems analysts, computer engineers, operations research analysts, surgical technologists, electronic pagination systems workers, and occupational therapy assistants and aides.

  SOURCE: Bureau of Labor Statistics, *Monthly Labor Review*, November 1995.

- Over the next decade, jobs that generally require at least an associate's degree are projected to grow faster than the average rate.

  SOURCE: Bureau of Labor Statistics, *Employment Outlook 1994-2005.*

- Jobs that require a college degree (or higher) will account for 6 million new jobs over that next decade -- that's 34 percent of total job growth, significantly more than the 21 percent share of 1994 employment accounted for by these jobs.

  SOURCE: Bureau of Labor Statistics, *Employment Outlook 1994-2005.*

SENATOR PAUL SIMON
ILLINOIS

FAX COVER PAGE

United States Senate
WASHINGTON, D.C. 20510-1302
(202) 224 2152

COMMITTEES
LABOR AND HUMAN RESOURCES
JUDICIARY
BUDGET

TO: Gene Sperling, Domestic Policy Council

FROM: Bob Shireman **PHONE:** 224-2152

DATE: 8 / 16 / 95

Wed (DAY OF WEEK) 9:50 (TIME)

NUMBER OF PAGES (including this cover page): 3

MESSAGE:

F A X M E M O R A N D U M
(2 pages)

To: Gene Sperling
From: Bob Shireman
Date: August 16, 1995
Re: Possible Executive Action on Student Loans

As we discussed, here are my initial thoughts on action that the President could take to rein in guaranty agencies, at the same time reminding people that the guarantee program is not "private sector." If you need more details on any of these points, let me know. (I will be out of town August 18-27).

Action 1: Stop Fraud, Waste and Abuse. Require any entity that controls federal money and is fully backed by U.S. taxpayers (e.g. student loan guaranty agencies) to abide by the same ethical rules that apply to regular federal agencies and employees. Prohibit conflicts-of-interest (Bush proposal), eliminate self-dealing, limit salaries and wasteful spending.

Background: Guaranty agencies were originally the vehicle by which states were to share in the risk of the student loan program. At the time, the assumption was that states would have a financial incentive to keep a close watch on the agencies. But it has been decades since states have been asked to contribute, so the funding and risk is fully federal (even though some of the agencies are state agencies). However, there have never been clear rules as to how agencies can spend their federal money. This has led to numerous abuses:

> Self-dealing: Agencies contract with their own board members for services or purchase land or buildings from their own officials.
>
> Conflicts of Interest: Agencies both police the banks in the student loan program AND work for them as contractors servicing their loans. The Inspector General has raised this as a dangerous conflict of interest that has caused problems at a number of agencies. (Other variations of the conflict problem have arisen at other agencies).
>
> Salaries: Many of these "non-profit" agencies pay their CEOs more than the Secretary of Education makes. The highest-paid guaranty agency head makes more than $600,000 a year.
>
> Waste: The most egregious examples (cars, artwork, donations to director's spouse's charity) are at the South Dakota agency, which the Department is already trying to shut down. But there are more at other agencies.

Effect: The conflict of interest rule would be the most difficult one for the agencies to take. It would force them to split their operations, potentially at great initial cost (though

8

7 pages

FAX MEMORANDUM

To: Gene Sperling
From: Bob Shireman
Date: February 17, 1995
Re: **Need help from Treasury Department**

"Savings" figures from the switch to direct lending does not count the reduction in the use of tax-exempt bonds for state student loan secondary markets (which apparently had a five-year cost of $2.4 billion in 1993).

In addition, there seems to be some question as to whether the bonds should be used in the first place (in 1984 there was a controversy).

One guaranty agency (USA Group) actually used tax-exempt bonds to purchase their grand headquarters, using the agency (federal property!) as collateral.

It would be helpful to have someone at the Treasury Department who knows the law around tax-exempt bonds to look into these issues. I've attached some items that would help them get started.

Feel free to have someone contact me about this.

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The New York Times, January 10, 1984

28 Loan Agencies

According to the National Council of Higher Education Loan Programs, there are 28 state agencies that make or buy student loans. By the end of 1983, they held an estimated $1.7 billion of loans they had originated, and another $1.3 billion they had bought from other lenders.

By comparison, there were an estimated $26.2 billion of outstanding Government-guaranteed loans at the end of 1983, and Sallie Mae's holdings amounted to $4.3 billion on Sept. 30.

Bernard Friel, an attorney at Briggs & Morgan of St. Paul, and chairman of the student loan finance committee of the National Association of Bond Lawyers, said the state agencies existed largely because Sallic Mae's resources were not enough to meet the demand for student loans.

By pushing state agencies toward Sallie Mae, he said, the Department of Education's actions ''are detrimental to the student loan program because the terms offered by Sallie Mae are not as economical'' as those available through tax-exempt bonds. He also said state laws do not allow some agencies to sell taxable bonds to Sallie Mae or other investors.

Cost Increase Disputed

Mr. Conlan and other state officials dispute assertions that tax-exempt financings increase the cost to the Federal Government. If the bonds are taxable, he said, the Government subsidy on the student loans is twice as large as the subsidy paid on loans financed with tax-exempt bonds. The larger subsidy payments would offset added tax revenue collected from buyers of taxable bonds.

Mr. Conlon and other participants in the student loan market also say that the focus of Sallie Mae has been n the most profitable kinds of lending. They say that small loans and loans in rural areas are better served by local agencies than by Sallie Mae.

Edward Fox, president of Sallie Mae, dismissed as ''myths'' most of the stories that the association does not cooperate with local lenders. ''It is true that at one time Sallie Mae could not do all the things we would have liked,'' he said, but now that its capital base has been increased to $487 million, from $93 million a year ago, ''we are much more willing to accept risks.''

LANGUAGE: ENGLISH

The Chronicle of Higher Education, 1/13/95

Louisiana Plans to Issue Bonds for Reduced-Rate Student Loans

SOME LOUISIANIANS borrowing money to pay for college could save, on average, between \$800 and \$1,000 under a plan expected to be approved soon.

The program is expected to be approved by the state's Bond Commission, perhaps as soon as this month. Under the plan, the Louisiana Public Facilities Authority would issue up to \$25-million in bonds to finance college loans at interest rates one percentage point below the rate on federal student loans, which is now 7.43 per cent.

The average student loan in Louisiana is estimated to be about \$3,000. That means more than 8,300 students or their parents could be accommodated in the program, said Billy Gordon, managing director of the facilities authority.

Any student eligible for regular student loans would be eligible for the new program, he said.

Mr. Gordon said the program could be started by the start of summer sessions.

"I don't see any reason why we shouldn't get approval. It's an excellent program," he said.

—JIM SNYDER

[redacted]

Dept.

Fax #

NOTE: Example of new program for student loan tax exempt bonds.

2/2/

SECONDARY MA S FOR STUDENT LOANS

NAME OF SECONDARY MARKET	STATE	EIN	TX-XMT BONDS	TXBLE BONDS	ORG. TYPE	MAILING ADDRESS
Alabama Higher Education Loan Corporation	AL	630822408	Y	N	PNP	c/o Union Bank, 60 Commerce St., Montgomery, AL 36104
Arizona Educational Loan Marketing Corporation	AZ	942850977	Y	N	PNP	7778 Pointe Pkwy. W., Ste. 180, Phoenix, AZ 85044
Arizona Student Loan Finance Corporation	AZ	942836249	Y	N	PNP	1245 N. 24th Pkwy., #212, Phoenix, AZ 85018
Advance Education Loan Corporation	AZ	860664912	N	Y	PNP	Scottsdale, AZ
Western Loan Marketing Association	AZ	860504792	N	Y	PFP	Scottsdale, AZ
Arkansas Student Loan Authority	AR	710187135	Y	N	SA	Tower Bldg., Ste. 200, 323 Center St., Little Rock, AR 72201
California Higher Education Loan Authority	CA	942610667	Y	N	PNP	Sacramento, CA
California Student Loan Authority	CA	946001347	Y	N	SA	915 Capitol Mall, Room 280, P.O. Box 1750, Sacramento, CA 95809
California Student Loan Finance Corporation	CA	941687865	Y	Y	PNP	1570 W. Pico Blvd., Suite 100, Los Angeles, CA 90035
Educaid Student Loan Trust	CA	256391671	N	Y	PFP	Sacramento, CA
Colorado Student Obligation Bond Authority	CO	840819968	Y	N	SA	1981 Blake St., Ste. 201, Denver, CO 80202
Connecticut Student Loan Foundation (CALS)	CT	060812178	N	Y	SA	525 Brook St., P.O. Box 1009, Rocky Hill, CT 06067
Higher Education Loan Program of D.C.	DC	521168404	N	Y	PNP	1001 Connecticut Ave. N.W., Suite 825, Washington, DC 20036
Student Loan Marketing Association (Sallie Mae)	DC	520974271	N	Y	PUB	1050 Thomas Jefferson St. N.W., Washington, DC 20007
Georgia Student Finance Authority	GA	581088463	N	Y	SA	2082 East Exchange Place, Tucker, GA 30084
Idaho Financial Associates, Inc.	ID	820403520	N	Y	PFP	350 Broadway Ave., Ste. 308, Boise, ID 83706
Student Loan Fund of Idaho Marketing Association	ID	820352591	Y	N	PNP	P.O. Box 1000, Fruitland, ID 83619
Illinois Designated Account Purchase Program	IL	376002057	Y	Y	SA	P.O. Box IDAPP, Deerfield, IL 60015
Indiana Secondary Market for Education Loans	IN	310995844	Y	Y	PNP	P.O. Box 826, Indianapolis, IN 46206
Secondary Market Services, Inc.	IN	356569078	N	Y	PNP	Indianapolis, IN
Iowa Higher Education Loan Program	IA	142016739	N	Y	PNP	Des Moines, IA
Iowa Student Loan Liquidity Corporation	IA	421137531	Y	Y	PNP	500 Colony Bldg., 507 10th St., Des Moines, IA 50309
Higher Education Loan Program of Kansas	KS	480659134	N	Y	PNP	14 Corporate Woods, Suite 220, 10950 Grandview, Overland Park, KS 66210
Kentucky Higher Education Student Loan Corporation	KY	521294450	Y	Y	SA	1050 U.S. 127 South, Frankfort, KY 40601
Louisiana Public Facilities Authority	LA	720895871	Y	N	SA	4 United Plaza, Suite 100, 8555 United Plaza Blvd., Baton Rouge, LA 70809
Maine Educational Loan Marketing Corporation	ME	010390854	Y	Y	PNP	P.O. Box 549, Augusta, ME 04332
New England Educational Loan Marketing Corporation	MA	042755323	Y	Y	PNP	50 Braintree Hill Park, Suite 300, Braintree, MA 02184
Michigan Higher Education Student Loan Authority	MI	386000134	Y	Y	SA	Box 30051, Lansing, MI 48909
Minnesota Higher Education Coordinating Board	MN	416007162	Y	N	SA	550 Cedar St., Saint Paul, MN 55101
Mississippi Higher Education Assistance Corporation	MS	640117230	Y	N	PNP	1887 Crane Ridge Dr., P.O. Box 4799, Jackson, MS 39296-4799
Mississippi Post-Secondary Education Financial Assistance Board	MS	646000783	N	Y	SA	Jackson, MS
Missouri Higher Education Loan Authority	MO	431261525	Y	N	SA	1215 Fern Ridge Pkwy., Suite 208, St. Louis, MO 63141
Montana Higher Education Student Assistance Corporation	MT	810393527	Y	N	PNP	33 S. Last Chance Gulch, Helena, MT 59620
Nebraska Higher Education Loan Program	NE	470606362	Y	Y	PNP	P.O. Box 82605, Lincoln, NE 68501
New Hampshire Higher Education Loan Corporation	NH	20363776	Y	N	PNP	Concord, NH
New Jersey Higher Education Assistance Authority	NJ	216000923	N	Y	SA	Trenton, NJ
New Mexico Educational Assistance Foundation	NM	850291313	Y	Y	PNP	P.O. Box 27020, Albuquerque, NM 87125
College Foundation, Inc.	NC	566048937	Y	Y	PNP	P.O. Box 12100, Raleigh, NC 27605
Industrial Commission of North Dakota	ND	145030097	Y	Y	SA	Box 5509, Bismarck, ND 58502
Ohio Student Loan Funding Corporation	OH	311015551	Y	Y	PNP	1 West Fourth St. #200, Cincinnati, OH 45202
Oklahoma Student Loan Authority	OK	731180305	Y	Y	SA	301 N.W. 63rd St., Oklahoma City, OK 73116
Pennsylvania Higher Education Assistance Agency	PA	231693362	Y	Y	SA	P.O. Box 2461, Harrisburg, PA 17102
Rhode Island Student Loan Authority	RI	050395355	Y	Y	SA	560 Jefferson Blvd., Warwick, RI 02886
South Carolina Student Loan Corporation	SC	570602805	Y	Y	PNP	P.O. Box 21337, Columbia, SC 29221
South Dakota Student Loan Finance Corporation	SD	460350016	Y	Y	PNP	105 First Ave. S.W., Aberdeen, SD 57401
Higher Education Loan Program of Tennessee	TN	621207373	N	Y	PNP	Nashville, TN
Volunteer State Student Funding Corporation	TN	620201385	Y	Y	PNP	P.O. Box 1589, Knoxville, TN 37901
Abilene Higher Education Authority	TX	752194881	Y	N	PNP	Box 3424, Abilene, TX 79604
Bosque Higher Education Authority	TX	742534099	Y	N	PNP	Waco, TX
Brazos Higher Education Authority	TX	742089402	Y	N	PNP	111 South 18th St., Waco, TX 76703
Brazos Student Finance Corporation	TX	742356109	N	Y	PNP	Waco, TX
Central Texas Higher Education Authority	TX	741966306	Y	N	PNP	P.O. Box 961, San Marcos, TX 78656
Greater East Texas Higher Education Authority	TX	742158827	Y	N	PNP	3833 South Texas Ave., Suite 130, Bryan, TX 77802

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SECONDARY MA[illegible]S FOR STUDENT LOANS

NAME OF SECONDARY MARKET	STATE	EIN	TX-XMT BONDS	TXBLE BONDS	ORG TYPE	MAILING ADDRESS
North Texas Higher Education Authority	TX	752284586	Y	N	PNP	201 E. Abram, Suite 750, Arlington, TX 76010-1196
Panhandle Plains Higher Education Authority	TX	750403318	Y	N	PNP	2306 6th Ave., Box 839, Canyon, TX 79015
Panhandle Plains Student Finance Corporation	TX	752059556	N	Y	PNP	Canyon, TX
South Texas Higher Education Authority	TX	237393210	Y	N	PNP	COSTEP Office Bldg., 520 Pecan, McAllen, TX 78501
Texas Higher Education Coordinating Board	TX	746016766	Y	N	PNP	P.O. Box 12788, Capitol Station, Austin, TX 78711
Texas Secondary Market Association	TX	742464544	N	Y	PNP	El Paso, TX
State Board of Regents of the State of Utah	UT	876000546	Y	Y	SA	355 West N. Temple #3, Triad Suite 550, Salt Lake City, UT 84180
Vermont Student Assistance Corporation	VT	030216589	Y	N	SA	P.O. Box 2000, Winooski, VT 05404
Virginia Education Loan Authority	VA	541043180	Y	Y	SA	737 North Fifth St., Richmond, VA 23219
Student Loan Finance Association	WA	911215725	Y	N	PNP	500 Colman Bldg., Suite 11, 811 First Ave., Seattle, WA 98104
Higher Education Loan Program of West Virginia	WV	550602237	N	Y	PNP	Union Bldg., Suite 900, 723 Kanawha Blvd, East, Charleston, WV 25301
Wyoming Student Loan Corporation	WY	830247095	Y	Y	PNP	P.O. Box 3140, Cheyenne, WY 82003

Organization Type: PNP = Private Nonprofit; PFP = Private For-profit; SA = State Agency; PUB = Public Corporation

USA Funds provides default prevention and collection system support services to USA Services for a fee.

Effective April 1, 1993, the employees and operations of the studetn loan secondary market functions of USA Funds were transfered to SMS.

USA Funds provdies a $100,000,000 interest bearing line-of-credit to SMS. Interest is payable at a variable rate and amounts outstanding under the line are payable upon demand by USA Funds, but no later than April 1, 1998. If demand has not been made by USA Funds prior to October 1, 1997, SMS may renew the line for an additional period upto five years; however, the line is due and payable upon demand during the renewal period.

USA Funds provides certain of its office facilities to USA GROUP, Education Loan Servicing Center, Inc. (ELSC), USA Services, and SMS. These occupance charges are recorded as a reduction of charges from affiliate.

ELSC provided collection services for education loans held by USA Funds prior to April 1, 1993, for a fee.

During 1993, USA Funds transferred $40,000,000 of cash and investments to USA GROUP, which was charged directly to fund balance.

During 1993, USAF Funds sold computer equipment and sofware to affiliated entities. The purchase price was equal to the carrying value recorded on the books of the affiliated entities. During 1992, USAF Funds sold computer equipment and software to USA GROUPS, Inc. for $3,687,000. The purchase price was equal to the carrying value recorded on the books of USA Funds.

The Series 1989 Economic Development First Mortage Bonds, issued through the Town of Fishers, Indiana, are subject to a loan agreement, mortgage, and security agreement, which grants the Town of Fishers a first security interest in property and equipment of USA Funds having a September 30, 1993 carrying value of approximately $42,612,000.

USA GROUP and its affiliated companies have a combined cnoncontributory, defined benefit retirement plan covering substantially all employees of the companies. Benefit and asset inforatmion allocable to USA Funds for the defined benefit retirement plan is not readily determinable. USA GROUP and its affiliates also sponsor a combined defined contribution incentive plan for their employees. Contributions to the plan are made annually by each company at the discretion of the Boards of Directors and/or Trustees.

THE WHITE HOUSE

WASHINGTON

September 10, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: JEREMY BEN-AMI
GENE SPERLING

SUBJECT: Update on Status of Direct Lending and Other Student Aid Programs in the Congressional Budget Process

As you know, the House and Senate agreed in reconciliation of their Budget Resolution on a figure of $10.4 billion in entitlement savings in this area over 7 years (this was a reduction from the original mark in the House of $20.8 billion). This level of savings can't be reached without large cuts in benefits to students receiving aid. This memorandum will outline where we are in this area in the Congressional Budget process. We have also attached a two-page budget update on the major student aid programs.

Direct Lending

Republicans have targeted the Direct Lending Program as a way to help reach this level of savings. To do this, they have engaged in some budgetary gimmickry: As a part of their budget resolution, they ordered the Congressional Budget Office to include administrative expenses of the Direct Lending Program, which are estimated at $441 million for next year, in its budget calculations -- but not the Government's outlays to administer the Guaranteed Student Loan (GSL) program, which are estimated at $270 million next year. This change gave Republican opponents of Direct Lending a justification for claiming it is slightly more expensive than the Guaranteed Student Loan program, and therefore it should be eliminated to reap the budget "savings" that would accrue under this questionable budget maneuver. Democratic Members have demanded that this budgetary gimmick be repealed, and some members of the press have spotlighted these changes as questionable (see attached NYT Story).

Based on these reported savings, some House Republicans have indicated their intention to repeal the Direct Lending program in reconciliation. They have tentatively said that they plan to save $1.2 billion dollars over 7 years by repealing Direct Lending, coupled with a deep cut in Department of Education oversight funds for the Guaranteed Student Loan Program. If these oversight funds for GSL are eliminated, it is widely believed that fraud and abuse will rise substantially and end up costing the government more money in the long run.

The House Education/HHS/Labor Appropriations bill did not call for an outright elimination of the Direct Lending program, but it did contain a number of restrictions on Direct Lending that would cripple the program if enacted. As mentioned above, there is a movement among Republicans to terminate direct lending in reconciliation. The House had originally intended to schedule reconciliation for this Wednesday, but it has not yet been placed on the calendar and will likely take place sometime next week. The Senate Labor/H Subcommittee marks up its Appropriations bill on Wednesday. Full Committee mark is scheduled for Thursday, with floor action now scheduled for the week of September 25. It appears that Senate Labor/H is intending to cap the Direct Lending program at 50% of annual loan volume, but is not planning on including the kinds of restrictions that are a part of the House bill. This will become clear when the Senate Labor/ H moves to reconciliation on the 20th of September. There is no guarantee that these restrictions won't be attached when the bill goes to the floor or to conference. <u>It is currently unclear what the final outcome will be until both houses move to reconciliation in the coming weeks.</u>

<u>Other Student Aid Programs</u>

Even if the Republicans are able to count the "savings" from cutting Direct Lending, at the most they would only add up to $1.2 billion over seven years. That means that a number of other cuts will have to be found to make up the $10.4 billion total. House Republicans are claiming that they will find savings of $4.9 billion by making program changes affecting schools and guarantee agencies. It is unclear exactly what these program changes would entail, but rumored possibilities include charging schools a 1% fee for participating in the GSL program, and a slight reduction in the amount that a bank gets reimbursed by the government in case of GSL default.

By combining the $1.2 billion in savings from repealing Direct Lending, and the $4.9 billion in "program changes," Republicans can claim that they will save over $6 billion without touching students. However dubious this claim may be, it still leaves a gap of approximately $4 billion from the $10.4 billion in total savings that must be found. Republicans are reportedly considering several cuts in other student aid programs to make up this difference, including:

- elimination of the in-school interest subsidy;
- elimination of the 6 month post-graduation repayment grace period;
- an increase in loan origination fees.

Of these three areas, the most likely target will by the elimination of the 6 month grace period, which would save them an estimated $3.5 billion over seven years. The in-school interest subsidy has become a highly politicized issue among parents and students over the past few months, and it is likely that they will avoid inflaming this issue. <u>The truth is, we will not know any of the details of what these cuts will look like until both houses come to reconciliation.</u>

INCREASING ACCESS TO HIGHER EDUCATION

President Clinton believes that scholarships and loans to deserving college students is a critical investment in America's future, helping families give their children a chance to make the most of their lives.

Now, more than ever, post-secondary education and job training are the gateway to America's middle class.

- For instance, studies show that for every year of training a person gets after high school, his or her earnings rise by 6 to 12 percent.

- Higher education has literally become the fundamental fault line running through our economy. 15 years ago, the typical college graduate earned 36 percent more than a worker with only a high school degree. By 1994, this gap had doubled to 74 percent.

After 15 years in which college costs increased far faster than inflation but family incomes stagnated, **President Clinton** has initiated historic efforts to expand college access. His balanced budget increases overall funding for education, training, and aid to students by $40 billion. Meanwhile, the Congressional Majoritys' proposals cut education and training by $36 billion, including $10 billion in loan benefits to students -- devastating access to post-secondary grants and loans, and to job training, setting back college access by years if not decades.

DIRECT LENDING AND INDIVIDUAL EDUCATION ACCOUNTS -- CHEAPER, EASIER COLLEGE LOANS: MAKING COLLEGE MORE AFFORDABLE. ***President Clinton supports expanding these initiatives; Republicans want to raise the cost to students and reduce access.***

President Clinton supports expanding the new direct lending program and individual education accounts. With the passage of the Student Loan Reform Act, 104 schools and over 252,000 students initiated the program in 1994. On July 1, 1995, more than 1,400 schools and 1.35 million students --representing almost 40% of all loans and the maximum allowed under this year's authorization--began the second year on schedule. The President's balanced budget would expand the program to all schools and students. This program is already saving $6.8 billion for taxpayers, lowering interest rates for students, and allowing borrowers to choose flexible repayment arrangements. In time, 20 million current borrowers and six million new borrowers per year will benefit.

Republicans have proposed legislation to reduce funds available for direct lending, prevent more schools from choosing to participate in the initiative, and cap participation at 40 percent of all loans. The House Appropriations bill for the Departments of Labor, HHS, and Education would also reduce student loan administration funds by almost 40 percent -- which would deny the benefits of direct lending to low and middle income students, and jeopardize the integrity of both the direct and guaranteed loan programs. These actions will stop the growth of cost-effective, efficient direct lending in order to keep unnecessary payments flowing to banks and unnecessary middlemen.

IN-SCHOOL INTEREST EXEMPTION: HELPING STUDENTS AND FAMILIES PAY FOR COLLEGE. ***Republicans would raise college costs for up to 4 million students.***

President Clinton supports the in-school interest exemption, under which **five million** need-tested students with Stafford loans do not have to pay interest while enrolled in school and during the grace period (six months) between leaving school and entering repayment.

Republicans in their budget resolution propose $10 billion in cuts in student loans. In order to achieve that level of savings and preserve unnecessary payments to banks, secondary markets, and guaranty agencies, they will not only have to eliminate any subsidy for graduate or professional students, but also hit college students with higher fees--for example, eliminating the six month grace period for interest after college or raising the origination fees that all student must pay to get their loans.

PELL GRANTS: SCHOLARSHIPS FOR DESERVING STUDENTS -- PROVIDING THE LIFELINE TO COLLEGE FOR WORKING FAMILIES. ***President Clinton would raise the maximum grant to a record high and would increase annual funding by $3.4 billion by 2002; Republicans would eliminate up to 360,000 students from the program.***

President Clinton has supported the Pell Grant program, and proposed increasing the maximum Pell Grant in his 1996 budget by 12%, to its highest level ever, $2,620. In his new budget, he would increase annual funding by $3.4 billion by 2002--enough to reach 960,000 more recipients and increase the maximum award to $3,128.

Republicans: The House Appropriations Committee would increase the maximum Pell Grant by only $100, to $2440. Furthermore, the committee would eliminate about 360,000 students from the program who would receive awards between $400 and $600 under the President's proposal. For millions of students, grants make the difference between going to college and not going, between staying in school and dropping out.

NATIONAL SERVICE -- AMERICORPS: HELPING STUDENTS WHO HELP THEIR COMMUNITIES. ***President Clinton offers opportunities to nearly 50,000 young people in AmeriCorps next year alone; Republicans would eliminate AmeriCorps.***

President Clinton created AmeriCorps to enable young people to earn money for education by serving their communities--teaching, caring for the sick, making the streets safer. Already 20,000 Americans are serving in AmeriCorps, and nearly 50,000 are expected next year.

Republicans: The House Appropriations Committee would eliminate AmeriCorps and the Corporation for National Service and cut opportunities in other service programs. Over 4.3 million service opportunities for youth in their communities would be abolished over the next seven years. In FY 1996 alone nearly 50,000 young Americans from hard-working, middle class families will lose the opportunity to serve their communities through AmeriCorps in locally-identified areas of crucial need such as health care, social service, and crime prevention, and to earn an educational award to help pay for college or other training.

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HEADLINE: G.O.P. Revises A Budget Rule To Help Banks

BYLINE: By ADAM CLYMER

DATELINE: WASHINGTON, Aug. 19

BODY:

After complaints from banks that have seen their share of student loans drop sharply, Republicans have changed the accounting rules to make it easier for Congress to kill off the banks' competition -- a Federal program that makes direct loans from the Treasury.

The Republican-led House of Representatives has also voted to reduce the amount the Department of Education can spend supervising the system of Federal guarantees for banks that make student loans -- a program that has frequently had management problems. The Senate has yet to act on the House proposal.

Under current law, the direct-loan program is expected to provide $13.8 billion in student loans in the year beginning Oct. 1, while federally ·anteed bank loans will provide $15.3 billion. In 1993, the year before the ·ect program was created with strong support from President Clinton, bank loans made up all $19.2 billion in Federal student loans.

The direct loans have proved popular with students because the money comes through faster, and with university administrators, who have found them to be simpler to administer. Banks, however, have long treasured the guaranteed loan program, which offers profits with much less risk than they have on other loans.

A big boost for the direct-loan program, enacted in the 1993 budget reconciliation bill, was a rule that required the Congressional Budget Office and the Office of Management and Budget to exclude Federal administrative expenses when calculating the effects of loan programs on the Federal budget. Both sides agree that gave direct loans an unfair advantage in any budget-makinc comparison, since more Federal money is spent on administering the direct-loan program than on the guarantee program.

Seizing on that, Republican opponents of the direct-loan program put a very unusual directive into this year's budget resolution. It ordered the Congressional Budget Office to include administrative expenses of the direct-loan program, which are estimated at $441 million for next year, in its budget calculations -- but not the Government's outlays to administer the guaranteed loan program, which are estimated at $270 million next year.

When the Budget Office followed orders last month the Republicans hailed the ·ures as a reason for "scrapping the direct-lending program," in the words of ·esentative Howard P. McKeon, the California Republican who heads the subcommittee on higher education.

But the Clinton Administration, Senate Democrats and many supporters of ect loans cried foul.

Senator Edward M. Kennedy, Democrat of Massachusetts, accused Republicans of "cooking the books." Marshall Smith, Under Secretary of Education, accused them of "a venal assault on student aid" and "putting bankers first."

Mr. Kennedy and White House officials said that if the administrative costs of both programs were counted, the direct loans in total would again prove to be cheaper for the Government.

Even one supporter of the changes, John E. Dean, a consultant to the Consumer Bankers Association, agreed that $160 million in Federal payments to assist the 40 agencies around the country that administer the guaranteed-loan program meet their administrative costs should be included, although he argued that the other $110 million in supervisory costs should not be counted because much of it was unnecessary. These agencies have often been criticized in the past, and in 1990, one of the largest, the Higher Education Assistance Foundation, went broke while carrying $9 billion in loans.

And a conservative Republican economist now serving on the Federal Reserve Board has sought to halt the changes for the loan program. The Fed governor, Lawrence Lindsey, criticized the step as "making the change the industry proposes without looking at other changes."

In a letter to Senator Spencer Abraham, Republican of Michigan, Mr. Lindsey :e that "As long as it is necessary to provide a profit to induce lenders to _ .rantee student loans, direct lending will be cheaper." Mr. Lindsey is in charge of consumer finance at the Fed, and in an interview on Wednesday, he saic bankers had "selected the change that makes them look good."

He also said the argument that university officials make about the direct system as simpler for them was "a compelling argument for the advantage of direct loans to the economy."

In Seattle, for example, Eric Godfrey, assistant vice president of the University of Washington and director of financial aid, said the university was very pleased with the direct-loan program. "We would characterize our first yea in the program as being very close to an unqualified success," he said.

The debate does not involve interest rates, which are set by the Federal Government for both programs.

But Mr. Godfrey said the direct-loan program was simple for students to understand and much easier for the university to deal with than the 700 banks and 40 or so state guarantee agencies it used to work with. Students had $13 million in their hands in the first week of school last year, compared with $3 million in the first week of the 1993-1994 school year, when the university las used the guarantee program.

Just as Mr. McKeon would like to see the direct program abolished, the nton Administration urged Congress to move quickly to eliminate the guarante gram entirely, saying the direct program was cheaper and better.

But others argue students are best served by the competition. That has been, for example, a strongly held view of Senator Nancy Landon Kassebaum, the Kansas Republican who heads the Senate Committee on Labor and Human Resources. Even one ('antee agency official, Sheryl Hagemeir, vice president of the American ent Loan Association, said, "We welcome the competition," and said universities that wanted the direct-loan program should be allowed to join it, but not required to, as they could be under existing law.

Terry Hartle, vice president for government relations of the American Council on Education, said dropping either program would be worse for students because competition had forced banks to do a better job of providing services, and continuing the guarantee program would keep the direct program on its toes. He also said the House Appropriations Committee's proposal to eliminate most of the $110 million spent on supervision of guarantee agencies was "a very risky thing to do."

One past director of the Congressional Budget Office, Robert Reischauer, said the sort of instruction the Republicans had issued to the Budget Office about accounting for administrative costs was very unusual. He found it comparable to a Congressional habit of preferring the lower estimates of politically popular loans to Israel from the White House over the more expensive estimates from the less-political Congressional Budget Office. But Mr. Reischauer said the change made sense, even though it should have gone further and included the costs on guaranteed loans. "If you are going to do it, do it right," he said.

Mr. Reischauer, who left the job at the beginning of this year, was preceded by Rudolph Penner, who has recently worked as consultant to the student loan industry. He agreed Friday that it was very unusual for the Budget Office to be red how to make its calculations on a program. But in this case, he said, has put the whole thing on a better basis." He also said it was difficult to decide just which administrative costs should be included in estimates for the guarantee program.

One argument House Republicans make for killing the direct program is that doing so would enable them to make less severe cuts in other student loan programs, like interest subsidies.

Another clear Republican motive is to attack a popular program created by President Clinton. A July 27 "Dear Colleague" letter from Mr. McKeon and Representative Bill Goodling of Pennsylvania, chairman of the House Committee on Economic and Educational Opportunities, began by denouncing "the President's fundamental belief that the Federal Government can run the student loan program better than the private sector."

And they complained of the Department of Education's use of its money to advertise direct loans as "President Clinton's New Direct Student Loan Program." That proved, they said, that the President "has chosen to make the program an important component of his re-election campaign."

GRAPHIC: Graph: "ADDING IT UP: Student Loand Before G.O.P. Rule Changes" tracks number of dollars received and number of students receiving guaranteed student loans and direct student loans during 1993, 1994, 1995, and a projected 1996. (Source: U.S. Department of Education) (pg. 22)

PRESIDENT WILLIAM J. CLINTON
OP-ED FOR COLLEGE NEWSPAPERS
SEPTEMBER 11, 1995

Dear Student,

This is a busy time for you. But while you are choosing classes and making the decisions that will help you build a good life for yourself, the Congressional majority is working to make drastic cuts in education -- in your student loans, in national service, and even in your scholarships. And the cuts will jeopardize the future you and your generation are working toward.

I want you to know that I oppose these cuts. I will do everything in my power to fight them and to see to it that the dream of higher education remains real for all Americans. I will do this not only by defending the opportunities of those of you who are already in college, but by opening the doors further to make sure that even greater numbers of deserving Americans have the chance to stand where you stand today.

For the first time in a long time, leaders from both parties are resolved that we must balance the federal budget. From the day I took office, I've been committed to this goal -- to getting rid of the budget deficit that quadrupled our national debt in the 12 years before I came to Washington. So far, we have made great progress. In three years, we have cut the deficit nearly in half, from $290 billion to $160 billion.

Now we are ready to eliminate the deficit entirely. On this, the Congressional majority and I see eye to eye.

But just <u>how</u> we get rid of the deficit is another matter. The majority in Congress wants to balance the budget in seven years, and do it while giving an unnecessarily large tax cut. But in order to do these things, the Congressional majority would make enormous cuts in education.

My balanced budget plan would take more years than Congress' to eliminate the deficit, but that's a small price to pay to keep your scholarships, your student loans, and national service safe and well. It would also preserve our ability to protect the environment and the integrity of Medicare for our older citizens.

Balancing the budget is about more than numbers. It's about our values and our future. Education has always been the currency of the American Dream. When I was your age, it was assumed -- based on our long history -- that each generation would have a better life than the preceding one. More than anything else, a good education is the way we pass this vision on to those who come after us.

The facts speak for themselves. Earnings for those with no post-secondary education have fallen substantially in the last 15 years. The only people for whom earnings have increased steadily are people exactly like you -- those Americans with more education. Every year of higher education increases your earnings by six to 12 percent. Those years also mean a stronger overall economy and richer lives for those who have them.

Balancing the budget will be good for our economy and your future if it's done right. But simply balancing the budget won't do us much good in the long term if your generation does not have the education it needs to meet the challenges of the next century.

Just think over what the Congressional majority's plan, if it went through, would do to you, your classmates, and any of the one out of two college students who receives federal aid. It would:

- Raise the cost of student loans by $10 billion over seven years by charging you interest on your loan while you are in school. This would increase the cost of a college education by as much as $3,100 for undergraduates and $9,400 for graduate students.

- Deny up to 360,000 low-income students desperately needed Pell Grants in 1996.

- Shut down Americorps, our national service initiative, which gives thousands of young people the chance to earn and save money for college while serving their country.

By contrast, my balanced budget plan builds on the national consensus that we must help people help themselves, through the power of education. It eliminates both of our deficits: our budget deficit and our education deficit. My plan cuts wasteful spending by more than $1 trillion, but it also increases investments in education by $40 billion over the next seven years.

Think over how my balanced budget plan would help guarantee your future and all the hard work you're about to put into it. It will:

- Increase funding for Pell Grants by $3.4 billion. Almost one million more students would benefit from the scholarships. And we would raise the top award to $3,128 by the year 2002.

- Expand Americorps to let even more young Americans serve their communities and go to college.

- Protect our direct-lending program, which makes student loans more affordable, with more repayment options, and saves taxpayers, parents, and students billions of dollars.

I just returned from Pearl Harbor, where I took part in ceremonies marking the 50th anniversary of the end of the Second World War. In the late 1940s, when the veterans we honored left their loved ones to go off and serve their country, they were the age most of you are now.

When they came home, the country recognized their service and their potential, and it responded with the G.I. Bill, which guaranteed a college education to every returning veteran. Those who served weren't given a handout, and they didn't want one. They were given the opportunity they needed to take responsibility for their lives.

Your generation has its own battles to wage. You face the choice of doing something right and difficult -- or something easy and wrong.

In taking on the responsibility of educating yourselves, you have chosen the right and difficult path. You did the work you had to do to get into college. You may be working now to pay your way. And your family may have worked long hours and made great sacrifices to help you get where you are today.

You deserve the nation's support. And your future success will likely repay our common investment. I do not accept the arguments of those who condemn irresponsibility in young Americans and then seek to deny the nation's helping hand to the millions of you who are doing the right things.

I hope you'll support my efforts to protect education and balance the budget. The fight for education is the fight for your future. In my life -- and in the lives of countless Americans -- education has meant the difference between the impossible and the possible. It should be true in your lives, too. With your help, we'll keep it that way.

THE WHITE HOUSE

WASHINGTON

September 4, 1995

Dear Editor:

As students, teachers, and administrators return to schools all over the country, I want to remind you of a critical battle that will take place this fall in Washington over the issue of education. To put it bluntly, our educators, students, and parents need to be aware that our nation's investments in education -- in our children's future -- are under direct attack by the Republican majority in the House.

The President is firmly committed to a comprehensive economic policy based on balancing the budget, reducing trade barriers worldwide, and creating jobs here at home. But he is convinced that to strengthen families, expand our economy, and raise the living standards for the American people, nothing is more critical to our nation's future than ensuring that all Americans have the education and skills they need.

Education has become the fundamental fault-line in the standard of living for American families. Many Americans have seen their incomes stagnate over the last 15 years; the real income of the typical family has actually declined. Yet those with the most education and training have bucked the trend. Today, the typical college graduate earns 74 percent more than a worker with only a high school degree. Studies also show that for every year of training a person gets after high school, his or her earnings rise by 6 to 12 percent. Education is the key to growth in our economy, in wages, and in our standard of living.

To allow individuals to make the most of their lives, and to provide every American the chance to realize the American Dream, the President has been fighting for better education and training, by investing in Head Start and Safe and Drug-Free Schools, by providing resources to train teachers and raise school standards, and by improving the student loan program. During the last Congress, Republicans and Democrats together enacted a historic series of initiatives to assist families, communities, schools and colleges to expand educational opportunity in America.

President Clinton has proposed to balance the budget over the next ten years. He would do so by cutting wasteful spending, streamlining programs, and ending unneeded subsidies. Yet he would preserve and increase investment in education by $40 billion over the next seven years; protect Medicaid, Medicare and the environment; and provide for a targeted tax cut that would help middle-income Americans raise their children, save for the future and pay for post-secondary education.

By contrast, there are proposals in Congress threatening to cut $36 billion from education and training to help them balance the budget in seven years and provide a huge tax cut to those who need it least. They have proposed: slashing investments in Head Start; abolishing the Goals 2000 school reforms; cutting crucial assistance to students from disadvantaged backgrounds; abolishing the Technology Learning Challenge, which leverages private money for technology in schools and communities; cutting funding for apprenticeship training in half; abolishing AmeriCorps - the heart of the President's National Service program; raising students' costs of loans by $10 billion over seven years; halting progress on the President's Direct Lending program; and denying Pell Grants to 360,000 students in 1996 alone.

These latter cuts would be particularly devastating for access to post-secondary education and training. By slashing grants and loans, we would turn back the clock on recent successes in expanding access, forcing some students to drop out and denying others the opportunity to begin their education. To achieve the level of savings they are proposing, Congress would have to raise the costs of college education by as much as $3,100 for undergraduates and as much as $9,400 for graduate students. They would not only eliminate any interest subsidy for graduate and professional students, but also hit college students with substantially higher fees--for example, eliminating the six-month grace period for interest after college or raising the origination fee that every student must pay to obtain their loans. There are also proposals to reduce and possibly eliminate the Direct Lending Program, preventing more schools from participating in this initiative, which is already saving taxpayers $6.8 billion, lowering interest rates for students, and allowing borrowers to choose flexible repayment arrangements.

I firmly believe that the American people want to balance the budget and continue to increase investments in education. The President has shown that it is possible. Nevertheless, there are those in Congress who are determined to go forward with these extreme cuts. The debate over this issue will be one of the most significant in the coming months, if not years. The future of this great nation is at stake.

Sincerely,

Leon E. Panetta
Chief of Staff

EDUCATION ALERT

INVESTING IN EDUCATION AND TRAINING VS. CUTTING EDUCATION AND TRAINING

INVESTMENTS	PRESIDENT CLINTON'S BALANCED BUDGET	REPUBLICAN CUTS
PELL GRANTS for Eligible Students	• Increases maximum award to record $2,620, reaching 200,000 more students next year. • Assistance for 800,000 more students by 2002.	• Sets maximum award at $2,440. • Eliminates eligibility for 360,000 students.
STUDENT LOANS	• Retains federal interest subsidies and six month grace period after graduation for loans to all eligible students.	• Could raise the costs of college loans by as much as $3,100 for undergraduates and as much as $9,400 for graduate students.
DIRECT LENDING Student Loan Reform	• Expands lending program which is already saving taxpayers $6.8 billion; lowers interest rates for students; and allows for flexible repayment plans.	• Could eliminate program. • Could prevent all interested schools from participating in the program.
NATIONAL SERVICE AmeriCorps	• Increases funding by $345 million next year. • Nearly 50,000 community service and college aid opportunities next year.	• Eliminates 50,000 AmeriCorps opportunities next year. • Eliminates more than 4 million other service opportunities over 7 years.
HEAD START	• Increases funding by $400 million, adding 32,000 new Head Start children next year. • Services for 50,000 more children by 2002.	• Funds Head Start $500 million less than the President's request. • Up to 230,000 children would be denied Head Start in 2002.
GOALS 2000 School Reform	• Increases funding to $750 million next year, enabling communities to help all children meet higher standards. • Helps states reform education for more than 8 million children in 17,000 schools next year.	• Eliminated.
SAFE AND DRUG-FREE SCHOOLS	• Funds at $500 million per year. • Safer, more drug-free learning environments for 39 million children in 14,575 out of 15,000 school districts.	• Cuts program by 60% to $200 million. • Deprives over 23 million students of services next year.
TITLE I Improving Basic and Advanced Skills	• Increases funding by $300 million, reducing class size, and helping as many as 300,000 more children master basic and advanced skills next year.	• Reduces funding by $1.1 billion, denying learning opportunities for 1.1 million children next year.
SUMMER JOBS	• Funds 615,000 jobs for young people next year.	• Eliminates job opportunities for almost 4 million youth over the next 7 years.
JOB TRAINING	• Increases funding by $2 billion by 2002. • 800,000 Skill Grant recipients next year.	• Cuts funding by $1.4 billion. • No training opportunities for over 500,000 dislocated workers and 84,000 adults next year.
L EDUCATION AND TRAINING	• **INCREASES EDUCATION, TRAINING, AND AID TO STUDENTS BY $40 BILLION WHILE BALANCING THE BUDGET IN 10 YEARS.**	• **CUTS EDUCATION AND TRAINING BY $36 BILLION INCLUDING $10 BILLION IN LOAN BENEFITS TO STUDENTS WHILE BALANCING THE BUDGET IN 7 YEARS.**

OMB Analysis of the President's FY 1996 Request vs. Republican Cuts Included in the House Labor/HHS/Education Appropriations Bill Passed on August 3, 1995, and the Republican Budget Resolution

PRESIDENT CLINTON SAYS EDUCATION KEY TO AMERICA'S FUTURE
Vows to Fight GOP Cuts in Education and Protect Investment in California's Families

"Cutting education in the time of global economic competition would be like cutting defense spending during the Cold War." -- President Clinton, March 14, 1995

Education and training are cornerstones of President Clinton's economic policy, designed to expand opportunities for all Americans. Now, more than ever, opportunity in the global economy depends on skills and education. Yet Republicans plan significant cuts in the very educational programs that help working families. Here is what that means to California:

- **STUDENT LOANS** President Clinton supports student loans and opposes Republican efforts to make them more expensive. Republicans want to help pay for their tax cuts for the wealthy by eliminating a grace period that allows 4.5 million students to defer interest charges while still in school. President Clinton will fight to stop Republicans from raising the costs of college and job training for 363,781 students in California. The Department of Education estimates that ending this grace period would mean that a student who borrows $17,125 over four years **would owe $3,150 more**, and have his or her monthly repayment amount increased by more than 18%.

- **DIRECT LENDING** The President wants to expand his Direct Lending program which simplifies the application process, reduces fees for students, and offers borrowers convenient repayment options, including pay-as-you-can. Direct Lending is saving taxpayers $6.8 billion in administrative expenses. The President opposes Republican efforts to help banks by capping participation in Direct Lending and preventing thousands of schools and millions of students from receiving its benefits. In the 1995-96 school year, 203 schools in California will participate in direct lending. The Republican proposal would prevent any further schools from entering the program.

- **MAKING COLLEGE AFFORDABLE** President Clinton wants to offer a tax deduction of up to $10,000 to help middle-class Americans meet the cost of education and job training. Families in California would receive approximately $3,178 million from this deduction over the next five years. The President opposes Republican efforts to cut education to pay for tax breaks for the wealthy.

- **NATIONAL SERVICE** AmeriCorps, President Clinton's service program, offers young people a hand paying for their education if they give a hand to their community. The President opposes Republican efforts to gut AmeriCorps and prevent 3,577 students in California from serving their communities.

- **GOALS 2000** The President won passage of Goals 2000 to help states and local communities train teachers and upgrade standards for their schools. Republicans call for a 40% cut in the program that would reduce support for high standards by $16,480,731 in as many as 471 schools in California.

- **SAFE AND DRUG-FREE SCHOOLS** President Clinton recognizes that safety in school is a major concern of parents, students, and teachers. Republicans want to gut a program - that 945 out of 1005 school districts in California have already implemented - that teaches students to avoid drugs and violence, and enables schools to purchase metal detectors and hire security personnel.

- **DEPARTMENT OF EDUCATION** The President believes strongly in the federal role in education. Republicans want to abolish the Department of Education.

FDCH Political Transcripts

September 6, 1995, Wednesday

TYPE: NEWS CONFERENCE

LENGTH: 1430 words

HEADLINE: BUSINESS LEADERS DISCUSS MEETING WITH PRESIDENT CLINTON REGARDING PARTNERSHIPS BETWEEN BUSINESS AND EDUCATION.; WASHINGTON, D.C.

SPEAKER:

JOE GORMAN, CHAIRMAN & CEO OF TRW, INC.
JOHN PEPPER, CHAIRMAN & CEO OF PROCTOR AND GAMBLE
LOU GERSTNER, CHAIRMAN & CEO OF IBM
OZ NELSON, CHAIRMAN & CEO OF UNITED PARCEL SERVICE
DAVID WHITWAM, CHAIRMAN, PRESIDENT & CEO OF
WHIRLPOOL CORPORATION
ALBERT HOSER, PRESIDENT & CEO OF SIEMENS COMPANY
EDWARD DONLEY, FORMER CHAIRMAN OF AIR PRODUCTS
AND CHEMICALS, INC.
WALTER ELISHA, CEO OF SPRING INDUSTRIES

BODY:

GORMAN: Yes, I've been asked to say a few words about the purpose of the meeting. Specifically we are here to discuss the funding for Goals 2000. And as you know, the House bill struck the funding to zero. We think that Goals 2000 is critically important. Far more important than the dollars involved. Important in that it provides leadership to the states. It provides incentives to the states to cause them to transformationally change themselves within their educational systems. Establish standards, establish rewards for success, penalties for failure. In short, helping a state develop its own standards for its own purposes. The leadership and incentives are in Goals 2000. Forty-seven states have availed themselves of the opportunity to participate under Goals 2000. We think it would set back educational reform efforts in this country materially if we are unable in the Senate to restore funding for Goals 2000. I've asked a few of our participating members here to make comments and I'd start with Lou Gerstner of IBM.

GERSTNER: Thank you, Joe. About a month ago, I spoke to the Governors in their semiannual meeting in Vermont. And in that talk, I said that I believe we need a fundamental revolution in American education. And, if we don't get that revolution, we will see the economic and political failure of this country. Now, at the heart of that revolution has got to be a recognition across the country that we need standards of high performance from the expectation that every child can reach and must be helped to reach those high standards. Now, we must have accountability across the system to reach those standards.

Goals 2000 is only a small portion of what I think we need. But it is a very critical portion because it is the fragile beginning of the establishment of a culture of measurement standards and accountability in our country. We must go way beyond Goals 2000. But, if we lose Goals 2000, it is an incredibly negative setback for this country. Thank you.

GORMAN: Ozzie Nelson of UPS.

NELSON: Thank you. We've been having an enjoyable conversation with the President and also other CEOs about Goals 2000 and the importance of education in this country. Of course, the goals espouse principles for which we can cause a revolution that needs to take place to improve education in this country. And, if we follow the goals of 2,000 ideas, it means that all kids will improve their learning, teachers will teach better, and that the outcomes in terms of what people learn and how they can apply it to future jobs and future living will be a plus. One of the big concerns I have is the area of measurement.

NELSON: If we don't know how well our kids are doing in schools and can't them with schools in the adjoining city, the adjoining state, and even in the adjoining countries, how do we know whether their education system is on target. So, one of the biggest problems we have with Goals 2000 right now is supporting what needs to be a measurement system that tells parents and kids how they're doing. Thank you.

GORMAN: There were two bills passed in the 103rd Congress that deal with this issue. One was Goals 2000. The other was a school to work transition program. They're both very important in this nation. They're both bipartisan in our state, Pennsylvania. Governor Casey a Democrat and I co-chaired the effort during his administration. Now, we have a Republican Governor Tom Ridge, and he and I likely co-chair it.

So, we've made a transition from one party to another in our state with no wrinkle in this effort. And I mention that because it demonstrates the bipartisan nature of it. We need the high academic standards and we need the use of technology in the education system. We will in our state and Pennsylvania carry that effort on because of the needs that are intrinsic right at home in our state, regardless of what may happen in other states in the nation.

NELSON: So much of what we do in our country to day we do, I believe, somewhat better than we've done in years past. The products are manufactured in America. The skills of our people in our manufacturing plants, I think, have improved consequentially. And in part that has been accomplished by measuring, by bench marking these endeavors, one against the other, by comparing against certain standards to see that we're improving on how we do things, particularly, as we compete all around the world.

The fact that we do not establish these kinds of standards of too many parts of our public education system, I believe leaves something to be desired. Goals 2000, I know, has very strong support within the Business Round Table, certainly from my own company. And public education in this country is key, I believe, the key to K through 12 education, key to our continued ability to compete throughout the world.

So, I'm hopeful we'll keeping funding for these programs and support of the K through 12 education throughout the United States.

(UNKNOWN): (OFF-MIKE) is willing and will be able to bring more highly paid jobs to this country but only for people and workers that are well trained, who have the sound knowledge of the sciences, of mathematics, and who can read, write proficiently. So, what we need is a well educated work force and only then we are able to maintain and expand our manufacturing facilities in this country, which we are very willing to do.

If the educational level of the American worker is not higher than the one in Mexico, and Southeast Asia the jobs will travel to the place that the worker is cheaper. Therefore, we must educate our people better to be competitive. Only then we will be able to maintain and expand our manufacturing presence in this country.

GORMAN: One final word about the importance of educational reform in general. We're convinced and have been for sometime at the national Business Round Table, that we must basically change the paradigms in terms of our public education, our institutions at every level, not higher education. We've got the best higher education system in the world. We've got one of the worst, the least competitive K through 12 education systems in the world.

And increasingly that's becoming evident. So, that's a critically, important national problem. As you know, the Constitution leaves the education, public school education up to the states. So, our efforts at the Business Round Table have been largely focused on state reform.

GORMAN: And broad coalitions are required there. We've appointed CEOs in each of the 50 states to help lead those coalitions towards the kind of transformational reform that's necessary. The federal Goals 2000 legislation which we supported -- the Business Round Table helped get passed in a bipartisan way in the 103rd Congress -- is as Lou Gerstner said a beginning, and indeed an important, critically important beginning, to all of that.

I'd be happy to respond to any questions that you might have.

QUESTION: Do you think the President wants business leaders who are traditional Republicans and have certain relationships with Republicans? Do you think that's going to be influential as the Senate starts making its decisions about...

GORMAN: Well, I think the President...I know that the President believes, as I believe, and everyone of our group here today believes, that this issue is a bipartisan issue, clearly. We treated as such and indeed, both the House and the Senate treated it as a bipartisan issue in the 103rd Congress. It should be treated so today. Unfortunately, it has become politicized. What I would hope we can do, Republicans and Democrats alike, from the business community, would be to de-politicize it and get the facts on the table so that people understand how critically important this really is. And it's a drop in the bucket in terms of the total budget reform that is required. So the President is seeking our support, yes, officially from the Business Round Table.

QUESTION: But you haven't (OFF-MIKE)?

GORMAN: I am leaving here to join the Business Round Table meeting in progress. He's had it all along. President Bush had it. When the Goals 2000 was originally announced, as you know, President Clinton was then Governor of Arkansas and one of the leading Governors in that effort. So, it was a bipartisan event at that time. And so we hope to cause it to remain so.

(UNKNOWN): Thank you very much. Thank you.

END

NOTES:
???? - Indicates Speaker Unkown
- Could not make out what was being said.
off mike - Indicates Could not make out what was being said.

LANGUAGE: ENGLISH

LOAD-DATE: September 10, 1995

The Morning Call (Allentown)

September 7, 1995, Thursday, FIFTH EDITION

SECTION: NATIONAL, Pg. A9

LENGTH: 506 words

HEADLINE: DONLEY TO HELP EFFORT TO REFORM SCHOOLS

BYLINE: PETE LEFFLER; The Morning Call

DATELINE: WASHINGTON

BODY:

President Clinton yesterday drafted eight corporate leaders -- including Allentown's Edward Donley -- in an effort to save an educational reform program with deep Lehigh Valley roots.

Goals 2000, created by Congress just two years ago, sets eight goals for America's schools to meet by the turn of the century and provides school districts with money to reach them.

But critics worry that the program will impose "politically correct" values on local educators and their pupils.

Fears of federal intrusion led New Hampshire, Montana and Virginia to forsake all grants, creating controversy.

The House last month wiped out all money for the program for the federal fiscal year that starts Oct. 1. Clinton had sought $ 750 million. Now eyes are on the Senate, which has yet to act.

U.S. Sen. Arlen Specter, R-Pa., chairs the relevant subcommittee.

"He intends to put money back into it," spokeswoman Margaret Camp said.

Program goals range from the elimination of all alcohol and drugs from schools to the graduation of 90 percent of high school students. To meet them, the law calls for the creation of model academic standards that districts can use as guidelines.

Donley, former chairman of Air Products and Chemicals, Upper Macungie Township, and co-chair of Pennsylvania 2000, said suspicions can be allayed by creating "standards that are academic in nature ... not fuzzy social attitudes."

Donley and the other businessmen who met with Clinton described Goals 2000 as just one step toward a needed overhaul of America's public school system.

"We must go way beyond Goals 2000," said Lou Gerstner, chairman and chief executive officer of IBM Corp.

Albert Hoser, president and CEO of Siemens Co., a German-based corporation with 45,000 American employees, warned that he will hire here only as long as the knowledge of the work force justifies labor costs that exceed those in less-developed nations.

Among the others in the Oval Office yesterday were John Pepper, chairman and CEO of Proctor & Gamble Co.; Oz Nelson, chairman and CEO of United Parcel Service, and David Whitwam, chairman, president and CEO of Whirlpool Corp.

Corporate chieftains, complaining that today's high school graduates too often fail rudimentary job assignments, provided the impetus several years ago for Goals 2000. Active then, Lehigh Valley business leaders and educators continue to work toward reform.

Pennsylvania school districts this year received $ 15 million in federal tax dollars under the program. The money went toward teacher training, parent centers, computer systems and links between grade schools and colleges.

Donley said the fight to improve the standards of public education will continue statewide regardless of federal action.

See also the following stories: "Call heard for schools to toughen the rules ... " by SALLY STREFF BUZBEE, AP which appeared on page A09, FIFTH EDITION And " ... but state reform plan called wrong" by C. McDOUGALL, AP which appeared on page A09, FIFTH EDITION.

LOAD-DATE: September 8, 1995