FYI
TO DPC STAFF

THE WHITE HOUSE
WASHINGTON

FEB - 8 1995

February 8, 1995

MEMORANDUM FOR SENIOR STAFF

FROM: Gene Sperling

SUBJECT: Budget Talking Points

The following is a one-pager on the President's budget designed to address some of the issues raised over the last few days.

KEY POINTS ON THE PRESIDENT'S BUDGET

February 8, 1995

The President has the best proven record on deficit reduction. The President is now proposing to **add** to the largest deficit reduction plan in history. His 1993 budget cut the deficit by $505 billion, and with the new growth in the economy that resulted, will lead to $616 billion in deficit reduction. He's now adding $81 billion in deficit reduction on top of the $616 billion. And he is cutting the Federal workforce by 272,900 employees, to its lowest level since the Kennedy Administration.

Without President Clinton's economic plan, the deficit would have reached $475 billion by the year 2000. The Reagan and Bush Administrations sent the deficit skyrocketing--quadrupling the debt and deficit in 12 years. President Clinton's leadership has brought the deficit down for three straight years for the first time since Harry Truman was President. In FY 1994, the deficit was over $100 billion lower than projected before the President's plan. It was the largest two-year drop in history.

President Clinton is honoring his commitment to cut the deficit in half. What matters most for working Americans is the deficit as a percentage of the whole economy. Even though the deficit became worse after the election, the President is still on track to cut it in half. By the end of the President's five-year plan, the deficit will be half what it was projected to be as a percent of GDP--going from 4.9 percent to 2.4 percent. That's the lowest level since 1979--before the Reagan and Bush Administrations.

Under President Clinton, the budget would be balanced--in fact, in surplus--if not for the interest from the Reagan-Bush debt. Without interest payments on the deficits created during the Reagan and Bush Administrations, the Clinton Administration would actually be running a **surplus**, with enough left over to pay for tax cuts. Except for that interest, we are now spending less than we are taking in.

The Republicans talk tough, but they don't make the tough decisions to cut the deficit. Throughout the 1980s, the Republicans talked about balanced budgets while running up the largest deficits in history. In 1993, they voted against $505 billion in deficit reduction. In 1994, they campaigned against the President's tough choices. And in 1995, they still haven't proposed the hard, specific cuts to bring the deficit down.

The Republicans haven't even proposed spending cuts to pay for the tax breaks in the "Contract." The Joint Committee on Taxation estimates that these cuts cost $700 billion over ten years. The capital gains tax cut alone costs $170 billion over ten years--and 70% goes to taxpayers earning over $100,000.

President Clinton remains committed to entitlement reform--in the context of health care reform. President Clinton proved his commitment to keeping entitlement costs under control in 1993, when he cut nearly $100 billion from entitlement spending. The rate of growth in Medicare and Medicaid costs has now decreased. As he said throughout 1994, the only way to achieve lasting cuts in the cost of entitlements is to reform the health care system, and the President looks forward to working with Republicans to achieve health care reform. Simply slashing Medicare--as many Republicans propose--will cause cost-shifting to the private sector, with higher costs for small businesses and higher premiums for middle-class families.

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SUBJECT: Middle Class Bill of Rights Talking Points

We have been working in a coordinated effort with members of the Domestic Policy Council, Treasury, Labor and OMB on the following:

a.) Summary One-Pager on MBR.

b.) One-Pager on Education Deduction.

c.) One-Pager on IRA.

d.) One-Pager on $500 Child Tax Credit.

e.) One-Pager on G.I. Bill of Rights for Workers.

We also have background papers and Qs&As.

THE MIDDLE CLASS BILL OF RIGHTS

THE PRESIDENT'S COMPREHENSIVE PLAN TO RAISE MIDDLE CLASS STANDARDS OF LIVING

A Successful Economic Plan: The President's economic plan is already cutting the deficit by $600 billion -- nearly $10,000 per family. It's also increasing investment in technology, education, and training--with new college loan, national service, school reform , and School-to-Work efforts. The President fought for NAFTA and GATT, bringing two of the best years for opening markets in history. Over 15 million working families received a tax break through his EITC, and 90 percent of small businesses are now eligible for tax relief.

The Economy Has Responded with the Best Combination of Growth, Job Creation and Low Inflation in 30 Years: The President's economic plan helped solidify the recovery, create nearly 6 million jobs, and hold inflation down.

Still, the 15-Year Pattern of Stagnant Wages Continues for Too Many Middle-Class Families: Only the top 20 percent of households have seen their incomes rise since 1978.

THE NEXT STEP: THE MIDDLE CLASS BILL OF RIGHTS

To ensure that all Americans share in the recovery and to help families invest in the future, the President is calling for a **Middle Class Bill of Rights**. It's based on **three principles**:

1. **Targeted to the Middle Class:** Unlike the Republican plan, which mostly benefits families earning over $100,000, the President targets benefits to middle-class families.

2. **Rewards Investment in the Future:** The President's plan rewards families who invest in the future -- especially education and skills for themselves and their children.

3. **Paid For By Specific Spending Cuts:** The President's plan pays for tax cuts with specific spending cuts--adding to the $616 billion in deficit reduction following his 1993 plan with another $81 billion now.

THE MIDDLE CLASS BILL OF RIGHTS

1. **Tax Credit to Help Working Families Raise Their Children:** Families earning up to $60,000 will receive a $500 tax credit for each child under 13.

2. **Education and Job Training Tax Deduction to Help Americans Get the Skills They Need:** Tuition will be fully deductible up to $10,000 for families earning up to $100,000.

3. **Expanded IRA to Help Working Americans Save for the Future:** Families earning up to $100,000 will be able to save up to $2,000 a year tax-free per earner--and use the money for education, a first home, or medical expenses, in addition to retirement.

4. **A New G.I. Bill to Empower American Workers:** The President will collapse 70 federal education and training programs and offer low-skill or laid-off workers a Skill Grant of up to $2,620 per year to choose the training that works for them.

EDUCATION AND JOB TRAINING TAX DEDUCTION

HELP MIDDLE-CLASS AMERICANS GET THE SKILLS THEY NEED

The President proposes making tuition for college, community college, technical school, graduate school and job-training fully deductible up to $10,000. The deduction will be fully available to families earning up to $100,000, and phased out at $120,000.

BROADEN OUR MIDDLE CLASS AND NARROW THE GAPS BETWEEN US

Each year of college or job training beyond high school increases average future earnings by 6 to 12 percent. And while workers with the right skills have seen their incomes rise over the last 15 years, paychecks for everyone else have declined.

STOP RISING TUITION FROM CRUSHING MIDDLE-CLASS FAMILIES

Wealthy students can afford higher education and lower-income students receive financial aid. The middle-class gets squeezed as college costs rise. Between 1981 and 1991, average college tuition rose more than 130 percent--compared to about 50 percent inflation over that period.

OFFER AN INCENTIVE FOR EDUCATION SIMILAR TO BUSINESS INVESTMENT

The tax code already encourages business investments. It's time to create the same incentive for families to make the best investment they can make: education.

MILLIONS OF WORKING FAMILIES WOULD GET TAX RELIEF

Twelve million students would benefit from the deduction, over 80 percent of them with incomes less than $75,000.

FAMILIES DON'T NEED TO ITEMIZE TO GET THE DEDUCTION

The deduction will be "above the line"--allowed in determining adjusted gross income--so middle-class families that don't itemize will still get the tax break.

TAX BREAKS WON'T TRIGGER TUITION INCREASES

Little evidence links higher federal aid with higher tuitions: in the 1980s, education aid virtually froze while tuitions jumped; in the last two years, President Clinton expanded student aid and tuition increases slowed. With 7,500 schools competing for students today, schools that try to cash in by raising tuition will lose students--and money.

PART OF THE PRESIDENT'S COMMITMENT TO EXPAND CHOICE AND ACCESS

The President is already implementing Individual Education Accounts to make more affordable student loans available to every American and save taxpayers billions of dollars. Convenient "pay-as-you-can" options enable individuals to repay the investment as their earnings permit. In addition, the President is proposing to raise Pell Grants to $2600 and extend Skill Grants to laid-off and low-wage workers who usually can't take full advantage of the education and training tax deduction.

HELPING MIDDLE-CLASS FAMILIES: AN EXAMPLE

For a family with a $50,000 income spending $10,000 to send a child to college and improve skills for a spouse, the tax deduction would be worth $1,500--a 31% tax cut.

EXPANDED IRA

HELP WORKING AMERICANS SAVE FOR THEIR FUTURE

The President's proposal would enable more middle-class families to save in two ways:

- First, he would **double the income thresholds for tax deductible IRAs**: eligibility would now be phased out for couples with incomes between $80,000 and $100,000.
- Second, President Clinton would **allow Americans to withdraw money from IRAs without penalty to pay for education and training, a first home, or medical expenses.**

EXPANDING IRAs WILL INCREASE PRIVATE SAVINGS

Private savings are key to creating good jobs and raising incomes in the long-run. Yet our private savings rate has declined from 8.1 percent of GDP in the 1970s to 5.1 percent in the 1990s. Several empirical studies have shown that expanded IRAs can increase private savings--and the President's proposal will do so in three ways:

- **Dramatically increase the number of families eligible for tax-free IRAs**, enabling middle-income families now putting away less than they'd like to save more, tax-free.
- **Giving families more incentives to save** by allowing them to use savings for purposes other than retirement, like paying for education or buying a home.
- **Increasing awareness of IRAs**, because as more people are eligible for IRAs, banks will promote them more, and more people will decide to save.

ANOTHER WAY TO HELP AMERICANS PAY FOR COLLEGE OR JOB TRAINING

Middle-class Americans will be able to use IRAs to pay for education without penalty. Together with the education tax break and the G.I. Bill for Workers, it's another way that President Clinton is helping Americans to invest in their future.

HELP A FAMILY BUY A HOME

Families will now be able to save tax-free in an IRA and then use the money without penalty to buy a first home--or help a child buy one.

MORE CHOICES FOR MIDDLE-CLASS FAMILIES

The President's plan allows families to take the tax breaks from IRAs either when they deposit money or when they withdraw it. In contrast, the Republican plan requires the deductions at the time of withdrawal. And President Clinton allows withdrawals without penalty for more reasons--such as care of an elderly parent or unemployment.

TAX RELIEF TARGETED AT THE MIDDLE CLASS, NOT THE WEALTHIEST

President Clinton's proposal is targeted at those who have seen their incomes stagnate over the last 15 years--middle-class families with incomes under $100,000. The Republicans' "Contract with America" offers them fewer options but offers a costly tax break to people earning as much as $250,000--people who are already saving.

HELPING MIDDLE-CLASS FAMILIES: AN EXAMPLE

A two-earner couple has a $55,000 income and is expecting a child. If they want to begin saving for the child's education, each working parent can put $2,000 in the IRA --and save $1,120 in taxes, a 15% cut.

$500 CHILD TAX CREDIT

GIVE TAX RELIEF TO MIDDLE-CLASS FAMILIES

President Clinton wants to give a $500 tax credit to families for each child under age 13. The credit will be fully available to families earning up to $60,000 and phased out at $75,000.

HELP RESTORE THE AMERICAN DREAM

Middle class families who work hard and play by the rules aren't getting ahead: they're getting squeezed. The median family earned less in 1992 than in 1978.

THE COSTS OF RAISING CHILDREN CONTINUE TO RISE

For middle-class families, the costs of health care and education are rising faster than inflation. In 1990, the average middle-income family with children in daycare or afterschool care spent $3,000 on day care alone.

RESTORE FAMILIES' ERODED PERSONAL EXEMPTION

In 1950, the personal exemption was worth $3,800 in 1995 dollars. Today, it's just $2,500--a 34 percent decline. President Clinton wants to restore the value of the personal exemption for the people who need it most--families with young children.

FOCUS RELIEF ON THE MIDDLE CLASS, NOT THE WEALTHY

President Clinton gives tax relief to families with incomes below $75,000--the middle class that's been hurt the last 15 years. In contrast, the Republican Contract with America offers a child tax credit to families with incomes up to $250,000--including some of the wealthiest 1 percent of Americans.

TARGET RELIEF WHERE WORKING FAMILIES NEED IT MOST

The tax credit goes to the families with the greatest needs, those with children under 13 who may require child care or afterschool care. For families with older children, President Clinton has proposed a tax deduction for education expenses up to $10,000. And for families earning less than $27,000, he has already expanded the Earned Income Tax Credit--offering an average tax cut of $1,000 to 15 million families.

HELPING MIDDLE-CLASS FAMILIES: AN EXAMPLE

A family of four with two working parents, two children under 12, and a combined income of $50,000 would receive a tax credit worth $1,000-- a tax cut of about 20 percent.

A NEW G.I. BILL FOR AMERICA'S WORKERS

FROM FEEDING BUREAUCRACIES TO EMPOWERING INDIVIDUALS

- **Collapse some 70 Federal programs** for education and job training
- **Put the power to learn in workers' hands**-- offering low-income and unemployed workers Skill Grants for education and training up to $2,620 per year, and Individual Education Accounts to get low-cost loans and repay them on a flexible schedule.

EMPOWERING WORKERS DIRECTLY

Instead of just shifting money from a federal bureaucracy to a state bureaucracy, the President consolidates programs and empowers workers directly with Skill Grants--so they can choose the quality training and education they want, where and when they want it.

LEANER GOVERNMENT

The current maze of job training programs wastes money and doesn't get the job done. The President will replace some 70 separate programs with one integrated system.

STATE FLEXIBILITY

The President's proposal enables states to work with communities, schools, and the private sector to tailor information systems, job search assistance, and on-the-job training to meet local goals. Most federal rules dictating procedures will be wiped out.

GOOD INFORMATION TO GUIDE GOOD CHOICES

The proposal encourages States and the private sector to develop a system of One-Stop Career Centers or other information networks where workers get access to real job search help and reliable information on jobs and the records of training institutions.

ACCOUNTABILITY

For the first time, training programs will have to pass the same test as the private sector: meet your customers' needs or lose business. Choice, competition, and good information will empower individuals to pick providers who deliver. And performance standards for training providers will cut off the frauds and the incompetents.

PRIVATE SECTOR PARTNERSHIP

The President's proposal isn't about government. It's about jobs, so the private sector has a central role. Business and labor will be full partners in designing new systems so that workers and education providers know what skills employers will pay for. New awards will recognize excellence in creating workplaces that reward worker skills.

PATHS FROM SCHOOL TO WORK FOR YOUNG PEOPLE

This initiative will fold federal training programs for young people into the school-to-work movement underway at the state and local level. Young people can look forward to clearer paths to new skills and better jobs.

HELPING WORKING AMERICANS: AN EXAMPLE

When a worker is laid off, he becomes eligible for a Skill Grant. He can go to a One-Stop Career Center to learn about the community college and job training programs nearby and study their success records in detail. Then he can choose the program with the best placement record in a field that interests him, and use the Skill Grant to pay for it. The worker will learn a new trade, and at the end of the program, receive job search assistance with area employers.