THE WHITE HOUSE

WASHINGTON

January 18, 1995

MEMORANDUM FOR ETR WORKING GROUP MEMBERS

FROM: **Bill Galston** WAG
Paul Dimond PRD

SUBJECT: **Update on ETR sections of the President's Middle Class Bill of Rights**

As you know, last month the President launched his Middle Class Bill of Rights a key point of which is designed to reinvent the system of lifelong learning of new skills for better jobs. This initiative revolves around a series of education and training proposals that originated with the ETR Working Group. The vision that our group set out in its work over the last 11 months has entered a new stage of development, and I think we should all take pride in what we have done so far.

It is likely that we will be called upon over the next year to help support this important initiative. In this connection, we thought it would be helpful to you to have some additional background information on this initiative. We have attached three documents for your review. The first is a copy of the President's speech on the Middle Class Bill of Rights that he gave last Tuesday in Galesburg, Illinois. The second is a four-page summary of the major provisions in the Middle Class Bill of Rights. The third is a compilation of questions and answers that go into more detail on the components of the President's plan.

Let us also bring you up to speed on the Technology Learning Challenge (TLC) that came out of the ETR seminar on DoD learning technologies hosted by Deputy Secretary Deutch last July. The Challenge Grant portion of the TLC, which will play a major supporting role in the Middle Class Bill of Rights initiative, was incorporated into last fall's reauthorization of the Elementary and Secondary Education Act. Congress appropriated $27 million in FY 1995 to the Department of Education to set up an Interagency Technology Office (ITO) and run the Challenge Grant Program. The Challenge Grant Program will be formally announced sometime in February. The ITO will also be the lead point for the Committee on Education and Training's efforts to coordinate Federal research and development spending on educational technology. Finally, the TLC has put into motion a process by which a number of the major Federal education and training programs will begin to promote the use of educational technologies in their program areas.

As you can see, the TLC process that the ETR set in motion last July is now in full swing. Thank you all for your hard work in all of these areas. We look forward to continuing to work with you in the year ahead. Please do not hesitate to call if you have any questions.

President William J. Clinton
Remarks at Carl Sandburg Community College
Galesburg, Illinois
January 10, 1994

[**Acknowledgments**: Dr. Don Crist, Carl Sandburg Community College President (introducing you); Galesburg Mayor Fred Kimble; Congressmen Lane Evans and Glenn Poshard; Secretaries Reich and Riley.]

I am very happy, and proud, to be here today. I am happy you had the opportunity to benefit from the programs at Carl Sandburg Community College. I am proud you have taken the responsibility to make the most of those opportunities: working hard in your studies, and in your jobs.

I'm especially glad to be in a place so steeped in the history of our country. The Underground Railroad came through Galesburg. Over 135 years ago, Abraham Lincoln and Stephen Douglas met here for one of their famous debates. After those debates, Douglas defeated Lincoln in their race for the Senate. I'm reminded today, as I have been several times over the last few months, that Lincoln said his defeat hurt too much to laugh and he was too old to cry, but it was a slip and not a fall.

I've been told that Lincoln spoke for an hour and a half here at Galesburg -- without any notes. It's a great day today, but I'll try to restrain myself.

Those debates were about the proper role of our government. About whether government has any role in helping people deal with the fundamental problems of the day -- or if people should be left to deal with them entirely on their own. In 1858, the issue was slavery. Lincoln believed that the national government <u>had</u> to play a role -- because the issue was about our essential makeup and direction as a nation. But Lincoln, the father of the Republican Party -- like Thomas Jefferson, the father of today's other great political party -- believed that the most important force in America was not government, but what private citizens could do in their private lives.

They both believed that government's role was to establish the laws that set the boundaries for individual action. And they believed the Constitution left us enough flexibility so government could meet the challenges of changing times in ways that wouldn't -- or couldn't -- be done otherwise.

That's why Galesburg, during <u>this</u> time of great change and uncertainty, is such a fitting place to carry on the great debate of <u>our</u> times. We are in a great crossing from the industrial age to the information age -- a crossing as perilous and full of opportunity as any faced by those who have gone before. Our challenge is to keep the American Dream alive for all Americans as we move into the next century. To help every American who is willing to work hard and play by the rules build a strong future.

We face enormous hurdles. Millions and millions of Americans are working harder

for less. From 1950 to 1978, the income of all Americans rose together. But from 1979 to 1993, the income of the top 20% grew significantly, while the income of the other 80% of America barely grew at all or dropped. Half of all Americans are living on less money than they did fifteen years ago. Here's the problem: Rapid technology growth and expanding global competition have kept the income of Americans without a college education stagnant for about twenty years. A male college graduate today earns 83% more than a man with only a high-school degree.

I ran for President to solve these problems -- I don't want my daughter's generation to be the first in our history to do worse than its parents. Everything I have done and everything I propose to do is built around three principles to make what has always worked, work again.

First, we are building a new economic strategy to enable the American people to compete and win in the 21st century. Our strategy requires government to act as a partner with the private sector, opening up opportunity. And that's what we've done: cutting the deficit by historic amounts and creating more trade opportunities than at any time in a generation. We're removing obstacles around the world -- passing NAFTA and GATT and opening big emerging markets in Asia and Latin America. We're removing obstacles here at home: cutting regulations on things like banking and trucking. And the result is five and a half million new jobs since I took office -- almost all of them in the private sector, and many that are high-wage.

Second, we are building what I called a New Covenant during the Presidential election. It was then, and it remains, my contract with America. It's about more than cutting taxes. It's about emphasizing rights and responsibilities. Real security comes when government creates opportunity for all Americans, and individuals and communities take the responsibility to make the most of it. That's what our Crime Bill is all about. That's what my proposal to end welfare as we know it is all about.

And that's why our Administration, with bipartisan support, has pursued the most far-reaching education agenda in a generation. We have dramatically expanded Head Start. We have set challenging standards for our nation's schools. We have forged new partnerships to help students who don't go to college learn the skills they need to get high-wage jobs. We have made college loans more affordable. And our National Service program, Americorps, is the embodiment of this idea. We will help Americans go to college who take the responsibility to help their country.

Third, we are building a new kind of government -- smaller, more efficient, and better targeted to meet the demands of new times. We must take government out of the grip of the special interests and put the American people back in control. That's what our Reinventing Government program is all about -- cutting the bureaucracy to its smallest size in thirty years. But at the same time we're making it work better for you. When floods racked Illinois, the Federal Emergency Management Administration, long a source of problems and ridicule, was on the scene and made a big difference.

But everything we've done is not enough. That's why I proposed the Middle Class Bill of Rights: to help bridge the gap between working Americans who have the skills they need to compete and those who don't. Fifty years ago, the G.I. Bill of Rights helped to transform a war-time economy into the most productive peacetime economy in history. The Middle Class Bill of Rights is four new ideas to help middle class Americans move into the next century with the same fair shot at the American Dream enjoyed by their parents and grandparents.

First, for families with incomes up to $120,000, you'll have a tax deduction for up to $10,000 of tuition for all education after high school: college, community college, graduate school, professional school, vocational education or worker training. Second, if your family makes $75,000 a year or less, you'll receive a tax cut phased up to $500 for every child under 13. Third, if your family makes less than $100,000 a year, you'll be able to put $2,000 a year, tax-free, into an individual retirement account. But you'll also be able to withdraw that money, tax-free, for education, health care, a first home, or the care of an elderly parent. Finally, the Middle Class Bill of Rights will take the Billions of dollars government spends on job training and make that money directly available to working Americans -- to spend as they choose when they're training for a new or better job.

The Middle Class Bill of Rights is based on the same three principles I talked about earlier. It will help people meet the challenges of the new economy -- because in this economy, what you earn depends upon what you learn. It reinforces the New Covenant by empowering people to help themselves -- providing opportunity but demanding responsibility. It's about creating a new government: consolidating, streamlining, and eliminating. And the great thing about the Middle Class Bill of Rights is that it's open to everyone who needs it, no matter their region, race, or position on divisive issues -- as long as they're willing to work hard to get ahead.

The education, training, and reemployment initiative in the Middle Class Bill of Rights consolidates the confusing tangle of federal training programs. It empowers workers by putting resources and information directly in their hands. And it shifts control away from Washington to communities, where local priorities are best understood.

The current federal training system is a dizzying maze of programs that too often duplicate services and waste taxpayer money. We don't need new training programs -- this country has a wealth of high quality technical schools, community colleges, private programs, and universities where people can learn the skills they need. Our job is to make sure that you can take advantage of them.

I am proposing to eliminate over 50 government programs. I want to use that money to create individual Skill Grants for laid-off or low-income workers so you can spend the money where <u>you</u> choose. I want to establish One-Stop Centers around the country so you have the information about jobs and the skills they require to make good choices for yourself. At the same place, you should be able to learn about available training programs and find information to help you judge their quality.

Under our proposal, if you went to the local One-Stop Center, you could find out about jobs opening up at Maytag because of the new $164 Million retooling project. Then you could figure out the best place to get the skills you need to qualify for them. I suspect you might settle on a superb institution called Carl Sandburg Community College with an extraordinary job placement rate of over 94% -- at an average wage of almost $12 an hour.

The Middle Class Bill of Rights will create opportunity for all Americans. That is my simple test for every policy that comes before me: Does it advance the interests of average American families? Does it promote their values and build their future? If it passes that test, I'll support it. If it doesn't, I won't.

Beginning here in Galesburg, Lincoln and Douglas took on a new tone in their debates, addressing matters of principle. I hope that back in Washington, Republicans and Democrats can take on a new tone as well -- exchanging partisan bickering for bipartisan progress, working together to restore the American Dream. We've seen how people in Washington can obstruct progress for partisan gain. Now we must prove that we can work together to keep our country moving forward -- for America's gain.

That is my dream. I am struck by one line Carl Sandburg wrote over seventy years ago, in a poem inspired by the Washington Monument: "Nothing happens unless first a dream."

The enduring message of the Washington Monument inspires <u>me</u> every day: If we work together, if we combine vision and leadership with the courage to make hard choices and the determination to see them through, we can make our dreams come true.

God bless you all.

THE MIDDLE CLASS BILL OF RIGHTS

"For too long, too many Americans have worked longer for stagnant wages and less security...[E]ven though the economic statistics are moving up, most of our living standards are not ... More jobs aren't enough. We have to raise incomes."

President Clinton, Address to the Nation, December 15, 1994

The Challenge. Working Americans are riding a roller-coaster of economic change. New technologies, global competition, and an increasingly integrated world economy have been reshaping the industrial landscape. While some workers are prospering in the new economy, the living standards of average American families have been stagnating for a generation. Compared to twenty years ago, many Americans are working longer hours for lower pay. For much of our middle class, the American Dream is under siege. Restoring that dream--the hope of a better future for our families and our children--is our most urgent challenge.

The Beginnings of Change. In 1993, President Clinton proposed a new economic direction for America. Two years later, the United States has created 5.6 million new jobs, 92% in the private sector, with more good jobs than in the previous five years combined, and with the first 12-month increase in manufacturing jobs since 1978. Our country has reduced the national unemployment rate from 7% to 5.4% with the lowest rate of inflation in twenty-five years, so that the "Misery Index"--the combined measure of unemployment and inflation--is at its lowest level since 1972. It has reversed the flow of federal red ink by reducing the annual budget deficit for three years in a row. It has signed new trade agreements to reduce the tariffs paid by American consumers at home and American producers abroad, and to tear down barriers to American-made goods and services all around the world. And it is leading the world in the productivity and competitiveness of its firms and workers.

The Opportunity. The strong evidence that links education and training with higher earnings and better jobs points the way to build a better future for all Americans. As the President noted in his Address, "Education...has a bigger impact on earnings and job security than ever before....Every American needs the skills necessary to prosper in the new economy." A strong bipartisan consensus in the last Congress has already spurred significant steps toward building the skills and future earning power of the children and students of working Americans, including major new investments in education. The next step is the Middle Class Bill of Rights, which will empower America's workers to acquire new skills, obtain better jobs, and to earn higher wages and living standards for themselves and their families.

As the President observed in his Address, "Fifty years ago, an American president proposed the G.I. Bill of Rights, to help returning veterans from World War II go to college, buy a home and raise their children. That built this country." The G.I. Bill led to a generation of prosperity by putting learning resources directly in the hands of ordinary Americans. The returning veterans turned their new skills into the higher productivity, rising wages, and soaring living standards that opened the door into the middle class for tens of millions of Americans.

The President's Middle Class Bill of Rights will provide today's aspiring workers and job seekers the same kind of opportunity. Like the G.I. Bill, it puts resources directly in the hands of our people so that each individual will have a fair chance to learn the skills needed to build a better future.

1. **Education and training tax deductions** will help working Americans pay for building new skills that lead most directly to better jobs and wages. Deductions of up to $10,000 per year for families making up to $120,000 per year will be phased in for tuition and costs for college, community college, graduate schools, technical schools, and worker retraining.

2. **Tax credits for families with children** of $500 per child under 13 will be phased in. This will expand the budgets of middle class families to invest as they see fit.

3. **Expanded IRAs** will enable working families making up to $100,000 per year to save $2,000 per year from current earnings, tax-free, and to invest these funds--without penalty--when they want to build new skills or buy a first home, as well as providing for retirement or paying medical expenses.

4. **A comprehensive reform of the employment and training system** will help unemployed workers and low-income adults and youth --many of whom will not be able to benefit from the tax incentives--find new and better jobs, learn necessary skills, and obtain **Skill Grants** with which to make their own decisions about post-secondary training and education. Student loans through Individual Education Accounts will further ensure that <u>all</u> Americans have the opportunity to finance learning new skills where and when they choose and to repay these direct loans at the pace their future income allows.

THE MIDDLE CLASS BILL OF RIGHT: SKILL GRANTS

As a key component of the Middle Class Bill of Rights, the President proposes to totally restructure the existing system of employment and training. Seven key principles guide this change:

1. **Individual Empowerment.** Individuals should be empowered with resources so they can choose for themselves what skills they need to boost their earning power. The President's proposal puts buying power directly into individuals' hands, so they can get skills at the time, at the place, and in the way that makes sense for them:

   o Unemployed and low-income workers can get <u>Skill Grants</u> worth up to $2,620 per year, for up to two years, that they can use as they choose for learning new skills.

   o Both tuition tax breaks and Skill Grants will be supplemented by <u>Individual Education Accounts</u>. These low-cost loans will be available to any person, with flexible repayment options including "pay as you can," to enable <u>every</u> American to invest in their skills and repay at the pace their future income allows.

2. **Leaner Government.** The President's proposal <u>eliminates over 50 separate programs</u>, replacing them with an integrated system that minimizes red tape and maximizes individual choice.

3. **State Flexibility.** Washington doesn't have all the answers. States should have the flexibility to reflect local conditions and respect local priorities. The President's proposal gives states the freedom to tailor training programs and delivery systems as they see fit, including expanding on-the-job training in cooperation with firms and workers. Most federal rules dictating administrative procedures will be wiped out. States will be able to apply for waivers from the few rules that remain, and to plow the savings back into additional training.

4. **Good Information to Guide Choices.** A skill-building system rooted in individual choice requires good data to inform decisions about what skills to get and where to learn them. Reforms woven throughout the initiative--and centered on the networks of One-Stop Career Centers already under construction by the States--will give workers and job seekers access to reliable information on jobs, careers, and the success records of training institutions, so that they can make good choices to improve their futures.

5. **Accountability.** Too often today, training providers aren't held accountable for results. The President's initiative will address this by emphasizing individual choice and competition so that individuals can pick providers who deliver; by providing good performance data so people know what training pays off; and by setting quality standards for training providers to cut off the frauds and the incompetents.

6. **Private-Sector Partnership.** At base, the President's proposal isn't about government. It's about jobs, and that means the private sector has a central role. Business and labor will be full partners in designing and running training, job-search, and information services. The most competitive and productive firms are also leaders in upgrading the skills of their workforce; new awards will recognize excellence in creating workplaces that expand opportunity by capitalizing on and rewarding worker skills.

7. **Paths from School to Work.** Preparing America's youth for the world of work and a career of learning and applying new skills to more rewarding jobs is a vital task. This initiative will fold federal employment and training programs, including vocational education, for young people into the school-to-work movement already underway in every state as designed and developed by the states, local communities and the private sector. As with the new private sector partnership, good information, accountability and state flexibility for adults, this new approach will provide clearer paths to new skills and better jobs for youth.

The President's Middle Class Bill of Rights can arm every American worker with the tools to learn new skills, find good jobs and earn higher wages at more rewarding work. Like the G.I. Bill, the President's proposal will put the opportunity to learn and apply new skills directly in the hands of the people. Now, as then, it will be up to individual Americans to accept personal responsibility, to make the most of this opportunity to build a better life for themselves and their families.

> "The Middle Class Bill of Rights will further our common mission as Americans -- to expand middle class incomes and opportunities, to promote the values of work and family, responsibility and community. And to help Americans compete and win in the new American economy."
>
> President Clinton, Radio Address, December 18, 1994

The President's Proposal for a Middle-Class Bill of Rights

Questions and Answers

Q. What is the President proposing in the Middle Class Bill of Rights?

A. Putting resources and information directly in the hands of hard-working American families so that they can make their own choices about how, when and where to invest in learning the skills they need to earn higher wages at better jobs. Just as with the G.I. Bill of Rights fifty years ago, this will empower individuals to learn and apply new skills to earn higher wages for themselves and higher living standards for their families in a new American economy. Just as with the G.I. Bill, ordinary Americans will take responsibility for restoring the American Dream of middle class prosperity now and pass it on to our children for the next generation.

Q. In what forms will the proposal put learning resources in the hands of individuals to build skills as, when and where they see fit?

A. **Education and training tax deductions** will lower the cost of building skills, and favor the kind of investment that leads most directly to better wages.

Expanded IRAs will let workers save from current earnings on a tax-free basis so they can invest -- without penalty -- when they want in the future to build new skills or buy a first home, as well as to pay for medical expenses and to provide for retirement.

Laid-off workers and low-wage workers, who often have too little income to benefit from tax incentives, can get individual **Skill Grants**, to use as they choose. The scholarships will be big enough to cover tuition and fees at a typical community college for up to two years.

<u>All</u> workers can get convenient access to **Individual Education Accounts** to finance the education and training they want -- with the option to repay the loans at the pace their future income allows--so they can spread the cost of skill investments over the course of their careers.

Q. How long has the stagnation in wages and living standards plagued the country?

A. From 1973 to 1993 average real compensation has basically stagnated, increasing less than 0.5% per year, compared to 2.8% per year in the prior generation from 1947 to 1972. If real wages had continued to grow over the last twenty years at the rate during the first generation following World War II, the average family's income in 1993 would have been $59,300 rather than $37,000.

Just as significant, the stagnation in wages over the past twenty years has fallen harder on the middle of the wage distribution than at the top: median real hourly wages, that

earned by workers at the middle of the wage distribution, fell by 7.5 percent. This occurred because of the dramatic shift of the rewards in the labor market against those without education, training and skills. For example, wages of male high school graduates fell 20 percent from 1979 to 1993, while the wages of male high school dropouts fell by 27 percent. Today, a male college graduate earns 83% more than a man with only a high school degree, compared to only a 50% premium less than generation ago.

This stagnation in wages for most Americans has taken a particularly hard toll on family income over the last 15 years. After a generation from 1950 through 1978 when the income of all American families rose smartly together -- approximately doubling for each quintile of the income distribution -- incomes for 80% of American families either stagnated or fell from 1979 to 1993. Today, half of all Americans are living on less money they did 15 years ago.

Q. What other evidence is there that education, training and skills matter and, just as important, can be learned?

A. Skill investments pay off for the individual: Each year of post-secondary education or training increases a worker's subsequent earning power by six to twelve percent. Education and training to learn and apply new skills today -- even more than at the time of the G.I. Bill fifty years ago -- is the form of personal investment that has the strongest, most direct link to earning higher wages and middle-class living standards.

Q. How does the tax deductibility proposal work?

A. Americans could deduct from their taxable income the money they spend on post-secondary education for themselves or their families. Starting at $5,000 in 1996 and rising to $10,000 of education spending will be deductible each year. Taxpayers would not have to itemize their deductions to get the education and training deduction. And education expenses would not be subject to the 2-percent "floor" on miscellaneous deductions. To focus the tax cut on the middle class, deductibility is gradually phased out over the income range of $100,000 to $120,000 for a couple filing jointly, and between $70,000 and $90,000 for individuals.

Q. How does this implement the strategy to put resources directly into the hands of people to invest in learning and applying new skills to earn higher wages at better jobs?

A. By reducing the after-tax cost of education expenses for individuals and families, the tax deduction rewards and encourages investments in education and training while lowering tax burdens for middle-income taxpayers.

Q. How big is this tax cut for a family?

A. The size of the tax cut depends on how much a family spends on education and

training, their income, their marginal tax rate, and other items. For most families, it will be either 15 percent or 28 percent of total spending on education and training. Here's one example. Consider a typical four-person family with $50,000 in income, $7,500 in other deductions (for mortgage interest and state and local taxes), and the normal $10,000 in personal exemptions, with a marginal tax rate of 15 percent. Suppose both kids are in college, the parents are also investing in learning new skills, and the family spends the maximum of $10,000 on tuition and fees. Under current law, that family would pay $4,875 in federal income taxes. If the President's proposal is fully implemented, that family will pay $3,375 instead--a 31 percent reduction in the tax bill.

Q. Would all education and training expenses--even if they're recreational or frivolous--be deductible?

A. No. Only tuition and fees directly related to instruction will be deductible. Expenses like meals, lodging, or transportation will not be deductible. Nor will "recreational" education involving sports, games, or hobbies be eligible for deductions--unless, of course, such education is part of a degree program (in sports therapy or rehabilitation, for example) or relates to the student's current profession.

Q. Will this proposal really increase education and training, or just give people tax breaks for doing what they planned to do anyway?

A. Of course, many people would still get education for themselves or their children whether or not there's a tax advantage. But lowering the cost of education and training will lead to a substantial increase in skill investments. Conservative estimates, based on the best available research on the impact of cost changes on college enrollment, point to about half a million additional students each year as a result of deductibility. Students from low and moderate-income families tend to react most strongly to changes in the overall cost of education, so the biggest effect will probably be on the proportion of lower middle class students going on to (and finishing) post-secondary education. Every extra high-school graduate who goes on to post-secondary training as a result of this tax code change--whether or not they graduate--can expect to add an additional $400,000 or more to the economy over the course of a career, compared with students who stop at high school.

Q. Doesn't this tax cut only help a small number of families? Won't the rich benefit more than the middle class?

A. No. Over 17 million people get post-secondary education each year. An even larger number are planning to invest in education and training for themselves or their families. (In 1992, about 60 percent of high school graduates continued on to some form of post-secondary education.) Over 90 percent of post-secondary students have family incomes below $75,000 per year (based on 1990 data.) The deduction will be phased out gradually for upper-income families, focussing the tax cut on the middle class.

Q. What is the size of the individual Skill Grant?

A. Up to $2620 per year -- enough to pay the costs of tuition, fees, books and expenses at most community colleges and technical schools. The President proposes to raise the level of Pell Grants to the same level in order to encourage students from low and moderate income families to pursue higher education.

Q. Who will be eligible for the individual Skill Grants?

A. Individual Skill Grants will be available to workers who are dislocated and to low-income workers. Laid-off workers will be eligible for individual Skill Grants upon confirming evidence, usually supplied as a matter of course by their previous employer, that they have been permanently laid-off. For low- income workers, eligibility will be basically the same as for Pell Grants.

Q. Who is eligible for loans from the Individual Education Accounts?

A. Every one. There is no age or income limit. Each individual can qualify for these student loans to cover costs, fees and expense at eligible post-secondary education and training institutions; and every individual can choose to repay through a variety of options, including a "pay-as-you-can" approach that enables every American to invest in acquiring new skills and to repay at the pace their future income allows.

Q. How many persons do you estimate may take advantage of the new labor market services, individual Skill Grants and Individual Education Accounts in FY96?

A. In part the answer depends on the extent to which individuals choose to apply these resources to learn new skills. At this time our best estimate is that approximately 1.7 million low-wage workers and over 300,000 thousand dislocated workers will use the Individual Skill Grants, while another 2.8 million students from low and moderate income families will use Pell Grants for college and another 5.5 million students of all ages may use loans from the Individual Education Account to finance their post-secondary education and training. As individuals can get Skill Grants and make use of loans from their Individual Education Accounts at the same time, these rough estimates are not additive. In addition, all Americans will have more convenient access to labor market services and information so that they can mange their own careers to build skills, earnings power and more rewarding careers as they see fit to get ahead.

Q. How can we be sure all of these federal investments in learning new skills will be wisely spent by individuals?

A. Just like the G.I. Bill, the President's proposal relies primarily on the self-interest and good sense of ordinary Americans -- rather than the commands of government bureaucrats -- to make choices about what education, training and skills each person chooses. Remember, it is the individual who has to invest the time and energy to

learn new skills and to take responsibility for applying those skills in the marketplace. What the President's proposal does provide is for the states, the private sector, and schools and colleges to provide information on what skills will be rewarded in the marketplace, what jobs are available, and the track records of schools and colleges in providing marketable skills and jobs and at what wages. In addition, the federal government will work closely with the states and local communities to screen out incompetent and fraudulent providers so that hard-working Americans don't waste their own time and money -- or that of taxpayers.

Q. How are eligible training institutions defined?

A. The President's proposal preserves the current eligibility requirements for training institutions or programs that receive federal assistance under the Higher Education Act. This definition of eligible institutions includes nearly all universities, four-year colleges, and community colleges--public or private--and also includes many vocational and technical schools. In full cooperation with the States, new accountability measures will weed out those institutions that are incompetent or fraudulent. These requirements will be applied with equal rigor to non-traditional training institutions, including community-based organizations. And the power of informed consumer choice -- exercised by individual learners who want new skills and the firms that do the hiring in local communities -- means that those institutions that don't deliver valued skills will ultimately be subject to the same test of the marketplace faced by private sector every day: they will lose customers and go out of business.

Q. Won't colleges, universities and technical schools just raise their prices to swallow up all of this new purchasing power for learning?

A. No. There will be strong pressures working against any attempt by schools to soak up the benefits of the increased skill purchasing power of families. Post-secondary education has become a highly competitive industry, with thousands of institutions scrambling for the student's dollar. Institutions therefore won't be able to simply raise their prices in response to increasing demand for skills. In addition, the aging of the baby boom generation has led to excess capacity in many institutions, forcing schools to compete for students and to keep tuition increases in check over the past two years. And these trends -- increased competition from providers and a smaller cohort of young people -- are likely to continue in the years ahead. Finally, states and localities can establish tuition costs at public colleges and technical schools to restrain the rise in tuition charged by public institutions and, hence, by other providers who compete in this post-secondary education and training marketplace.

Q. How many existing federal education and training programs does the President's proposal cover?

A. Over 50 current programs. More important, the unorganized welter of current programs is replaced by a new system that is based on the fundamental principle of

individual empowerment, buttressed by good information, full participation by the private sector in labor markets all across the country, and maximum flexibility for the states in designing and implementing supplementary counseling and training services (including on-the-job training in cooperation with firms and workers).

Q. How can states use their new flexibility to design and implement "one-stop" centers to build good information, provide counseling, and deliver supplementary training services?

A. Over the next few years, States can complete the process of designing and implementing their own "one-stop" approaches in cooperation with the private sector, business and labor, and the education providers in their local communities. This process has already started in many states and will be fully supported and expedited by the President's proposal. Washington won't tell the states how they should proceed in this process: most restrictive rules will be removed and states may seek waivers from the few that remain to build more effective systems of labor market information and exchange. The Clinton Administration will provide maximum support and flexibility to reward states that proceed so they can put the resulting savings from new efficiencies into additional training, including on-the-job training in full cooperation with firms and workers.

Q. What could I expect if I went to such a one-stop center?

A. Each state's network of one-stops will be designed to meet the needs of the local labor market. So, what you experience in an up-state New York one-stop may differ somewhat from your experience with one in Minneapolis, Sioux Falls, San Antonio, or L.A. county. But wherever the one-stop, here's what you would not encounter: bureaucratic red tape, long lines, and confusion about the local labor market information, job search assistance, individual Skill Grants and Education Accounts, and community colleges and technical schools available to you. Instead, you would be to communicate by phone, arrange convenient access to labor market data you want, set up a convenient time for an appointment to answer any preliminary questions about your immediate needs and log-term interests. Then, depending on your own circumstances and interests, you might do any of the following: tap into a user-friendly computerized jobs bank, develop your own resume with a career counselor for a talent bank, file an initial claim for unemployment insurance, get an assessment of your skills, find out about the fastest-growing occupations in your area and the skills employers are looking for, receive immediate assistance in finding a new or better job, get "consumer reports" on the courses offered by -- and the track records of -- local education and training institutions. In short, the one-stop centers can help you navigate your own career and inform your own choice of how you want to get ahead.

Q. What is the role of the private sector in all of this?

A. The private sector has a direct stake in developing the skills of all Americans, so that they can add more value to goods and services produced and share in the resulting

increases in productivity to buy and invest more.

The President's proposal invites the private sector to become a full partner in devising and implementing with the states the "one-stop" approaches to information, job search, counseling, and supplementary training services (including on-the-job-training) which are most effective and most in demand in their local labor markets. Business and labor are already taking the lead in the development of skill standards that will inform education providers, students and workers what skills will be rewarded with jobs and earn higher wages in the marketplace. In each labor market firms will also inform the schools and colleges what basic skills are essential and occupational skills are in demand. The private sector is also leading the school-to-work movement already underway in all fifty states to transform secondary education so that youth can learn in the context of apprenticeships and make a smooth transition to rewarding jobs and lifelong learning.

Finally, America's firms are themselves a key source of lifelong learning and new skills for their workers. The most competitive and productive firms are upgrading the skills of their workforce-- through formal training, investing in mid-career education, embedding learning in the workplace, and empowering their front-line workers to take greater responsibility for solving problems and working together to deliver more value to their customers. In cooperation with the private sector, we propose to recognize and reward the best of these firms so that appreciation of the mutual benefits of such high performance workplaces spreads.

Q. How does the President's proposal differ from S.6, the proposal for skill vouchers introduced by Daschle, Kennedy, Breaux in the Senate?

A. We welcome their embrace of the principles of individual empowerment -- as well as state flexibility to work with the private sector to develop supporting labor market services to guide the transformation of adult education and training in the country. The President's proposal goes further: it covers many programs in order to put more resources in the hands of individuals and to build good information systems and more effective labor and education provider markets; it includes tax deductions and an expanded IRA to increase the education purchasing power of middle class families; and it integrates Individual Education accounts to make sure that every American -- regardless of age or income -- has the ability to finance learning new skills. We look forward to working cooperatively with all Democrats and Republicans to deliver the promise of the President's Middle Class Bill of Rights to the American people. After all, it is America's families, workers and firms that have the most direct stake in making sure that every American has a real opportunity to learn and to apply new skills at more rewarding work.

THE WHITE HOUSE

WASHINGTON

January 18, 1995

MEMORANDUM FOR ETR WORKING GROUP MEMBERS

FROM: **Bill Galston** WAG
Paul Dimond PRD

SUBJECT: **Update on ETR sections of the President's Middle Class Bill of Rights**

As you know, last month the President launched his Middle Class Bill of Rights a key point of which is designed to reinvent the system of lifelong learning of new skills for better jobs. This initiative revolves around a series of education and training proposals that originated with the ETR Working Group. The vision that our group set out in its work over the last 11 months has entered a new stage of development, and I think we should all take pride in what we have done so far.

It is likely that we will be called upon over the next year to help support this important initiative. In this connection, we thought it would be helpful to you to have some additional background information on this initiative. We have attached three documents for your review. The first is a copy of the President's speech on the Middle Class Bill of Rights that he gave last Tuesday in Galesburg, Illinois. The second is a four-page summary of the major provisions in the Middle Class Bill of Rights. The third is a compilation of questions and answers that go into more detail on the components of the President's plan.

Let us also bring you up to speed on the Technology Learning Challenge (TLC) that came out of the ETR seminar on DoD learning technologies hosted by Deputy Secretary Deutch last July. The Challenge Grant portion of the TLC, which will play a major supporting role in the Middle Class Bill of Rights initiative, was incorporated into last fall's reauthorization of the Elementary and Secondary Education Act. Congress appropriated $27 million in FY 1995 to the Department of Education to set up an Interagency Technology Office (ITO) and run the Challenge Grant Program. The Challenge Grant Program will be formally announced sometime in February. The ITO will also be the lead point for the Committee on Education and Training's efforts to coordinate Federal research and development spending on educational technology. Finally, the TLC has put into motion a process by which a number of the major Federal education and training programs will begin to promote the use of educational technologies in their program areas.

As you can see, the TLC process that the ETR set in motion last July is now in full swing. Thank you all for your hard work in all of these areas. We look forward to continuing to work with you in the year ahead. Please do not hesitate to call if you have any questions.

President William J. Clinton
Remarks at Carl Sandburg Community College
Galesburg, Illinois
January 10, 1994

[**Acknowledgments**: Dr. Don Crist, Carl Sandburg Community College President (introducing you); Galesburg Mayor Fred Kimble; Congressmen Lane Evans and Glenn Poshard; Secretaries Reich and Riley.]

I am very happy, and proud, to be here today. I am happy you had the opportunity to benefit from the programs at Carl Sandburg Community College. I am proud you have taken the responsibility to make the most of those opportunities: working hard in your studies, and in your jobs.

I'm especially glad to be in a place so steeped in the history of our country. The Underground Railroad came through Galesburg. Over 135 years ago, Abraham Lincoln and Stephen Douglas met here for one of their famous debates. After those debates, Douglas defeated Lincoln in their race for the Senate. I'm reminded today, as I have been several times over the last few months, that Lincoln said his defeat hurt too much to laugh and he was too old to cry, but it was a slip and not a fall.

I've been told that Lincoln spoke for an hour and a half here at Galesburg -- without any notes. It's a great day today, but I'll try to restrain myself.

Those debates were about the proper role of our government. About whether government has any role in helping people deal with the fundamental problems of the day -- or if people should be left to deal with them entirely on their own. In 1858, the issue was slavery. Lincoln believed that the national government had to play a role -- because the issue ·as about our essential makeup and direction as a nation. But Lincoln, the father of the ..., iblican Party -- like Thomas Jefferson, the father of today's other great political party -- believed that the most important force in America was not government, but what private citizens could do in their private lives.

They both believed that government's role was to establish the laws that set the boundaries for individual action. And they believed the Constitution left us enough flexibility so government could meet the challenges of changing times in ways that wouldn't -- or couldn't -- be done otherwise.

That's why Galesburg, during this time of great change and uncertainty, is such a fitting place to carry on the great debate of our times. We are in a great crossing from the industrial age to the information age -- a crossing as perilous and full of opportunity as any faced by those who have gone before. Our challenge is to keep the American Dream alive for all Americans as we move into the next century. To help every American who is willing to work hard and play by the rules build a strong future.

We face enormous hurdles. Millions and millions of Americans are working harder

for less. From 1950 to 1978, the income of all Americans rose together. But from 1979 to 1993, the income of the top 20% grew significantly, while the income of the other 80% of America barely grew at all or dropped. Half of all Americans are living on less money than they did fifteen years ago. Here's the problem: Rapid technology growth and expanding global competition have kept the income of Americans without a college education stagnant for about twenty years. A male college graduate today earns 83% more than a man with only a high-school degree.

I ran for President to solve these problems -- I don't want my daughter's generation to be the first in our history to do worse than its parents. Everything I have done and everything I propose to do is built around three principles to make what has always worked, work again.

First, we are building a new economic strategy to enable the American people to compete and win in the 21st century. Our strategy requires government to act as a partner with the private sector, opening up opportunity. And that's what we've done: cutting the deficit by historic amounts and creating more trade opportunities than at any time in a generation. We're removing obstacles around the world -- passing NAFTA and GATT and opening big emerging markets in Asia and Latin America. We're removing obstacles here at home: cutting regulations on things like banking and trucking. And the result is five and a half million new jobs since I took office -- almost all of them in the private sector, and many that are high-wage.

Second, we are building what I called a New Covenant during the Presidential election. It was then, and it remains, my contract with America. It's about more than cutting taxes. It's about emphasizing rights and responsibilities. Real security comes when government creates opportunity for all Americans, and individuals and communities take the responsibility to make the most of it. That's what our Crime Bill is all about. That's what my proposal to end welfare as we know it is all about.

And that's why our Administration, with bipartisan support, has pursued the most far-reaching education agenda in a generation. We have dramatically expanded Head Start. We have set challenging standards for our nation's schools. We have forged new partnerships to help students who don't go to college learn the skills they need to get high-wage jobs. We have made college loans more affordable. And our National Service program, Americorps, is the embodiment of this idea. We will help Americans go to college who take the responsibility to help their country.

Third, we are building a new kind of government -- smaller, more efficient, and better targeted to meet the demands of new times. We must take government out of the grip of the special interests and put the American people back in control. That's what our Reinventing Government program is all about -- cutting the bureaucracy to its smallest size in thirty years. But at the same time we're making it work better for you. When floods racked Illinois, the Federal Emergency Management Administration, long a source of problems and ridicule, was on the scene and made a big difference.

But everything we've done is not enough. That's why I proposed the Middle Class Bill of Rights: to help bridge the gap between working Americans who have the skills they need to compete and those who don't. Fifty years ago, the G.I. Bill of Rights helped to transform a war-time economy into the most productive peacetime economy in history. The Middle Class Bill of Rights is four new ideas to help middle class Americans move into the next century with the same fair shot at the American Dream enjoyed by their parents and grandparents.

First, for families with incomes up to $120,000, you'll have a tax deduction for up to $10,000 of tuition for all education after high school: college, community college, graduate school, professional school, vocational education or worker training. Second, if your family makes $75,000 a year or less, you'll receive a tax cut phased up to $500 for every child under 13. Third, if your family makes less than $100,000 a year, you'll be able to put $2,000 a year, tax-free, into an individual retirement account. But you'll also be able to withdraw that money, tax-free, for education, health care, a first home, or the care of an elderly parent. Finally, the Middle Class Bill of Rights will take the Billions of dollars government spends on job training and make that money directly available to working Americans -- to spend as they choose when they're training for a new or better job.

The Middle Class Bill of Rights is based on the same three principles I talked about earlier. It will help people meet the challenges of the new economy -- because in this economy, what you earn depends upon what you learn. It reinforces the New Covenant by empowering people to help themselves -- providing opportunity but demanding responsibility. It's about creating a new government: consolidating, streamlining, and eliminating. And the great thing about the Middle Class Bill of Rights is that it's open to everyone who needs it, no matter their region, race, or position on divisive issues -- as long as they're willing to work hard to get ahead.

The education, training, and reemployment initiative in the Middle Class Bill of Rights consolidates the confusing tangle of federal training programs. It empowers workers by putting resources and information directly in their hands. And it shifts control away from Washington to communities, where local priorities are best understood.

The current federal training system is a dizzying maze of programs that too often duplicate services and waste taxpayer money. We don't need new training programs -- this country has a wealth of high quality technical schools, community colleges, private programs, and universities where people can learn the skills they need. Our job is to make sure that you can take advantage of them.

I am proposing to eliminate over 50 government programs. I want to use that money to create individual Skill Grants for laid-off or low-income workers so you can spend the money where <u>you</u> choose. I want to establish One-Stop Centers around the country so you have the information about jobs and the skills they require to make good choices for yourself. At the same place, you should be able to learn about available training programs and find information to help you judge their quality.

Under our proposal, if you went to the local One-Stop Center, you could find out about jobs opening up at Maytag because of the new $164 Million retooling project. Then you could figure out the best place to get the skills you need to qualify for them. I suspect you might settle on a superb institution called Carl Sandburg Community College with an extraordinary job placement rate of over 94% -- at an average wage of almost $12 an hour.

The Middle Class Bill of Rights will create opportunity for all Americans. That is my simple test for every policy that comes before me: Does it advance the interests of average American families? Does it promote their values and build their future? If it passes that test, I'll support it. If it doesn't, I won't.

Beginning here in Galesburg, Lincoln and Douglas took on a new tone in their debates, addressing matters of principle. I hope that back in Washington, Republicans and Democrats can take on a new tone as well -- exchanging partisan bickering for bipartisan progress, working together to restore the American Dream. We've seen how people in Washington can obstruct progress for partisan gain. Now we must prove that we can work together to keep our country moving forward -- for America's gain.

That is my dream. I am struck by one line Carl Sandburg wrote over seventy years ago, in a poem inspired by the Washington Monument: "Nothing happens unless first a dream."

The enduring message of the Washington Monument inspires <u>me</u> every day: If we work together, if we combine vision and leadership with the courage to make hard choices and the determination to see them through, we can make our dreams come true.

God bless you all.

THE MIDDLE CLASS BILL OF RIGHTS

"For too long, too many Americans have worked longer for stagnant wages and less security...[E]ven though the economic statistics are moving up, most of our living standards are not ... More jobs aren't enough. We have to raise incomes."

President Clinton, Address to the Nation, December 15, 1994

The Challenge. Working Americans are riding a roller-coaster of economic change. New technologies, global competition, and an increasingly integrated world economy have been reshaping the industrial landscape. While some workers are prospering in the new economy, the living standards of average American families have been stagnating for a generation. Compared to twenty years ago, many Americans are working longer hours for lower pay. For much of our middle class, the American Dream is under siege. Restoring that dream--the hope of a better future for our families and our children--is our most urgent challenge.

The Beginnings of Change. In 1993, President Clinton proposed a new economic direction for America. Two years later, the United States has created 5.6 million new jobs, 92% in the private sector, with more good jobs than in the previous five years combined, and with the first 12-month increase in manufacturing jobs since 1978. Our country has reduced the national unemployment rate from 7% to 5.4% with the lowest rate of inflation in twenty-five years, so that the "Misery Index"--the combined measure of unemployment and inflation--is at its lowest level since 1972. It has reversed the flow of federal red ink by reducing the annual budget deficit for three years in a row. It has signed new trade agreements to reduce the tariffs paid by American consumers at home and American producers abroad, and to tear down barriers to American-made goods and services all around the world. And it is leading the world in the productivity and competitiveness of its firms and workers.

The Opportunity. The strong evidence that links education and training with higher earnings and better jobs points the way to build a better future for all Americans. As the President noted in his Address, "Education...has a bigger impact on earnings and job security than ever before....Every American needs the skills necessary to prosper in the new economy." A strong bipartisan consensus in the last Congress has already spurred significant steps toward building the skills and future earning power of the children and students of working Americans, including major new investments in education. The next step is the Middle Class Bill of Rights, which will empower America's workers to acquire new skills, obtain better jobs, and to earn higher wages and living standards for themselves and their families.

As the President observed in his Address, "Fifty years ago, an American president proposed the G.I. Bill of Rights, to help returning veterans from World War II go to college, buy a home and raise their children. That built this country." The G.I. Bill led to a generation of prosperity by putting learning resources directly in the hands of ordinary Americans. The returning veterans turned their new skills into the higher productivity, rising wages, and soaring living standards that opened the door into the middle class for tens of millions of Americans.

The President's Middle Class Bill of Rights will provide today's aspiring workers and job seekers the same kind of opportunity. Like the G.I. Bill, it puts resources directly in the hands of our people so that each individual will have a fair chance to learn the skills needed to build a better future.

1. **Education and training tax deductions** will help working Americans pay for building new skills that lead most directly to better jobs and wages. Deductions of up to $10,000 per year for families making up to $120,000 per year will be phased in for tuition and costs for college, community college, graduate schools, technical schools, and worker retraining.

2. **Tax credits for families with children** of $500 per child under 13 will be phased in. This will expand the budgets of middle class families to invest as they see fit.

3. **Expanded IRAs** will enable working families making up to $100,000 per year to save $2,000 per year from current earnings, tax-free, and to invest these funds--without penalty--when they want to build new skills or buy a first home, as well as providing for retirement or paying medical expenses.

4. **A comprehensive reform of the employment and training system** will help unemployed workers and low-income adults and youth --many of whom will not be able to benefit from the tax incentives--find new and better jobs, learn necessary skills, and obtain **Skill Grants** with which to make their own decisions about post-secondary training and education. Student loans through Individual Education Accounts will further ensure that <u>all</u> Americans have the opportunity to finance learning new skills where and when they choose and to repay these direct loans at the pace their future income allows.

THE MIDDLE CLASS BILL OF RIGHT: SKILL GRANTS

As a key component of the Middle Class Bill of Rights, the President proposes to totally restructure the existing system of employment and training. Seven key principles guide this change:

1. **Individual Empowerment.** Individuals should be empowered with resources so they can choose for themselves what skills they need to boost their earning power. The President's proposal puts buying power directly into individuals' hands, so they can get skills at the time, at the place, and in the way that makes sense for them:

o Unemployed and low-income workers can get Skill Grants worth up to $2,620 per year, for up to two years, that they can use as they choose for learning new skills.

o Both tuition tax breaks and Skill Grants will be supplemented by Individual Education Accounts. These low-cost loans will be available to any person, with flexible repayment options including "pay as you can," to enable every American to invest in their skills and repay at the pace their future income allows.

2. **Leaner Government.** The President's proposal eliminates over 50 separate programs, replacing them with an integrated system that minimizes red tape and maximizes individual choice.

3. **State Flexibility.** Washington doesn't have all the answers. States should have the flexibility to reflect local conditions and respect local priorities. The President's proposal gives states the freedom to tailor training programs and delivery systems as they see fit, including expanding on-the-job training in cooperation with firms and workers. Most federal rules dictating administrative procedures will be wiped out. States will be able to apply for waivers from the few rules that remain, and to plow the savings back into additional training.

4. **Good Information to Guide Choices.** A skill-building system rooted in individual choice requires good data to inform decisions about what skills to get and where to learn them. Reforms woven throughout the initiative--and centered on the networks of One-Stop Career Centers already under construction by the States--will give workers and job seekers access to reliable information on jobs, careers, and the success records of training institutions, so that they can make good choices to improve their futures.

5. **Accountability.** Too often today, training providers aren't held accountable for results. The President's initiative will address this by emphasizing individual choice and competition so that individuals can pick providers who deliver; by providing good performance data so people know what training pays off; and by setting quality standards for training providers to cut off the frauds and the incompetents.

6. **Private-Sector Partnership.** At base, the President's proposal isn't about government. It's about jobs, and that means the private sector has a central role. Business and labor will be full partners in designing and running training, job-search, and information services. The most competitive and productive firms are also leaders in upgrading the skills of their workforce: new awards will recognize excellence in creating workplaces that expand opportunity by capitalizing on and rewarding worker skills.

7. **Paths from School to Work.** Preparing America's youth for the world of work and a career of learning and applying new skills to more rewarding jobs is a vital task. This initiative will fold federal employment and training programs, including vocational education, for young people into the school-to-work movement already underway in every state as designed and developed by the states, local communities and the private sector. As with the new private sector partnership, good information, accountability and state flexibility for adults, this new approach will provide clearer paths to new skills and better jobs for youth.

The President's Middle Class Bill of Rights can arm every American worker with the tools to learn new skills, find good jobs and earn higher wages at more rewarding work. Like the G.I. Bill, the President's proposal will put the opportunity to learn and apply new skills directly in the hands of the peoplo. Now, as then, it will be up to individual Americans to accept personal responsibility, to make the most of this opportunity to build a better life for themselves and their families.

> "The Middle Class Bill of Rights will further our common mission as Americans -- to expand middle class incomes and opportunities, to promote the values of work and family, responsibility and community. And to help Americans compete and win in the new American economy."
>
> President Clinton, Radio Address, December 18, 1994

The President's Proposal for a Middle-Class Bill of Rights

Questions and Answers

Q. What is the President proposing in the Middle Class Bill of Rights?

A. Putting resources and information directly in the hands of hard-working American families so that they can make their own choices about how, when and where to invest in learning the skills they need to earn higher wages at better jobs. Just as with the G.I. Bill of Rights fifty years ago, this will empower individuals to learn and apply new skills to earn higher wages for themselves and higher living standards for their families in a new American economy. Just as with the G.I. Bill, ordinary Americans will take responsibility for restoring the American Dream of middle class prosperity now and pass it on to our children for the next generation.

Q. In what forms will the proposal put learning resources in the hands of individuals to build skills as, when and where they see fit?

A. **Education and training tax deductions** will lower the cost of building skills, and favor the kind of investment that leads most directly to better wages.

Expanded IRAs will let workers save from current earnings on a tax-free basis so they can invest -- without penalty -- when they want in the future to build new skills or buy a first home, as well as to pay for medical expenses and to provide for retirement.

Laid-off workers and low-wage workers, who often have too little income to benefit from tax incentives, can get individual **Skill Grants**, to use as they choose. The scholarships will be big enough to cover tuition and fees at a typical community college for up to two years.

All workers can get convenient access to **Individual Education Accounts** to finance the education and training they want -- with the option to repay the loans at the pace their future income allows--so they can spread the cost of skill investments over the course of their careers.

Q. How long has the stagnation in wages and living standards plagued the country?

A. From 1973 to 1993 average real compensation has basically stagnated, increasing less than 0.5% per year, compared to 2.8% per year in the prior generation from 1947 to 1972. If real wages had continued to grow over the last twenty years at the rate during the first generation following World War II, the average family's income in 1993 would have been $59,300 rather than $37,000.

Just as significant, the stagnation in wages over the past twenty years has fallen harder on the middle of the wage distribution than at the top: median real hourly wages, that

earned by workers at the middle of the wage distribution, fell by 7.5 percent. This occurred because of the dramatic shift of the rewards in the labor market against those without education, training and skills. For example, wages of male high school graduates fell 20 percent from 1979 to 1993, while the wages of male high school dropouts fell by 27 percent. Today, a male college graduate earns 83% more than a man with only a high school degree, compared to only a 50% premium less than generation ago.

This stagnation in wages for most Americans has taken a particularly hard toll on family income over the last 15 years. After a generation from 1950 through 1978 when the income of all American families rose smartly together -- approximately doubling for each quintile of the income distribution -- incomes for 80% of American families either stagnated or fell from 1979 to 1993. Today, half of all Americans are living on less money they did 15 years ago.

Q. What other evidence is there that education, training and skills matter and, just as important, can be learned?

A. Skill investments pay off for the individual: Each year of post-secondary education or training increases a worker's subsequent earning power by six to twelve percent. Education and training to learn and apply new skills today -- even more than at the time of the G.I. Bill fifty years ago -- is the form of personal investment that has the strongest, most direct link to earning higher wages and middle-class living standards.

Q. How does the tax deductibility proposal work?

A. Americans could deduct from their taxable income the money they spend on post-secondary education for themselves or their families. Starting at $5,000 in 1996 and rising to $10,000 of education spending will be deductible each year. Taxpayers would not have to itemize their deductions to get the education and training deduction. And education expenses would not be subject to the 2-percent "floor" on miscellaneous deductions. To focus the tax cut on the middle class, deductibility is gradually phased out over the income range of $100,000 to $120,000 for a couple filing jointly, and between $70,000 and $90,000 for individuals.

Q. How does this implement the strategy to put resources directly into the hands of people to invest in learning and applying new skills to earn higher wages at better jobs?

A. By reducing the after-tax cost of education expenses for individuals and families, the tax deduction rewards and encourages investments in education and training while lowering tax burdens for middle-income taxpayers.

Q. How big is this tax cut for a family?

A. The size of the tax cut depends on how much a family spends on education and

training, their income, their marginal tax rate, and other items. For most families, it will be either 15 percent or 28 percent of total spending on education and training. Here's one example. Consider a typical four-person family with $50,000 in income, $7,500 in other deductions (for mortgage interest and state and local taxes), and the normal $10,000 in personal exemptions, with a marginal tax rate of 15 percent. Suppose both kids are in college, the parents are also investing in learning new skills, and the family spends the maximum of $10,000 on tuition and fees. Under current law, that family would pay $4,875 in federal income taxes. If the President's proposal is fully implemented, that family will pay $3,375 instead--a 31 percent reduction in the tax bill.

Q. Would <u>all</u> education and training expenses--even if they're recreational or frivolous--be deductible?

A. No. Only tuition and fees directly related to instruction will be deductible. Expenses like meals, lodging, or transportation will not be deductible. Nor will "recreational" education involving sports, games, or hobbies be eligible for deductions--unless, of course, such education is part of a degree program (in sports therapy or rehabilitation, for example) or relates to the student's current profession.

Q. Will this proposal really increase education and training, or just give people tax breaks for doing what they planned to do anyway?

A. Of course, many people would still get education for themselves or their children whether or not there's a tax advantage. But lowering the cost of education and training <u>will</u> lead to a substantial increase in skill investments. Conservative estimates, based on the best available research on the impact of cost changes on college enrollment, point to about half a million additional students each year as a result of deductibility. Students from low and moderate-income families tend to react most strongly to changes in the overall cost of education, so the biggest effect will probably be on the proportion of lower middle class students going on to (and finishing) post-secondary education. Every extra high-school graduate who goes on to post-secondary training as a result of this tax code change--whether or not they graduate--can expect to add an additional $400,000 or more to the economy over the course of a career, compared with students who stop at high school.

Q. Doesn't this tax cut only help a small number of families? Won't the rich benefit more than the middle class?

A. No. Over 17 million people get post-secondary education each year. An even larger number are <u>planning</u> to invest in education and training for themselves or their families. (In 1992, about 60 percent of high school graduates continued on to some form of post-secondary education.) Over 90 percent of post-secondary students have family incomes below $75,000 per year (based on 1990 data.) The deduction will be phased out gradually for upper-income families, focussing the tax cut on the middle class.

Q. What is the size of the individual Skill Grant?

A. Up to $2620 per year -- enough to pay the costs of tuition, fees, books and expenses at most community colleges and technical schools. The President proposes to raise the level of Pell Grants to the same level in order to encourage students from low and moderate income families to pursue higher education.

Q. Who will be eligible for the individual Skill Grants?

A. Individual Skill Grants will be available to workers who are dislocated and to low-income workers. Laid-off workers will be eligible for individual Skill Grants upon confirming evidence, usually supplied as a matter of course by their previous employer, that they have been permanently laid-off. For low- income workers, eligibility will be basically the same as for Pell Grants.

Q. Who is eligible for loans from the Individual Education Accounts?

A. Every one. There is no age or income limit. Each individual can qualify for these student loans to cover costs, fees and expense at eligible post-secondary education and training institutions; and every individual can choose to repay through a variety of options, including a "pay-as-you-can" approach that enables every American to invest in acquiring new skills and to repay at the pace their future income allows.

Q. How many persons do you estimate may take advantage of the new labor market services, individual Skill Grants and Individual Education Accounts in FY96?

A. In part the answer depends on the extent to which individuals choose to apply these resources to learn new skills. At this time our best estimate is that approximately 1.7 million low-wage workers and over 300,000 thousand dislocated workers will use the Individual Skill Grants, while another 2.8 million students from low and moderate income families will use Pell Grants for college and another 5.5 million students of all ages may use loans from the Individual Education Account to finance their post-secondary education and training. As individuals can get Skill Grants and make use of loans from their Individual Education Accounts at the same time, these rough estimates are not additive. In addition, all Americans will have more convenient access to labor market services and information so that they can mange their own careers to build skills, earnings power and more rewarding careers as they see fit to get ahead.

Q. How can we be sure all of these federal investments in learning new skills will be wisely spent by individuals?

A. Just like the G.I. Bill, the President's proposal relies primarily on the self-interest and good sense of ordinary Americans -- rather than the commands of government bureaucrats -- to make choices about what education, training and skills each person chooses. Remember, it is the individual who has to invest the time and energy to

learn new skills and to take responsibility for applying those skills in the marketplace. What the President's proposal does provide is for the states, the private sector, and schools and colleges to provide information on what skills will be rewarded in the marketplace, what jobs are available, and the track records of schools and colleges in providing marketable skills and jobs and at what wages. In addition, the federal government will work closely with the states and local communities to screen out incompetent and fraudulent providers so that hard-working Americans don't waste their own time and money -- or that of taxpayers.

Q. How are eligible training institutions defined?

A. The President's proposal preserves the current eligibility requirements for training institutions or programs that receive federal assistance under the Higher Education Act. This definition of eligible institutions includes nearly all universities, four-year colleges, and community colleges--public or private--and also includes many vocational and technical schools. In full cooperation with the States, new accountability measures will weed out those institutions that are incompetent or fraudulent. These requirements will be applied with equal rigor to non-traditional training institutions, including community-based organizations. And the power of informed consumer choice -- exercised by individual learners who want new skills and the firms that do the hiring in local communities -- means that those institutions that don't deliver valued skills will ultimately be subject to the same test of the marketplace faced by private sector every day: they will lose customers and go out of business.

Q. Won't colleges, universities and technical schools just raise their prices to swallow up all of this new purchasing power for learning?

A. No. There will be strong pressures working against any attempt by schools to soak up the benefits of the increased skill purchasing power of families. Post-secondary education has become a highly competitive industry, with thousands of institutions scrambling for the student's dollar. Institutions therefore won't be able to simply raise their prices in response to increasing demand for skills. In addition, the aging of the baby boom generation has led to excess capacity in many institutions, forcing schools to compete for students and to keep tuition increases in check over the past two years. And these trends -- increased competition from providers and a smaller cohort of young people -- are likely to continue in the years ahead. Finally, states and localities can establish tuition costs at public colleges and technical schools to restrain the rise in tuition charged by public institutions and, hence, by other providers who compete in this post-secondary education and training marketplace.

Q. How many existing federal education and training programs does the President's proposal cover?

A. Over 50 current programs. More important, the unorganized welter of current programs is replaced by a new system that is based on the fundamental principle of

individual empowerment, buttressed by good information, full participation by the private sector in labor markets all across the country, and maximum flexibility for the states in designing and implementing supplementary counseling and training services (including on-the-job training in cooperation with firms and workers).

Q. How can states use their new flexibility to design and implement "one-stop" centers to build good information, provide counseling, and deliver supplementary training services?

A. Over the next few years, States can complete the process of designing and implementing their own "one-stop" approaches in cooperation with the private sector, business and labor, and the education providers in their local communities. This process has already started in many states and will be fully supported and expedited by the President's proposal. Washington won't tell the states how they should proceed in this process: most restrictive rules will be removed and states may seek waivers from the few that remain to build more effective systems of labor market information and exchange. The Clinton Administration will provide maximum support and flexibility to reward states that proceed so they can put the resulting savings from new efficiencies into additional training, including on-the-job training in full cooperation with firms and workers.

Q. What could I expect if I went to such a one-stop center?

A. Each state's network of one-stops will be designed to meet the needs of the local labor market. So, what you experience in an up-state New York one-stop may differ somewhat from your experience with one in Minneapolis, Sioux Falls, San Antonio, or L.A. county. But wherever the one-stop, here's what you would not encounter: bureaucratic red tape, long lines, and confusion about the local labor market information, job search assistance, individual Skill Grants and Education Accounts, and community colleges and technical schools available to you. Instead, you would be to communicate by phone, arrange convenient access to labor market data you want, set up a convenient time for an appointment to answer any preliminary questions about your immediate needs and log-term interests. Then, depending on your own circumstances and interests, you might do any of the following: tap into a user-friendly computerized jobs bank, develop your own resume with a career counselor for a talent bank, file an initial claim for unemployment insurance, get an assessment of your skills, find out about the fastest-growing occupations in your area and the skills employers are looking for, receive immediate assistance in finding a new or better job, get "consumer reports" on the courses offered by -- and the track records of -- local education and training institutions. In short, the one-stop centers can help you navigate your own career and inform your own choice of how you want to get ahead.

Q. What is the role of the private sector in all of this?

A. The private sector has a direct stake in developing the skills of all Americans, so that they can add more value to goods and services produced and share in the resulting

increases in productivity to buy and invest more.

The President's proposal invites the private sector to become a full partner in devising and implementing with the states the "one-stop" approaches to information, job search, counseling, and supplementary training services (including on-the-job-training) which are most effective and most in demand in their local labor markets. Business and labor are already taking the lead in the development of skill standards that will inform education providers, students and workers what skills will be rewarded with jobs and earn higher wages in the marketplace. In each labor market firms will also inform the schools and colleges what basic skills are essential and occupational skills are in demand. The private sector is also leading the school-to-work movement already underway in all fifty states to transform secondary education so that youth can learn in the context of apprenticeships and make a smooth transition to rewarding jobs and lifelong learning.

Finally, America's firms are themselves a key source of lifelong learning and new skills for their workers. The most competitive and productive firms are upgrading the skills of their workforce-- through formal training, investing in mid-career education, embedding learning in the workplace, and empowering their front-line workers to take greater responsibility for solving problems and working together to deliver more value to their customers. In cooperation with the private sector, we propose to recognize and reward the best of these firms so that appreciation of the mutual benefits of such high performance workplaces spreads.

Q. How does the President's proposal differ from S.6, the proposal for skill vouchers introduced by Daschle, Kennedy, Breaux in the Senate?

A. We welcome their embrace of the principles of individual empowerment -- as well as state flexibility to work with the private sector to develop supporting labor market services to guide the transformation of adult education and training in the country. The President's proposal goes further: it covers many programs in order to put more resources in the hands of individuals and to build good information systems and more effective labor and education provider markets; it includes tax deductions and an expanded IRA to increase the education purchasing power of middle class families; and it integrates Individual Education accounts to make sure that every American -- regardless of age or income -- has the ability to finance learning new skills. We look forward to working cooperatively with all Democrats and Republicans to deliver the promise of the President's Middle Class Bill of Rights to the American people. After all, it is America's families, workers and firms that have the most direct stake in making sure that every American has a real opportunity to learn and to apply new skills at more rewarding work.

THE WHITE HOUSE

WASHINGTON

January 18, 1995

MEMORANDUM FOR ETR WORKING GROUP MEMBERS

FROM: **Bill Galston** WAG
Paul Dimond PRD

SUBJECT: **Update on ETR sections of the President's Middle Class Bill of Rights**

As you know, last month the President launched his Middle Class Bill of Rights a key point of which is designed to reinvent the system of lifelong learning of new skills for better jobs. This initiative revolves around a series of education and training proposals that originated with the ETR Working Group. The vision that our group set out in its work over the last 11 months has entered a new stage of development, and I think we should all take pride in what we have done so far.

It is likely that we will be called upon over the next year to help support this important initiative. In this connection, we thought it would be helpful to you to have some additional background information on this initiative. We have attached three documents for your review. The first is a copy of the President's speech on the Middle Class Bill of Rights that he gave last Tuesday in Galesburg, Illinois. The second is a four-page summary of the major provisions in the Middle Class Bill of Rights. The third is a compilation of questions and answers that go into more detail on the components of the President's plan.

Let us also bring you up to speed on the Technology Learning Challenge (TLC) that came out of the ETR seminar on DoD learning technologies hosted by Deputy Secretary Deutch last July. The Challenge Grant portion of the TLC, which will play a major supporting role in the Middle Class Bill of Rights initiative, was incorporated into last fall's reauthorization of the Elementary and Secondary Education Act. Congress appropriated $27 million in FY 1995 to the Department of Education to set up an Interagency Technology Office (ITO) and run the Challenge Grant Program. The Challenge Grant Program will be formally announced sometime in February. The ITO will also be the lead point for the Committee on Education and Training's efforts to coordinate Federal research and development spending on educational technology. Finally, the TLC has put into motion a process by which a number of the major Federal education and training programs will begin to promote the use of educational technologies in their program areas.

As you can see, the TLC process that the ETR set in motion last July is now in full swing. Thank you all for your hard work in all of these areas. We look forward to continuing to work with you in the year ahead. Please do not hesitate to call if you have any questions.

President William J. Clinton
Remarks at Carl Sandburg Community College
Galesburg, Illinois
January 10, 1994

[**Acknowledgments**: Dr. Don Crist, Carl Sandburg Community College President (introducing you); Galesburg Mayor Fred Kimble; Congressmen Lane Evans and Glenn Poshard; Secretaries Reich and Riley.]

I am very happy, and proud, to be here today. I am happy you had the opportunity to benefit from the programs at Carl Sandburg Community College. I am proud you have taken the responsibility to make the most of those opportunities: working hard in your studies, and in your jobs.

I'm especially glad to be in a place so steeped in the history of our country. The Underground Railroad came through Galesburg. Over 135 years ago, Abraham Lincoln and Stephen Douglas met here for one of their famous debates. After those debates, Douglas defeated Lincoln in their race for the Senate. I'm reminded today, as I have been several times over the last few months, that Lincoln said his defeat hurt too much to laugh and he was too old to cry, but it was a slip and not a fall.

I've been told that Lincoln spoke for an hour and a half here at Galesburg -- without any notes. It's a great day today, but I'll try to restrain myself.

Those debates were about the proper role of our government. About whether government has any role in helping people deal with the fundamental problems of the day -- or if people should be left to deal with them entirely on their own. In 1858, the issue was slavery. Lincoln believed that the national government had to play a role -- because the issue was about our essential makeup and direction as a nation. But Lincoln, the father of the Republican Party -- like Thomas Jefferson, the father of today's other great political party -- believed that the most important force in America was not government, but what private citizens could do in their private lives.

They both believed that government's role was to establish the laws that set the boundaries for individual action. And they believed the Constitution left us enough flexibility so government could meet the challenges of changing times in ways that wouldn't -- or couldn't -- be done otherwise.

That's why Galesburg, during this time of great change and uncertainty, is such a fitting place to carry on the great debate of our times. We are in a great crossing from the industrial age to the information age -- a crossing as perilous and full of opportunity as any faced by those who have gone before. Our challenge is to keep the American Dream alive for all Americans as we move into the next century. To help every American who is willing to work hard and play by the rules build a strong future.

We face enormous hurdles. Millions and millions of Americans are working harder

for less. From 1950 to 1978, the income of all Americans rose together. But from 1979 to 1993, the income of the top 20% grew significantly, while the income of the other 80% of America barely grew at all or dropped. Half of all Americans are living on less money than they did fifteen years ago. Here's the problem: Rapid technology growth and expanding global competition have kept the income of Americans without a college education stagnant for about twenty years. A male college graduate today earns 83% more than a man with only a high-school degree.

I ran for President to solve these problems -- I don't want my daughter's generation to be the first in our history to do worse than its parents. Everything I have done and everything I propose to do is built around three principles to make what has always worked, work again.

First, we are building a new economic strategy to enable the American people to compete and win in the 21st century. Our strategy requires government to act as a partner with the private sector, opening up opportunity. And that's what we've done: cutting the deficit by historic amounts and creating more trade opportunities than at any time in a generation. We're removing obstacles around the world -- passing NAFTA and GATT and opening big emerging markets in Asia and Latin America. We're removing obstacles here at home: cutting regulations on things like banking and trucking. And the result is five and a half million new jobs since I took office -- almost all of them in the private sector, and many that are high-wage.

Second, we are building what I called a New Covenant during the Presidential election. It was then, and it remains, my contract with America. It's about more than cutting taxes. It's about emphasizing rights and responsibilities. Real security comes when government creates opportunity for all Americans, and individuals and communities take the responsibility to make the most of it. That's what our Crime Bill is all about. That's what my proposal to end welfare as we know it is all about.

And that's why our Administration, with bipartisan support, has pursued the most far-reaching education agenda in a generation. We have dramatically expanded Head Start. We have set challenging standards for our nation's schools. We have forged new partnerships to help students who don't go to college learn the skills they need to get high-wage jobs. We have made college loans more affordable. And our National Service program, Americorps, is the embodiment of this idea. We will help Americans go to college who take the responsibility to help their country.

Third, we are building a new kind of government -- smaller, more efficient, and better targeted to meet the demands of new times. We must take government out of the grip of the special interests and put the American people back in control. That's what our Reinventing Government program is all about -- cutting the bureaucracy to its smallest size in thirty years. But at the same time we're making it work better for you. When floods racked Illinois, the Federal Emergency Management Administration, long a source of problems and ridicule, was on the scene and made a big difference.

But everything we've done is not enough. That's why I proposed the Middle Class Bill of Rights: to help bridge the gap between working Americans who have the skills they need to compete and those who don't. Fifty years ago, the G.I. Bill of Rights helped to transform a war-time economy into the most productive peacetime economy in history. The Middle Class Bill of Rights is four new ideas to help middle class Americans move into the next century with the same fair shot at the American Dream enjoyed by their parents and grandparents.

First, for families with incomes up to $120,000, you'll have a tax deduction for up to $10,000 of tuition for all education after high school: college, community college, graduate school, professional school, vocational education or worker training. Second, if your family makes $75,000 a year or less, you'll receive a tax cut phased up to $500 for every child under 13. Third, if your family makes less than $100,000 a year, you'll be able to put $2,000 a year, tax-free, into an individual retirement account. But you'll also be able to withdraw that money, tax-free, for education, health care, a first home, or the care of an elderly parent. Finally, the Middle Class Bill of Rights will take the Billions of dollars government spends on job training and make that money directly available to working Americans -- to spend as they choose when they're training for a new or better job.

The Middle Class Bill of Rights is based on the same three principles I talked about earlier. It will help people meet the challenges of the new economy -- because in this economy, what you earn depends upon what you learn. It reinforces the New Covenant by empowering people to help themselves -- providing opportunity but demanding responsibility. It's about creating a new government: consolidating, streamlining, and eliminating. And the great thing about the Middle Class Bill of Rights is that it's open to everyone who needs it, no matter their region, race, or position on divisive issues -- as long as they're willing to work hard to get ahead.

The education, training, and reemployment initiative in the Middle Class Bill of Rights consolidates the confusing tangle of federal training programs. It empowers workers by putting resources and information directly in their hands. And it shifts control away from Washington to communities, where local priorities are best understood.

The current federal training system is a dizzying maze of programs that too often duplicate services and waste taxpayer money. We don't need new training programs -- this country has a wealth of high quality technical schools, community colleges, private programs, and universities where people can learn the skills they need. Our job is to make sure that you can take advantage of them.

I am proposing to eliminate over 50 government programs. I want to use that money to create individual Skill Grants for laid-off or low-income workers so you can spend the money where you choose. I want to establish One-Stop Centers around the country so you have the information about jobs and the skills they require to make good choices for yourself. At the same place, you should be able to learn about available training programs and find information to help you judge their quality.

Under our proposal, if you went to the local One-Stop Center, you could find out about jobs opening up at Maytag because of the new $164 Million retooling project. Then you could figure out the best place to get the skills you need to qualify for them. I suspect you might settle on a superb institution called Carl Sandburg Community College with an extraordinary job placement rate of over 94% -- at an average wage of almost $12 an hour.

The Middle Class Bill of Rights will create opportunity for all Americans. That is my simple test for every policy that comes before me: Does it advance the interests of average American families? Does it promote their values and build their future? If it passes that test, I'll support it. If it doesn't, I won't.

Beginning here in Galesburg, Lincoln and Douglas took on a new tone in their debates, addressing matters of principle. I hope that back in Washington, Republicans and Democrats can take on a new tone as well -- exchanging partisan bickering for bipartisan progress, working together to restore the American Dream. We've seen how people in Washington can obstruct progress for partisan gain. Now we must prove that we can work together to keep our country moving forward -- for America's gain.

That is my dream. I am struck by one line Carl Sandburg wrote over seventy years ago, in a poem inspired by the Washington Monument: "Nothing happens unless first a dream."

The enduring message of the Washington Monument inspires me every day: If we work together, if we combine vision and leadership with the courage to make hard choices and the determination to see them through, we can make our dreams come true.

God bless you all.

THE MIDDLE CLASS BILL OF RIGHTS

> "For too long, too many Americans have worked longer for stagnant wages and less security...[E]ven though the economic statistics are moving up, most of our living standards are not ... More jobs aren't enough. We have to raise incomes."
>
> President Clinton, Address to the Nation, December 15, 1994

The Challenge. Working Americans are riding a roller-coaster of economic change. New technologies, global competition, and an increasingly integrated world economy have been reshaping the industrial landscape. While some workers are prospering in the new economy, the living standards of average American families have been stagnating for a generation. Compared to twenty years ago, many Americans are working longer hours for lower pay. For much of our middle class, the American Dream is under siege. Restoring that dream--the hope of a better future for our families and our children--is our most urgent challenge.

The Beginnings of Change. In 1993, President Clinton proposed a new economic direction for America. Two years later, the United States has created 5.6 million new jobs, 92% in the private sector, with more good jobs than in the previous five years combined, and with the first 12-month increase in manufacturing jobs since 1978. Our country has reduced the national unemployment rate from 7% to 5.4% with the lowest rate of inflation in twenty-five years, so that the "Misery Index"--the combined measure of unemployment and inflation--is at its lowest level since 1972. It has reversed the flow of federal red ink by reducing the annual budget deficit for three years in a row. It has signed new trade agreements to reduce the tariffs paid by American consumers at home and American producers abroad, and to tear down barriers to American-made goods and services all around the world. And it is leading the world in the productivity and competitiveness of its firms and workers.

The Opportunity. The strong evidence that links education and training with higher earnings and better jobs points the way to build a better future for all Americans. As the President noted in his Address, "Education...has a bigger impact on earnings and job security than ever before....Every American needs the skills necessary to prosper in the new economy." A strong bipartisan consensus in the last Congress has already spurred significant steps toward building the skills and future earning power of the children and students of working Americans, including major new investments in education. The next step is the Middle Class Bill of Rights, which will empower America's workers to acquire new skills, obtain better jobs, and to earn higher wages and living standards for themselves and their families.

As the President observed in his Address, "Fifty years ago, an American president proposed the G.I. Bill of Rights, to help returning veterans from World War II go to college, buy a home and raise their children. That built this country." The G.I. Bill led to a generation of prosperity by putting learning resources directly in the hands of ordinary Americans. The returning veterans turned their new skills into the higher productivity, rising wages, and soaring living standards that opened the door into the middle class for tens of millions of Americans.

The President's Middle Class Bill of Rights will provide today's aspiring workers and job seekers the same kind of opportunity. Like the G.I. Bill, it puts resources directly in the hands of our people so that each individual will have a fair chance to learn the skills needed to build a better future.

1. **Education and training tax deductions** will help working Americans pay for building new skills that lead most directly to better jobs and wages. Deductions of up to $10,000 per year for families making up to $120,000 per year will be phased in for tuition and costs for college, community college, graduate schools, technical schools, and worker retraining.

2. **Tax credits for families with children** of $500 per child under 13 will be phased in. This will expand the budgets of middle class families to invest as they see fit.

3. **Expanded IRAs** will enable working families making up to $100,000 per year to save $2,000 per year from current earnings, tax-free, and to invest these funds--without penalty--when they want to build new skills or buy a first home, as well as providing for retirement or paying medical expenses.

4. **A comprehensive reform of the employment and training system** will help unemployed workers and low-income adults and youth --many of whom will not be able to benefit from the tax incentives--find new and better jobs, learn necessary skills, and obtain **Skill Grants** with which to make their own decisions about post-secondary training and education. Student loans through **Individual Education Accounts** will further ensure that <u>all</u> Americans have the opportunity to finance learning new skills where and when they choose and to repay these direct loans at the pace their future income allows.

THE MIDDLE CLASS BILL OF RIGHT: SKILL GRANTS

As a key component of the Middle Class Bill of Rights, the President proposes to totally restructure the existing system of employment and training. Seven key principles guide this change:

1. **Individual Empowerment.** Individuals should be empowered with resources so they can choose for themselves what skills they need to boost their earning power. The President's proposal puts buying power directly into individuals' hands, so they can get skills at the time, at the place, and in the way that makes sense for them:

- Unemployed and low-income workers can get Skill Grants worth up to $2,620 per year, for up to two years, that they can use as they choose for learning new skills.

- Both tuition tax breaks and Skill Grants will be supplemented by Individual Education Accounts. These low-cost loans will be available to any person, with flexible repayment options including "pay as you can," to enable every American to invest in their skills and repay at the pace their future income allows.

2. **Leaner Government.** The President's proposal eliminates over 50 separate programs, replacing them with an integrated system that minimizes red tape and maximizes individual choice.

3. **State Flexibility.** Washington doesn't have all the answers. States should have the flexibility to reflect local conditions and respect local priorities. The President's proposal gives states the freedom to tailor training programs and delivery systems as they see fit, including expanding on-the-job training in cooperation with firms and workers. Most federal rules dictating administrative procedures will be wiped out. States will be able to apply for waivers from the few rules that remain, and to plow the savings back into additional training.

4. **Good Information to Guide Choices.** A skill-building system rooted in individual choice requires good data to inform decisions about what skills to get and where to learn them. Reforms woven throughout the initiative--and centered on the networks of One-Stop Career Centers already under construction by the States--will give workers and job seekers access to reliable information on jobs, careers, and the success records of training institutions, so that they can make good choices to improve their futures.

5. **Accountability.** Too often today, training providers aren't held accountable for results. The President's initiative will address this by emphasizing individual choice and competition so that individuals can pick providers who deliver; by providing good performance data so people know what training pays off; and by setting quality standards for training providers to cut off the frauds and the incompetents.

6. **Private-Sector Partnership.** At base, the President's proposal isn't about government. It's about jobs, and that means the private sector has a central role. Business and labor will be full partners in designing and running training, job-search, and information services. The most competitive and productive firms are also leaders in upgrading the skills of their workforce: new awards will recognize excellence in creating workplaces that expand opportunity by capitalizing on and rewarding worker skills.

7. **Paths from School to Work.** Preparing America's youth for the world of work and a career of learning and applying new skills to more rewarding jobs is a vital task. This initiative will fold federal employment and training programs, including vocational education, for young people into the school-to-work movement already underway in every state as designed and developed by the states, local communities and the private sector. As with the new private sector partnership, good information, accountability and state flexibility for adults, this new approach will provide clearer paths to new skills and better jobs for youth.

The President's Middle Class Bill of Rights can arm every American worker with the tools to learn new skills, find good jobs and earn higher wages at more rewarding work. Like the G.I. Bill, the President's proposal will put the opportunity to learn and apply new skills directly in the hands of the peoplo. Now, as then, it will be up to individual Americans to accept personal responsibility, to make the most of this opportunity to build a better life for themselves and their families.

> "The Middle Class Bill of Rights will further our common mission as Americans -- to expand middle class incomes and opportunities, to promote the values of work and family, responsibility and community. And to help Americans compete and win in the new American economy."
>
> President Clinton, Radio Address, December 18, 1994

The President's Proposal for a Middle-Class Bill of Rights

Questions and Answers

Q. What is the President proposing in the Middle Class Bill of Rights?

A. Putting resources and information directly in the hands of hard-working American families so that they can make their own choices about how, when and where to invest in learning the skills they need to earn higher wages at better jobs. Just as with the G.I. Bill of Rights fifty years ago, this will empower individuals to learn and apply new skills to earn higher wages for themselves and higher living standards for their families in a new American economy. Just as with the G.I. Bill, ordinary Americans will take responsibility for restoring the American Dream of middle class prosperity now and pass it on to our children for the next generation.

Q. In what forms will the proposal put learning resources in the hands of individuals to build skills as, when and where they see fit?

A. **Education and training tax deductions** will lower the cost of building skills, and favor the kind of investment that leads most directly to better wages.

Expanded IRAs will let workers save from current earnings on a tax-free basis so they can invest -- without penalty -- when they want in the future to build new skills or buy a first home, as well as to pay for medical expenses and to provide for retirement.

Laid-off workers and low-wage workers, who often have too little income to benefit from tax incentives, can get individual **Skill Grants**, to use as they choose. The scholarships will be big enough to cover tuition and fees at a typical community college for up to two years.

All workers can get convenient access to **Individual Education Accounts** to finance the education and training they want -- with the option to repay the loans at the pace their future income allows--so they can spread the cost of skill investments over the course of their careers.

Q. How long has the stagnation in wages and living standards plagued the country?

A. From 1973 to 1993 average real compensation has basically stagnated, increasing less than 0.5% per year, compared to 2.8% per year in the prior generation from 1947 to 1972. If real wages had continued to grow over the last twenty years at the rate during the first generation following World War II, the average family's income in 1993 would have been $59,300 rather than $37,000.

Just as significant, the stagnation in wages over the past twenty years has fallen harder on the middle of the wage distribution than at the top: median real hourly wages, that

earned by workers at the middle of the wage distribution, fell by 7.5 percent. This occurred because of the dramatic shift of the rewards in the labor market against those without education, training and skills. For example, wages of male high school graduates fell 20 percent from 1979 to 1993, while the wages of male high school dropouts fell by 27 percent. Today, a male college graduate earns 83% more than a man with only a high school degree, compared to only a 50% premium less than generation ago.

This stagnation in wages for most Americans has taken a particularly hard toll on family income over the last 15 years. After a generation from 1950 through 1978 when the income of all American families rose smartly together -- approximately doubling for each quintile of the income distribution -- incomes for 80% of American families either stagnated or fell from 1979 to 1993. Today, half of all Americans are living on less money they did 15 years ago.

Q. What other evidence is there that education, training and skills matter and, just as important, can be learned?

A. Skill investments pay off for the individual: Each year of post-secondary education or training increases a worker's subsequent earning power by six to twelve percent. Education and training to learn and apply new skills today -- even more than at the time of the G.I. Bill fifty years ago -- is the form of personal investment that has the strongest, most direct link to earning higher wages and middle-class living standards.

Q. How does the tax deductibility proposal work?

A. Americans could deduct from their taxable income the money they spend on post-secondary education for themselves or their families. Starting at $5,000 in 1996 and rising to $10,000 of education spending will be deductible each year. Taxpayers would not have to itemize their deductions to get the education and training deduction. And education expenses would not be subject to the 2-percent "floor" on miscellaneous deductions. To focus the tax cut on the middle class, deductibility is gradually phased out over the income range of $100,000 to $120,000 for a couple filing jointly, and between $70,000 and $90,000 for individuals.

Q. How does this implement the strategy to put resources directly into the hands of people to invest in learning and applying new skills to earn higher wages at better jobs?

A. By reducing the after-tax cost of education expenses for individuals and families, the tax deduction rewards and encourages investments in education and training while lowering tax burdens for middle-income taxpayers.

Q. How big is this tax cut for a family?

A. The size of the tax cut depends on how much a family spends on education and

training, their income, their marginal tax rate, and other items. For most families, it will be either 15 percent or 28 percent of total spending on education and training. Here's one example. Consider a typical four-person family with $50,000 in income, $7,500 in other deductions (for mortgage interest and state and local taxes), and the normal $10,000 in personal exemptions, with a marginal tax rate of 15 percent. Suppose both kids are in college, the parents are also investing in learning new skills, and the family spends the maximum of $10,000 on tuition and fees. Under current law, that family would pay $4,875 in federal income taxes. If the President's proposal is fully implemented, that family will pay $3,375 instead--a 31 percent reduction in the tax bill.

Q. Would all education and training expenses--even if they're recreational or frivolous--be deductible?

A. No. Only tuition and fees directly related to instruction will be deductible. Expenses like meals, lodging, or transportation will not be deductible. Nor will "recreational" education involving sports, games, or hobbies be eligible for deductions--unless, of course, such education is part of a degree program (in sports therapy or rehabilitation, for example) or relates to the student's current profession.

Q. Will this proposal really increase education and training, or just give people tax breaks for doing what they planned to do anyway?

A. Of course, many people would still get education for themselves or their children whether or not there's a tax advantage. But lowering the cost of education and training will lead to a substantial increase in skill investments. Conservative estimates, based on the best available research on the impact of cost changes on college enrollment, point to about half a million additional students each year as a result of deductibility. Students from low and moderate-income families tend to react most strongly to changes in the overall cost of education, so the biggest effect will probably be on the proportion of lower middle class students going on to (and finishing) post-secondary education. Every extra high-school graduate who goes on to post-secondary training as a result of this tax code change--whether or not they graduate--can expect to add an additional $400,000 or more to the economy over the course of a career, compared with students who stop at high school.

Q. Doesn't this tax cut only help a small number of families? Won't the rich benefit more than the middle class?

A. No. Over 17 million people get post-secondary education each year. An even larger number are planning to invest in education and training for themselves or their families. (In 1992, about 60 percent of high school graduates continued on to some form of post-secondary education.) Over 90 percent of post-secondary students have family incomes below $75,000 per year (based on 1990 data.) The deduction will be phased out gradually for upper-income families, focussing the tax cut on the middle class.

Q. What is the size of the individual Skill Grant?

A. Up to $2620 per year -- enough to pay the costs of tuition, fees, books and expenses at most community colleges and technical schools. The President proposes to raise the level of Pell Grants to the same level in order to encourage students from low and moderate income families to pursue higher education.

Q. Who will be eligible for the individual Skill Grants?

A. Individual Skill Grants will be available to workers who are dislocated and to low-income workers. Laid-off workers will be eligible for individual Skill Grants upon confirming evidence, usually supplied as a matter of course by their previous employer, that they have been permanently laid-off. For low- income workers, eligibility will be basically the same as for Pell Grants.

Q. Who is eligible for loans from the Individual Education Accounts?

A. Every one. There is no age or income limit. Each individual can qualify for these student loans to cover costs, fees and expense at eligible post-secondary education and training institutions; and every individual can choose to repay through a variety of options, including a "pay-as-you-can" approach that enables every American to invest in acquiring new skills and to repay at the pace their future income allows.

Q. How many persons do you estimate may take advantage of the new labor market services, individual Skill Grants and Individual Education Accounts in FY96?

A. In part the answer depends on the extent to which individuals choose to apply these resources to learn new skills. At this time our best estimate is that approximately 1.7 million low-wage workers and over 300,000 thousand dislocated workers will use the Individual Skill Grants, while another 2.8 million students from low and moderate income families will use Pell Grants for college and another 5.5 million students of all ages may use loans from the Individual Education Account to finance their post-secondary education and training. As individuals can get Skill Grants and make use of loans from their Individual Education Accounts at the same time, these rough estimates are not additive. In addition, all Americans will have more convenient access to labor market services and information so that they can mange their own careers to build skills, earnings power and more rewarding careers as they see fit to get ahead.

Q. How can we be sure all of these federal investments in learning new skills will be wisely spent by individuals?

A. Just like the G.I. Bill, the President's proposal relies primarily on the self-interest and good sense of ordinary Americans -- rather than the commands of government bureaucrats -- to make choices about what education, training and skills each person chooses. Remember, it is the individual who has to invest the time and energy to

learn new skills and to take responsibility for applying those skills in the marketplace. What the President's proposal does provide is for the states, the private sector, and schools and colleges to provide information on what skills will be rewarded in the marketplace, what jobs are available, and the track records of schools and colleges in providing marketable skills and jobs and at what wages. In addition, the federal government will work closely with the states and local communities to screen out incompetent and fraudulent providers so that hard-working Americans don't waste their own time and money -- or that of taxpayers.

Q. How are eligible training institutions defined?

A. The President's proposal preserves the current eligibility requirements for training institutions or programs that receive federal assistance under the Higher Education Act. This definition of eligible institutions includes nearly all universities, four-year colleges, and community colleges--public or private--and also includes many vocational and technical schools. In full cooperation with the States, new accountability measures will weed out those institutions that are incompetent or fraudulent. These requirements will be applied with equal rigor to non-traditional training institutions, including community-based organizations. And the power of informed consumer choice -- exercised by individual learners who want new skills and the firms that do the hiring in local communities -- means that those institutions that don't deliver valued skills will ultimately be subject to the same test of the marketplace faced by private sector every day: they will lose customers and go out of business.

Q. Won't colleges, universities and technical schools just raise their prices to swallow up all of this new purchasing power for learning?

A. No. There will be strong pressures working against any attempt by schools to soak up the benefits of the increased skill purchasing power of families. Post-secondary education has become a highly competitive industry, with thousands of institutions scrambling for the student's dollar. Institutions therefore won't be able to simply raise their prices in response to increasing demand for skills. In addition, the aging of the baby boom generation has led to excess capacity in many institutions, forcing schools to compete for students and to keep tuition increases in check over the past two years. And these trends -- increased competition from providers and a smaller cohort of young people -- are likely to continue in the years ahead. Finally, states and localities can establish tuition costs at public colleges and technical schools to restrain the rise in tuition charged by public institutions and, hence, by other providers who compete in this post-secondary education and training marketplace.

Q. How many existing federal education and training programs does the President's proposal cover?

A. Over 50 current programs. More important, the unorganized welter of current programs is replaced by a new system that is based on the fundamental principle of

individual empowerment, buttressed by good information, full participation by the private sector in labor markets all across the country, and maximum flexibility for the states in designing and implementing supplementary counseling and training services (including on-the-job training in cooperation with firms and workers).

Q. How can states use their new flexibility to design and implement "one-stop" centers to build good information, provide counseling, and deliver supplementary training services?

A. Over the next few years, States can complete the process of designing and implementing their own "one-stop" approaches in cooperation with the private sector, business and labor, and the education providers in their local communities. This process has already started in many states and will be fully supported and expedited by the President's proposal. Washington won't tell the states how they should proceed in this process: most restrictive rules will be removed and states may seek waivers from the few that remain to build more effective systems of labor market information and exchange. The Clinton Administration will provide maximum support and flexibility to reward states that proceed so they can put the resulting savings from new efficiencies into additional training, including on-the-job training in full cooperation with firms and workers.

Q. What could I expect if I went to such a one-stop center?

A. Each state's network of one-stops will be designed to meet the needs of the local labor market. So, what you experience in an up-state New York one-stop may differ somewhat from your experience with one in Minneapolis, Sioux Falls, San Antonio, or L.A. county. But wherever the one-stop, here's what you would not encounter: bureaucratic red tape, long lines, and confusion about the local labor market information, job search assistance, individual Skill Grants and Education Accounts, and community colleges and technical schools available to you. Instead, you would be to communicate by phone, arrange convenient access to labor market data you want, set up a convenient time for an appointment to answer any preliminary questions about your immediate needs and log-term interests. Then, depending on your own circumstances and interests, you might do any of the following: tap into a user-friendly computerized jobs bank, develop your own resume with a career counselor for a talent bank, file an initial claim for unemployment insurance, get an assessment of your skills, find out about the fastest-growing occupations in your area and the skills employers are looking for, receive immediate assistance in finding a new or better job, get "consumer reports" on the courses offered by -- and the track records of -- local education and training institutions. In short, the one-stop centers can help you navigate your own career and inform your own choice of how you want to get ahead.

Q. What is the role of the private sector in all of this?

A. The private sector has a direct stake in developing the skills of all Americans, so that they can add more value to goods and services produced and share in the resulting

increases in productivity to buy and invest more.

The President's proposal invites the private sector to become a full partner in devising and implementing with the states the "one-stop" approaches to information, job search, counseling, and supplementary training services (including on-the-job-training) which are most effective and most in demand in their local labor markets. Business and labor are already taking the lead in the development of skill standards that will inform education providers, students and workers what skills will be rewarded with jobs and earn higher wages in the marketplace. In each labor market firms will also inform the schools and colleges what basic skills are essential and occupational skills are in demand. The private sector is also leading the school-to-work movement already underway in all fifty states to transform secondary education so that youth can learn in the context of apprenticeships and make a smooth transition to rewarding jobs and lifelong learning.

Finally, America's firms are themselves a key source of lifelong learning and new skills for their workers. The most competitive and productive firms are upgrading the skills of their workforce-- through formal training, investing in mid-career education, embedding learning in the workplace, and empowering their front-line workers to take greater responsibility for solving problems and working together to deliver more value to their customers. In cooperation with the private sector, we propose to recognize and reward the best of these firms so that appreciation of the mutual benefits of such high performance workplaces spreads.

Q. How does the President's proposal differ from S.6, the proposal for skill vouchers introduced by Daschle, Kennedy, Breaux in the Senate?

A. We welcome their embrace of the principles of individual empowerment -- as well as state flexibility to work with the private sector to develop supporting labor market services to guide the transformation of adult education and training in the country. The President's proposal goes further: it covers many programs in order to put more resources in the hands of individuals and to build good information systems and more effective labor and education provider markets; it includes tax deductions and an expanded IRA to increase the education purchasing power of middle class families; and it integrates Individual Education accounts to make sure that every American -- regardless of age or income -- has the ability to finance learning new skills. We look forward to working cooperatively with all Democrats and Republicans to deliver the promise of the President's Middle Class Bill of Rights to the American people. After all, it is America's families, workers and firms that have the most direct stake in making sure that every American has a real opportunity to learn and to apply new skills at more rewarding work.

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