Middle Class Bill of Rights --
Talking Points

# THE MIDDLE CLASS BILL OF RIGHTS

## *PRESIDENT CLINTON HAS PURSUED TWO GOALS FOR TWO YEARS*

**Increasing the Standard of Living for Middle Class Families**

The typical family earned less in 1992 than 1978. President Clinton has already lifted a $10,000 debt from every family of four by cutting the deficit by more than $600 billion. To revive the idea that people who work hard and play by the rules ought to get ahead, he has already delivered a $21 billion tax cut to 15 million working families.

**Investing in Education and Job Training**

Getting the right skills is the key to getting a good job today. That's why the President has fought to equip every American with the skills to earn higher wages at better jobs. He's already expanded Head Start, signed Goals 2000 to help communities improve schools, created Individual Education Accounts to deliver low-cost student loans, spurred School-to-Work apprenticeships, and launched AmeriCorps national service.

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## *THE NEXT STEP: THE MIDDLE CLASS BILL OF RIGHTS*

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

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

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

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

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## *PRESIDENT CLINTON'S PLAN VERSUS THE REPUBLICAN "CONTRACT"*

**Targeted at Middle Class Families, Not the Wealthiest**

The President's plan targets tax relief at the 80 percent of families who've enjoyed only 3 percent of America's growth in average income over the last 15 years. The Contract gives most of its breaks to the wealthiest 5 percent who've gotten half our growth.

**Tax Relief Paid for by Specific Spending Cuts, Not Vague Promises**

President Clinton has already identified cuts; the Contract doesn't. He'll maintain the recent economic growth and deficit reduction that make the Bill of Rights possible.

# $500 CHILD TAX CREDIT

### *GIVE TAX RELIEF TO MIDDLE-CLASS FAMILIES*

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

### *HELP RESTORE THE AMERICAN DREAM*

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

### *THE COSTS OF RAISING CHILDREN CONTINUE TO RISE*

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

### *RESTORE FAMILIES' ERODED PERSONAL EXEMPTION*

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

### *FOCUS RELIEF ON THE MIDDLE CLASS, NOT THE WEALTHY*

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

### *OFFER DIFFERENT KINDS OF RELIEF TO DIFFERENT FAMILIES*

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

### *HELPING MIDDLE-CLASS FAMILIES: AN EXAMPLE*

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

# EDUCATION AND JOB TRAINING TAX DEDUCTION

### *HELP MIDDLE-CLASS AMERICANS GET THE SKILLS THEY NEED*

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

### *BROADEN OUR MIDDLE CLASS AND NARROW THE GAPS BETWEEN US*

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

### *STOP RISING TUITION FROM CRUSHING MIDDLE-CLASS FAMILIES*

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

### *OFFER AN INCENTIVE FOR EDUCATION SIMILAR TO BUSINESS INVESTMENT*

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

### *MILLIONS OF WORKING FAMILIES WOULD GET TAX RELIEF*

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

### *TAX BREAKS WON'T TRIGGER TUITION INCREASES*

Little evidence links higher federal aid with higher tuitions: in the 1980s, education aid virtually froze while tuitions skyrocketed; in the last two years, President Clinton expanded student aid and tuition increases slowed. Even with deductability, families will still pay about 70 cents of every dollar increase in tuition. With 7,500 schools competing for students today, schools that try to cash in by raising tuition will lose students--and money.

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

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

### *HELPING MIDDLE-CLASS FAMILIES: AN EXAMPLE*

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

# EXPANDED IRA

## *HELP WORKING AMERICANS SAVE FOR THEIR FUTURE*

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

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

## *AMERICA'S SAVINGS RATE IS CRUCIAL--AND DECLINING*

America needs a high savings rate in order to sustain private investment that creates good jobs and raises incomes. During the 1970s, America's net savings averaged 7.2 percent of GDP. But over the last four years, the savings rate averaged only 2.2 percent of GDP.

## *EXPANDING IRAs WILL INCREASE NATIONAL SAVINGS*

Treasury Secretaries Lloyd Bentsen and Robert Rubin have spoken to the power of the expanded IRAs to increase savings. Right now, wealthier families can already afford to save for the future. But many middle-class families are putting away less money than they'd hope. The President's proposal offers them a better way to save tax-free. Once again, they'll be able to cut their taxes and save. And they'll be able to set up IRAs for all the key investments in their future, not just retirement.

## *TAX RELIEF TARGETED AT THE MIDDLE CLASS, NOT THE WEALTHIEST*

President Clinton's proposal offers a new opportunity to the families who have seen their incomes stagnate over the last 15 years--middle-class families with incomes under $100,000. The Republicans' "Contract with America" doesn't bring back "front-loaded" IRAs that middle-class people can actually use, but it does give a big tax break to Americans earning as much as $250,000--people who are already saving.

## *EXPANDED IRAs WILL GIVE AMERICANS MORE WAYS TO SAVE*

President Clinton understands that retirement isn't the only reason people need to save. It's just as important to encourage families to save in order to pay for college or buy a first home. His proposal would allow withdrawals from IRAs for emergencies, including unemployment and medical care. And, he'd give Americans the option of a "backloaded IRA," on which contributions would not be tax deductible but later earnings would.

### *HELPING MIDDLE-CLASS FAMILIES: AN EXAMPLE*

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

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

*FROM FEEDING BUREAUCRACIES TO EMPOWERING INDIVIDUALS*

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

*LEANER GOVERNMENT*

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

*STATE FLEXIBILITY*

Washington doesn't have all the answers. The President's proposal encourages states to work with communities, schools, and the private sector to tailor information systems, job search assistance, and on-the-job training to meet local priorities. Most federal rules dictating administrative procedures will be wiped out.

*GOOD INFORMATION TO GUIDE GOOD CHOICES*

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

*ACCOUNTABILITY*

Too often, training programs aren't held accountable. They should pass the same test as the private sector: meet your customers' needs or lose business. Choice, competition, and good information will empower individuals to pick providers who deliver. And performance standards for training providers will cut off the frauds and the incompetents.

*PRIVATE SECTOR PARTNERSHIP*

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

*PATHS FROM SCHOOL TO WORK FOR YOUNG PEOPLE*

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

*HELPING WORKING AMERICANS: AN EXAMPLE*

When the furniture company where Tom works shuts down, most of his co-workers find jobs quickly, but Tom doesn't have any luck. He decides it's time to learn a new skill and goes to the new One-Stop Career Center to learn about the community colleges and job training programs nearby. Tom signs up for a community college course on automobile diagnostics with a strong placement record, and pays with a Skill Grant. He works hard, learns a new skill, and with a hand finding job opportunities, lands a good job at the state-of-the-art repair operation with a local American auto dealer.

# $500 PER CHILD TAX CREDIT
## Backgrounder

Reasons for Change

The President believes that middle-class families need some tax relief. Families that work hard and play by the rules have gotten squeezed in recent years. It's true that average household income has risen by $2,000 over the last 15 years. But that statistic hides a darker reality: about 97 percent of that growth went to the top 20 percent of America's families. For the typical family, household income actually declined between 1978 and 1992. America needs policies to help restore the American Dream for working families.

Yet even after three straight years of cutting the deficit for the first time since the Truman years, the nation must also still be fiscally responsible. Given limited resources, the President believes we must target tax relief at middle-class families with younger children. Their costs for raising children have continued to rise dramatically. Costs for health care and education are increasing faster than inflation, and in 1990, the average middle-income family spent $3,000 on day care alone.

Higher-income families generally are better able to pay current levels of federal income taxation. And President Clinton has already implemented an ambitious agenda to help lower-income working families. They now get very substantial benefits from the Earned Income Tax Credit (EITC), which increased in 1994 and 1995 and will increase again in 1996. In time, 15 million families will receive a tax break averaging $1,000 per year.

Current Law

A deduction is allowed for each taxpayer and for each dependent of a taxpayer. Dependents include children of the taxpayer who are supported by the taxpayer and not yet 19 at the close of the calendar year or who are students under 24. The deduction amount is $2,500 for tax year 1995. This amount is indexed annually for inflation.

In addition to an exemption for each child, three other tax benefits may accrue to taxpayers because of dependent or otherwise qualifying children:

- The credit for child and dependent care expenses,
- The exclusion for employer-provided child and dependent care benefits, and
- The earned income tax credit (EITC). The EITC is a refundable tax credit based on earnings and is restricted to lower income taxpayers, phasing out when earnings exceed specified levels. Although the EITC is available for taxpayers without dependents or otherwise qualifying children, the credit rate and income range of the credit are far greater when the taxpayer has one or more qualifying children.

Proposal

A $500 nonfundable tax credit would be allowed for each dependent child under age 13. The credit would be phased out for taxpayers with adjusted gross income (AGI) between $60,000 and $75,000. The credit would be applied after the earned income tax credit (EITC) and would not be allowed to reduce Alternative Minimum Tax liability.

The per child credit would be $300 for tax years 1996, 1997, and 1998, and would increase to $500 for 1999 and thereafter. Beginning in 2000, the size of the credit will be indexed for the effects of inflation.

# EDUCATION AND JOB TRAINING TAX DEDUCTION
## Backgrounder

Reasons for Change

Two of America's greatest problems today are stagnating middle-class incomes and the increasing gap between those who prosper in a fast-changing economy and those who don't. Helping Americans get more education and training will help solve both problems. Each year of education or job training beyond high school increases average future earnings by 6 to 12 percent. And education and job training are keys to closing income differentials. In 1979, the average college-educated worker earned 40 percent more than his high school-educated counterpart. By 1992, this gap had grown to 80 percent.

Education costs have risen in recent years. The average tuition charge at a State-supported four-year college is about $2,600. Students attending private colleges and universities pay on average nearly $12,000. The annual tuition bill at highly selective institutions can reach $20,000 and more. At any of these institutions, room and board, books and supplies, and miscellaneous expenses add another $5,000 to the student's budget.

These costs severely strain the household finances of many families. Making matters worse, the costs of school have risen dramatically. Between 1981 and 1991, average college tuition rose more than 130 percent, compared to about 50 percent inflation over that period.

Middle-class families do not have the incomes to afford college and job training easily, but they also do not have access to much Federal student financial aid, which mostly goes to lower income students and their families. For example, about three-fourths of the Pell Grant program funds go to students from families with incomes less than $20,000 and two-thirds of all Stafford Loan program borrowers have incomes less than $30,000. The tax code also provides a number of other benefits to low-income persons, including the Earned Income Tax Credit (EITC), which President Clinton has expanded to offer a tax cut averaging $1,000 to 15 million working families.

President Clinton's proposal would offer educational investment special treatment similar to business investments or interest on a loan to buy a home--both of which are deductible. This proposal not only helps families educate their children, but also supports the National Education Goal of Lifelong Learning.

Well-educated workers are essential in an economy continuously experiencing technological change and facing global competition. Deductions for educational expenses combine needed tax relief with investments to meet new economic imperatives. By reducing the after-tax cost of postsecondary education and training expenses for individuals and families, the proposal encourages investment in education and training while lowering tax burdens for middle-income taxpayers.

Current Law

Taxpayers generally may not deduct the expenses of higher education and training.

Proposed Change

Under the President's proposal, a taxpayer will be allowed to deduct qualified educational expenses paid during the taxable year for the education or training of the taxpayer, the taxpayer's spouse, or the taxpayer's dependent. This deduction will be "above the line"--that is, it will be allowed in determining adjusted gross income (AGI).

Qualified educational expenses are tuition and fees charged by educational institutions that are directly related to an eligible student's course of study (including registration fees, laboratory fees, and extra charges for particular course). Charges for room, board, books, supplies, student activities, athletic fees and health care, and expenses for transportation, meals, lodging, and similar personal, living or family expenses are not included. The expenses of education involving sports, games, or hobbies are not considered qualified educational expenses unless that education is part of a degree program or relates to the student's current profession.

Eligible expenses would be deductible in the year such expenses are paid, subject to the requirement that the education commences during that year or the first three months of the next year. Normal tax benefit rules will apply to refunds (and reimbursements through insurance) of previously deducted tuition and fees. The proceeds of a loan may be used for qualified educational expenses, so students who borrow for school will still benefit from deductibility.

In 1996, 1997, and 1998 the maximum deduction is $5,000. In 1999 and thereafter, this maximum increases to $10,000. The deduction is phased out ratably for taxpayers with modified AGI between $70,000 and $90,000 ($100,000 and $120,000 for joint returns). Modified AGI includes amounts otherwise excluded with respect to income earned abroad (or income from Puerto Rico or U.S. possessions) and includes taxable Social Security benefits.

An eligible student is one who is enrolled or accepted for enrollment in a degree, certificate, or other program (including a program of study abroad approved for credit by the institution at which such student is enrolled) leading to a recognized educational credential at an eligible institution. The student cannot be enrolled in an elementary or secondary school, and cannot be a non-resident alien. Generally, the student must pursue a course of study on at least a half-time basis.

Double benefits are not permitted. Therefore, any amount taken into account as qualified educational expenses must be reduced by educational assistance which is not required to be included in gross income, either by the student or by the taxpayer claiming the deduction. In other words, qualified expenses must be reduced by scholarships, fellowships, or grants (including Federal financial aid) excludible from gross income under section 117 (even if characterized for a purpose other than tuition and fees) and any educational assistance received as veteran's benefits. However, no reduction is required for a gift, bequest, devise or inheritance within the meaning of section 1.02 (a).

No amount deducted under another section of the Code may also be deducted under this provision. However, if eligible expenses are deductible under both this provision and another provision, the taxpayer may elect which provision is applicable. No taxpayer that may be claimed as a dependent may deduct any amount under this provision.

Eligible institutions are defined by reference to section 481 of the Higher Education Act, and must have entered into an agreement with the Department of Education to participate in one or more of the Federal student financial aid programs. This definition includes certain proprietary institutions.

# EXPANDED IRAs

## Backgrounder

Reasons for Change

The nation's savings rate has declined dramatically since the 1970s, from an average of about 7.2 percent of GDP then to only 2.2 percent over the last four years. Low savings rates push up interest rates, making it harder for private companies to create jobs at home and compete abroad. They also lower investment and slow productivity. Over the long term, a high level of savings is essential for the continued healthy growth of the economy. And beyond these general concerns, middle-class families today aren't always able to save as much as they would like for long-term needs like retirement and education.

Under current law, deductible IRAs are not available to all middle income taxpayers. Furthermore, the present-law income thresholds for deductible IRAs and the maximum contribution amount are not indexed for inflation, so that fewer Americans are eligible to make a deductible IRA contribution over time--only 36 percent of joint filers next year. The maximum contribution is also declining in real terms over time.

The Administration believes that an expanded IRA can help increase the nation's savings rate. David Wise of Harvard and Steven Venti of Dartmouth have concluded that about 80 percent of IRA contributions are new savings--only 20% from "shuffling" of other savings into IRAs. University of Virginia economist Jonathan Skinner confirmed their general conclusion. As former Treasury Secretary Lloyd Bentsen wrote, "The IRA is a proven savings incentive."

An expanded IRA can have a special effect on savings rates for three reasons. First, the proposal can be targeted to new savers. By restricting eligibility for deductible IRAs to taxpayers with incomes below $100,000, such an IRA proposal targets individuals who may hope to save more than they currently can. This IRA gives them an extra incentive to save. By contrast, high-income taxpayers are much less likely to contribute new savings through IRAs. They often will finance their IRA contributions by diverting assets from non tax-favored sources.

Second, the proposal can offer incentives for non-retirement savings. People want to save for many purposes other than retirement. Right now, the opportunities to save for education or a first home may not be clear. By expanding the flexibility of IRAs to allow investments like these, a proposal can attract more taxpayers to saving. In addition, because IRA assets will be available to deal with crises like unemployment or illness, the initiative can make middle-income families more comfortable putting money in an IRA.

Third, an expanded IRA can draw more attention to the importance of savings. Following the 1986 reduction in IRA eligibility, contributions to IRAs declined--even among those who remained eligible. The reason is that advertising declined as financial institutions saw less benefits from promoting IRAs. A proposal that increases the number of taxpayers eligible for IRAs will encourage financial institutions to promote them again. And advertising and media attention to IRAs should be effective in encouraging IRA contributions, especially among moderate-income taxpayers.

Current Law

Under current law, an individual may make deductible contributions to an individual retirement account or individual retirement annuity (IRA) up to the lesser of $2,000 or compensation (wages and self-employment income). If the individual (or spouse) is an active participant in an employer-sponsored retirement plan, the $2,000 limit on deductible contributions is phased out for couples filing a joint return with adjusted gross income (AGI) between $40,000 and $50,000, and for single taxpayers with AGI between $25,000 and $35,000. To the extent that an individual is not eligible for deductible IRA contributions, he or she may make nondeductible IRA contributions (up to the contribution limit).

The earnings on IRA account balances are not included in income until withdrawn. Withdrawals from an IRA (other than withdrawals of nondeductible contributions) are includible in income, and must begin by age 70½. Amounts withdrawn prior to age 59½ are generally subject to an additional 10 percent penalty tax. The penalty tax does not apply to distributions upon the death or disability of the taxpayer or withdrawals in the form of substantially equal periodic payments over the life (or life expectancy) of the IRA owner or over the joint lives (or life expectancies) of the IRA owner and his or her beneficiary.

Proposal

Expand deductible IRAs. Under the proposal the income thresholds and phase-out ranges for deductible IRAs would be doubled; therefore eligibility will be phased out for couples filing joint returns with AGI between $80,000 and $100,000 and for single individuals with AGI between $50,000 and $70,000. The income thresholds and the present-law annual contribution limit of $2,000 would be indexed for inflation. The contribution limits would rise in $500 increments and the income thresholds in $5,000 increments. As with current law, any individual who is not an active participant in an employer-sponsored plan and whose spouse is also not an active participant would be eligible for deductible IRAs regardless of income.

Under the proposal, the IRA contribution limit would be integrated with the current law limits on elective deferrals under qualified cash or deferred arrangements (sec. 401(k) plans), tax-sheltered annuities (sec. 403(b) annuities), and similar plans. The proposal also would provide that the present-law rule permitting penalty-free IRA withdrawals after an individual reaches 59½ does not apply in the case of amounts attributable to contributions made during the previous five years. The provision does not apply to amounts rolled over from tax-qualified plans or tax-sheltered annuities.

These provisions would be effective January 1, 1996.

Offer Special ("Backloaded") IRAs. Each individual eligible for a traditional deductible IRA will have the option of contributing an amount up to the contribution limit to a deductible IRA or to a new "Special IRA". A contribution to a Special IRA will not be tax deductible, but if the assets remain in the account for at least five years, distributions of the contributions and the earnings thereon will be tax-free. Withdrawals of earnings from Special IRAs during the five-year period will be subject to ordinary income tax. Such withdrawals will also be subject to the 10-percent penalty tax unless used for the four purposes described below.

The proposal would permit individuals whose AGI for a taxable year does not exceed the upper end of the new income eligibility limits to convert balances in deductible IRAs into Special IRAs without imposition of the 10-percent tax on early withdrawals. When the balance in a deductible IRA is converted into a Special IRA, the amount transferred to the Special IRA generally would be includible in income in the year withdrawn from the deductible IRA. However, in the case of a transfer before January 1, 1997, the transferred amount would be included in income, but spread evenly over four taxable years.

The Special IRA provisions would be effective January 1, 1996.

Allow Some Penalty-free distributions. Penalty-free withdrawals from IRAs (and Special IRAs during the first five years after contribution) would be allowed if the proceeds are used to pay post-secondary education costs, to buy or build a first home, to cover living costs if unemployed, or to pay catastrophic medical expenses (including certain nursing home costs).

a. Education expenses

Penalty-free withdrawals would be allowed to the extent the amount withdrawn is used to pay qualified higher education expenses. In general, qualified higher education expenses are tuition and fees required for the enrollment or attendance of the taxpayer, the taxpayer's spouse, or any dependent as an eligible student at an institution of higher education.

b. First-time home purchasers

Penalty-free withdrawals would be allowed to the extent the amount withdrawn was used to pay qualified acquisition, construction, or reconstruction costs with respect to a principal residence of a first-time homebuyer who is the taxpayer, the taxpayer's spouse, or the taxpayer's child or grandchild. A first-time homebuyer is any individual (and if married, the individual's spouse) who (1) did not own an interest in a principal residence during the three years prior to the purchase of a home and (2) is not in an extended period for rolling over gain from the sale of a principal residence.

c. Unemployment

Penalty-free withdrawals could be made by an individual after separation from employment if (1) the individual has received unemployment compensation for 12 consecutive weeks and (2) the withdrawal is made during the taxable year in which the unemployment compensation is received or the succeeding taxable year.

d. Medical care expenses and nursing home costs

The proposal would extend to IRAs the present-law exception to the early withdrawal tax for distributions from tax-qualified plans and tax-sheltered annuities for certain medical care expenses (deductible medical expenses that are subject to a floor of 7.5 percent of AGI) and expand the exception in the case of IRAs to apply to medical care expenses of the taxpayer's child, grandchild, parent or grandparent, whether or not such person otherwise qualifies as the taxpayer's dependent.

In addition, for purposes of applying the early withdrawal penalty tax to distributions from IRAs, the definition of medical care would include expenses for qualified long-term care services for incapacitated individuals. Qualified long-term care services generally would be services that are required by an incapacitated individual, where the primary purpose of the services is to provide needed assistance with any activity of daily living or protection from threats to health and safety due to severe cognitive impairment. An incapacitated individual generally would be a person who is certified by a licensed professional within the preceding 12-month period as being unable to perform without substantial assistance at least two activities of daily living or as having severe cognitive impairment.

These provisions would be effective January 1, 1996.

# A G.I. BILL FOR AMERICA'S WORKERS
## Backgrounder

### THE FAILURE OF THE CURRENT SYSTEM

The current patchwork of Federal programs doesn't work. It took shape over 60 years, each part to meet a different need at a different time. All the parts don't work together. Shortcomings include:

**Fragmented, overlapping programs**. The scores of programs -- with their conflicting rules and administrative structures -- confuse the people they are intended to help, layer bureaucracy at every level, and waste the taxpayers' money.

- **Weak strategies.** With programs splintered and disorganized, states and communities haven't devised effective strategies for deploying federal resources, or for integrating Federal efforts with their own. Seeing few concrete results, the private sector has understandably questioned the entire enterprise.

- **Limited choice**. In most programs, bureaucrats make choices about jobs and training. Men and women seeking new opportunities must settle for what the system doles out.

- **Lack of good information**. Good choices require reliable data about what jobs are available, what skills they require, and which institutions work. The current system seldom provides this information.

- **Lack of accountability**. The quality of service is uneven. Institutions continue to get Federal funds even when they perform badly. There are few rewards for the best programs, and few penalties for the worst.

### THE GOALS OF THE PRESIDENT'S PROPOSAL

Given a fair chance to arm themselves with the skills and information to compete in the new economy, workers will improve their own lives. This initiative is based on seven principles:

1. **Individual Opportunity**. The President's plan empowers workers by giving them grants to pay for the training they choose:

2. **Good Data to Guide Choices**. It provides workers and job seekers quality information on jobs, career options, and the success records of training institutions.

3. **Accountability**. It ensures that systems at all levels are managed for results, and that programs that don't measure up don't get support.

4. **Leaner government**. It replaces dozens of federal education and training programs with an integrated system that minimizes red tape and maximizes individual choice.

5. **State and Local Flexibility.** It enables states and communities to tailor delivery systems, information, and supplementary services (including on-the-job training) to meet local conditions.

6. **The Private Sector as Partner.** It makes business and labor full partners in tailoring job search services, training-related services, and labor market information. They also are full partners in monitoring the quality of training and service providers, and will receive awards in recognition of achievements restructuring workplaces that enable workers to apply new skills to more predictive and rewarding work.

7. **Paths from school-to-work.** It makes programs for youth directly support the school-to-work transition reforms already begun in every State under the School-to-Work Opportunities Act.

Reform based on these principles will enable individuals and States to craft a lifelong learning system that respects individual priorities, reflects local conditions, and delivers results. The Administration stands ready to work with the Congress to craft legislation informed by these principles.

## BETTER INFORMATION AND MORE CHOICES FOR JOB SEEKERS

Building on the model of the School-to-Work Opportunities Act, in which a limited pool of Federal "venture capital" leverages efforts in states, localities, and the private sector, the President's initiative will catalyze rapid capacity-building in labor-market information systems. The initial wave of One-stop Career Center implementation represents the first step. Now, individual States -- working with communities, businesses, and schools and colleges -- will be able to design a responsive system to deliver job search assistance, information on skill demands and training-provider performance, and other "front-end" services. This new delivery system would also support on-the-job training arrangements with employers.

-- One-Stop Career Centers, including computer linkages with other sites, would be a key site for workers to learn what jobs are available, what skills they require, and which institutions have proven records preparing people for work. The services provided at One-Stop Centers will not only improve the impact of new Skill Grants, but also will provide useful guidance to Pell Grant recipients and others who are now largely on their own in choosing training institutions.

-- Implementation timing. Within five years, every State is expected to have completed its system design and begun implementation. As they do so, current administrative structures will be phased out.

-- Access through schools All qualified schools and training providers will provide pre-enrollment information on jobs, career opportunities, eligibility for Skill Grants and Individual Education Accounts, and the track records of all training providers in the area to prospective students.

-- Freed-up administrative funds can be used for customer services The plethora of Federal rules dictating the current form and structure of each system would be eliminated as each State works with communities and the private sector to devise its own system. In JTPA alone, about $600 million is spent on administration. With the money saved eliminating bureaucracies, States can expand service levels instead.

-- Preserving service levels for disadvantaged workers. Fund allocation and accountability procedures would ensure that disadvantaged adults receive services at levels equal to or greater than the current system.

-- Waivers for additional flexibility. States or localities will be able to seek waivers from the few federal rules that remain. A quick-turnaround interagency process will expedite responses across program lines.

## PURCHASING POWER FOR BUILDING SKILLS

Americans already have many options for education and training , including community colleges, universities, technical schools, private training institutions, and community-based organizations. The Administration's goal is to widen individuals' access to these resources, while equipping Americans with the information to make the most of their learning opportunities.

- **Deliver individual Skill Grants** to unemployed and low-income workers and job seekers. The G.I. Bill of Rights offers the model-- based on purchasing power, not bureaucracy. Skill grants and information on jobs, career opportunities, quality training sources, and available job search and training-related assistance permit individuals to select appropriate services, find jobs, and take the responsibility to choose their own training and make the most of it.

    - Skill Grant amount. Individuals would be eligible for a Skill Grant of up to $2,620 per year, for training up to the level of the Associate degree--the same amount as the maximum Pell grant for Associate, B.A, and other degrees.

    - Individual eligibility. Low-income persons would qualify for Skill Grants under the same terms and conditions as under Pell grants. States would design their administrative system in coordination with the Federal Pell grant program. Dislocated workers would qualify for Skill Grants without an income test.

- **Provide extended income support** for adults who lose their jobs and, after intensive job search assistance, still need skill training in order to get a new job.

- **Supplement Skill Grants with Individual Education Accounts with flexible repayment options**. People at more than 7,500 post-secondary education institutions are eligible to obtain student loans through their Individual Education Account for most types of training, regardless of income or age. Right now, many don't know it and miss out on opportunities to acquire new job skills.

    -- Information dissemination. Special efforts will be made to make information on how to obtain Federal loans more widely known. Loans would continue to be available through training and education institutions.

-- "Pay-as-you-can" loan terms. Under the Student Loan Reform Act's Direct Lending program, borrowers can repay loans through their Individual Education Accounts at a pace based on their income, rather than through the fixed payment terms the old law required. This sharply reduces concerns about excessive liabilities and minimizes the risk of default due to low income after training.

- **Trade Adjustment Assistance** (TAA). Workers affected by national trade policy would continue to receive training and income support.

## A NEW ADULT EDUCATION AND FAMILY LITERACY SYSTEM

Adult education and family literacy should be integral elements in building a well-qualified workforce. The new system would permit States to develop strategies to link Federal funds with their own investments in literacy. Current State grants under the Adult Education Act would be replaced and combined with authorities from Even Start, Library Literacy, the National Literacy Act and literacy funding to States under JTPA.

- **State flexibility**. States would be able to use funds as they see fit to provide high quality basic skills instruction and English-as-a-second language services.

- **Linkages**. Adult and family literacy services would work with services in the One-Stop Career Center adult system. States could also build close ties to activities funded by other education programs, such as English language learning.

## BROADENING AND ACCELERATING THE SCHOOL-TO-WORK MOVEMENT

With the enactment of the School-to-Work Opportunities Act, the President launched a national reform of secondary education and workforce preparation. Jointly administered by the Departments of Education and Labor, this initiative provides seed money to every state to design and implement a comprehensive school-to-work transition system. These systems are integrating academic and vocational education, linking high schools and post-secondary education, providing learning opportunities at work, and fully involving the private sector.

The two departments would extend their partnership under the reforms proposed for the Perkins Vocational Education Act and the JTPA youth programs. Strong connections between the in-school and out-of-school components of the system would ensure that all youth served reach the same high standards, prepared for good jobs and further education opportunities.

- **School-to-work seed money**. States and localities would continue to receive School-to-Work Opportunities Act funds to build the systems that are linking secondary schools, post-secondary education, and the private sector. Under the current plan, these funds phase out by FY 2001 as systems are implemented.

- **High Quality Vocational Education Systems.** All funds under the current Perkins Act--except for resources required for research and development, technical assistance, and other national activities--would be consolidated into one grant to States.

    -- Link with Goals 2000 and Titles I and II of the Elementary and Secondary Education Act. Vocational education funds would be made an integral part of State and local school improvement strategies, so that all resources relate directly to the school-to-work systems that States and localities are building.

    -- Use of voluntary state academic and skill standards would become central to in-school learning, so that students would have the portable skills needed to learn on the job and adapt to a changing labor market.

- **Second Chance Systems**. Funds under the current JTPA IIC (year-round youth programs) and JTPA Summer Youth Jobs programs and other funds would be consolidated into one grant that would help States and localities integrate work-based learning with classroom instruction for high-risk students and youth. Employers would play a central role in preparing youth for the job market, and linkages between training and work would be tightly forged throughout the "second-chance" system.

- **State and local flexibility to create an integrated school-to-work system**. States and localities would have the flexibility to adapt services in either the Perkins Act or the Second Chance system to local needs. States would be strongly encouraged to design and implement an integrated School-to-Work system for the use of education and training funds for in-school and out of school youth (e.g., Perkins funds, JTPA, ESEA.) If needed, waivers from the few remaining Federal requirements would also be available on an expedited basis.

- **Connection to the adult systems**. It is impossible to draw sharp lines, as Federal law now attempts to do, between programs for adults and programs for youth. In the new youth system, States and localities would make connections to adult systems through relationships with the business community and higher education institutions, and through the new labor market, information networks, and one-stop centers.

## ENSURING A STRONG PRIVATE SECTOR ROLE

Businesses need skilled workers who can constantly update their skills to produce customized, high-quality goods and services, and to undertake the continuous innovation necessary for a competitive edge. Business and labor have led the way in efforts to improve job training programs and job placement services for many years. The School-to-Work Opportunities Act stresses the role of business and labor in working with States and localities to create strong school-to-work transition systems. The private sector leads in establishing skill standards that will help guide the direction and calibrate the quality of skill training.

- **System design and quality improvement**. In the adult and youth systems of the initiative, business and labor would be key partners, helping States and localities devise strategic plans and oversee the quality of the workforce system. States and localities would have the flexibility to work with the private sector to tailor their participation to each area's needs.

- **Labor market information**. The private sector would work closely with schools and other learning institutions, as well as with one-stop centers and other gatekeepers, to provide data on what skills are in demand, what jobs are available, and what career fields are expanding.

- **Firm Training Consortia.** Consortia of firms, including buyers and suppliers, can be encouraged to provide training to upgrade the skills of the workforce. They can be freed of concerns that such consortia may run afoul of antitrust laws.

- **Recognition for exemplary firms**. The most competitive and productive firms are upgrading the skills of their workforce -- through formal training, on-the-job training, and investing in mid-career education. They are empowering workers to take greater responsibility on the job. The best of these firms would be recognized with special awards that highlight their successes. Appreciation of the benefits of such practices will be shared with all firms.

## ACCOUNTABILITY FOR RESULTS

The President proposes to make those who provide education and training services meet the test private businesses face every day. They will have to deliver value to their customers, or risk losing resources. Tougher accountability measures will build on the amendments to the Higher Education Act that strengthen gatekeeping and deter fraud.

- **Equipping individuals with purchasing power and information.** The most powerful tool for enforcing accountability is customer choice. Individuals would have the resources to buy training, and would get consumer reports on the records of eligible education and training institutions. With people making choices based on what works, ineffective institutions would not survive.

- **Quality standards for training**. Quality standards complement customer choice by weeding out the fraudulent or incompetent training institutions. Individuals could use their Federal support dollars only at institutions that meet quality standards. The Departments of Labor and Education, in partnership with the States, would jointly administer a training institution "gatekeeping" process.

- **State accountability**. States would develop policy, planning, and oversight activities as they choose, consistent with overall Federal accountability requirements. States would be held accountable for meeting the goals they set for the overall system and its component parts.

## DEFINING AND DELIMITING THE FEDERAL ROLE

Federal agencies would retain responsibility for research and demonstration; data collection; evaluation; dissemination of research, development and evaluation information to States; technical assistance; and national-level labor market information. The Department of Labor would continue managing a limited pool of resources for large-scale worker dislocations or economic disruptions fromm natural disasters. The federal role will be focussed on ensuring overall accountability for <u>results</u>--not to administrative <u>process</u>.

## CONCLUSION

The President's proposal can equip every American worker with the tools to learn new skills, find better jobs, and earn higher wages. Like the original G.I. Bill, the President's Middle Class Bill of Rights will put the opportunity to build and deploy new skills directly in the hands of working Americans, who ask only a fair chance to get ahead. Now as then, it will be up to individual Americans to make the most of this opportunity -- in their own way, at their own time. Ordinary Americans can begin to restore the middle class prosperity that was once this country's defining condition.

**IRA EXPANSION: Q&A**

**Q:** Will the President's proposal really stimulate new savings?

**A:** Yes. For three reasons:

First, It's targeted to new savers. By restricting eligibility for deductible IRAs to taxpayers with incomes below $100,000, the President's proposal targets individuals who may hope to save more than they currently can. The IRA proposal gives them an extra incentive. In contrast, high-income taxpayers are much less likely to contribute new savings through IRAs. They often will finance their IRA contributions by diverting assets from non tax-favored sources.

Second, the President's proposal offers incentives to save for several family goals. People want to save for many purposes other than retirement. Right now, the opportunities to save for education or a first home may be limited. By expanding the flexibility of IRAs to allow investments like these, the President's proposal will attract more taxpayers to saving. In addition, because IRA assets will be available to deal with crises like unemployment or illness, the initiative will make middle-income families more comfortable putting money in an IRA.

And third, the new effort will draw new attention to the importance of saving. Following the 1986 reduction in IRA eligibility, contributions to IRAs declined--even among those who remained eligible. That's because advertising declined as financial institutions saw less benefits from promoting IRAs. Because the President's proposal dramatically increases the number of middle-income taxpayers eligible for IRAs, financial institutions will promote them again . And advertising and media attention to IRAs should be effective in encouraging IRA contributions, especially among moderate-income taxpayers.

Finally, studies show IRAs increase savings. David Wise of Harvard and Steven Venti of Dartmouth have concluded that most IRA contributions are new not the result of the "shuffling" of other savings into IRAs. University of Virginia economist Jonathan Skinner confirmed their general conclusion.

**Q:** How does the President's proposal to expand IRAs compare to the proposal in the "Contract with America" (the "American Dream Savings Account")?

**A:** The President's IRA proposal has four major advantages:

First, the President allows more choice. His proposal allows middle-income taxpayers to choose between front-loaded and back-loaded IRAs. In contrast, the Republicans require taxpayers to take a backloaded IRA. Many taxpayers won't want to do it.

Second, the President's IRAs are targeted to middle-class. The Contract proposal has no income limits, while the President's proposal targets benefits by phasing out eligibility between \$80,000 and \$100,000 of AGI for joint filers and between \$50,000 and \$70,000 for single filers. Contributions to IRAs by moderate-income taxpayers are more likely to represent new savings than contributions from high income taxpayers. The main result of offering tax-preferred saving accounts to high-income individuals would be to give the wealthiest a tax cut.

Third, the President allows withdraws for more key investments. The President's proposal should further increase the incentive to save by allowing IRAs to be used for important family needs. The Contract proposal withdrawal provisions would not allow penalty-free withdrawals for the care of an elderly parent and for unemployment. In addition, the Contract proposals for other penalty-free are more restrictive than the President's proposal. For example, the Contract wouldn't allow withdrawals to help a child buy a first home. And, the Contract doesn't allow withdrawals from existing IRas. The President's proposal does.

Fourth, the President's proposal costs much less in the long run. The President's restriction on income eligibility will save billions of dollars.

**Q:** Won't penalty-free withdrawals erode savings?

**A:** No.

People will be attracted to establish IRAs by the new flexibility--whether they make withdrawals or not. So we'll get more savings to begin. And people will be more willing to make tax-favored deposits if they know they can get their money to make other investments.

**Q:** Why such high phase-outs?

**A:** Only about 36 percent of two-earning couples are eligible for a fully deductible IRA under current law. The President's proposal will more than double the number. As the number of potential IRA investors expands dramatically, America's financial institutions will deliver investment products and services that increase savings.

## CHILD TAX CREDIT: Q&A

**Q:** Isn't the tax credit a Republican initiative?

**A:** No, it has always been a Democratic initiative. President Clinton proposed a tax credit during the 1992 campaign. Vice President Gore and Representative Tom Downey cosponsored a child tax credit that garnered broad support for several years. And in 1992, the Democratic Congress passed a $300 per child tax credit as part of the Middle Class Tax Relief and Economic Growth Act (H.R. 4210), with only two Republican votes. It was vetoed by President Bush.

**Q:** Why limit eligibility for the credit to taxpayers with children under 13?

**A:** The President targeted his proposal to families with greatest need and risk. Families with pre-teen children have high costs like paying for child care or afterschool care--expenses that often run to thousands of dollars for each child. For families with older children paying for postsecondary education, the President has offered a different form of relief: parents will be able to deduct up to $10,000 of education expenses from their taxes. This tax deduction offers relief to parents with older children while also offering an incentive to get an education, the best investment Americans can make.

**EDUCATION AND JOB TRAINING TAX DEDUCTION: Q&A**

**Q:** Why is the Administration proposing a deduction, rather than a credit, for tuition expenses? Why not just increase grants to low-income students? Doesn't a deduction favor higher-income families?

**A:** There are three reasons that the President chose to offer a deduction for tuition expenses:

First, he wanted the tax incentives to give education investments the special treatment similar to business and home investments. Today, parents who invest in their child's education tuition don't get a deduction like they'd get for paying interest on a loan to buy a home--or like a corporation would get for purchasing equipment. That's wrong--because in today's economy, paying for education or job training is as important an investment as any.

Second, this deduction is targeted at middle-class families who are struggling to pay for education and aren't eligible for most student aid. Three-quarters of Pell Grant funds go to students from families with incomes less than $20,000. And two-thirds of Stafford Loan borrowers have incomes lower than $30,000. President Clinton has fought--and will continue fighting--to protect these forms of aid. He's already lowered interest rates on student loans and now proposes to increase the maximum Pell Grant. The education deduction complements these other efforts.

Third, President Clinton's tax plans as a whole have been very progressive. His expansions in the Earned Income Tax Credit give 15 million families earning less than $27,000 a tax break averaging $1,000. He has used credits extensively, including the EITC and the proposed child tax credit. And he is now proposing Skill Grants that will give lower-income and displaced workers up to $2,620 to pursue education or job training.

**Q:** If tuition is tax deductible, won't universities, community colleges, and vocational schools just raise tuitions? Won't they be the real beneficiaries--not families?

A: No. Any increase in purchasing power can benefit both suppliers and buyers. Who benefits depends on the level of competition for the customer's dollar and the method of delivering the benefit. There are three reasons that a deduction for education and training will benefit families:

First, education and training are now highly competitive industries, so if schools hike tuition, they'll lose money. There are nearly 7,500 learning institutions at which tuition will be tax-deductible. Families have already become smarter shoppers, helping slow tuition inflation from 9.3 percent annually in the 1980s to 7.6 percent annually in the 1990s. If schools try to inflate fees now, they won't get students.

Second, this is a deduction, not a grant, so the typical families will still pay 72 cents of every dollar in tuition increases. With grants, government may bear the cost of tuition increases, but not so here. Families will continue to do most of the paying--and resist increases as strenuously as ever.

Third, there's no evidence that higher education aid leads to higher tuitions. If anything, the evidence points the other way. In the 1970's, federal aid for education increased 11 percent annually, and tuition increased at a rate of 7 percent. In the 1980's, the growth of federal aid slowed to only 1 percent per year. But tuition inflation accelerated to 9.3 percent per year. Now, in the 1990's, federal aid to higher education has increased by 11 percent per year--but tuition increases have slowed to 7.6 percent. There is no reason to believe that a further increase in purchasing power through tuition deductibility will simply increase tuition inflation.

Follow-up:

**Q:** Even if schools don't hike tuitions, won't they just grab benefits another way, by cutting financial aid?

**A:** No. First, families shop for the best package, including total costs and total aid. Schools that cut back on aid--just like ones that hike tuition--will lose students. Second, nearly three-quarters of grant aid goes to students with household income below $30,000. Tuition deductibility will mostly affect middle-income families that don't much get grant aid anyway.

Follow-up:

**Q:** What about state schools? Tuitions at state institutions don't cover schools' costs, and aren't really set by a market. Legislatures are pressuring schools to cover more of their costs. Won't these schools seize on deductibility as a golden opportunity to increase tuition?

**A:** No.

First, State schools face the same pressures against unreasonable increases in fees and tuition. Even with deductibility, families will still bear most of the burden of any tuition increase. If a state school raises its price, students can still go elsewhere--to a private institution, a community college, or even another state school (or out-of-state school) that keeps its fees in line. And a second factor holds down tuition increases at state schools: the ballot box. State legislators have to answer to voters for tuition and fee at state institutions--whether or not they use deductibility as an excuse.

**Q:** Why isn't the Administration proposing an extension of the tax provision which permits an employee to exclude from income up to $5,250 of educational assistance provided by his employer?

**A:** The Administration supports an extension of the exclusion for employer-provided educational assistance, which expired on December 31, 1994. We will work with the Congress to find appropriate offsets to finance its extension.

[IRC Section 127 allows employees to exclude from their income subject to tax educational expenses paid for by the employer up to $5,250. The education need not be related to the current job, but employers must provide the assistance under a nondiscriminatory plan.]

**Q:** Why doesn't the Administration's proposed deduction for education and job training expenses include interest paid on student loans?

**A:** The proposal is intended to encourage education and job training. In developing our package of tax cuts we were constrained by the available revenue. We would welcome the opportunity to work with Congress on a deduction for student loan interest, but like any other proposal, this one must be paid for.

# G.I. BILL FOR AMERICA'S WORKERS: Q & A

**Q:** What programs are you proposing to consolidate?

**A:** The proposal would incorporate into a single workforce development system 70 job search and job training assistance programs, representing over 60 percent of the 1995 funding for the 163 training programs identified by the General Accounting Office. Nearly all of these programs (68 of 70) are currently administered by the Departments of Labor and Education. These programs will be incorporated into the following systems:

- Adult Workforce Development -- 27 programs to provide Skill Grants ($3.6 billion) for dislocated and low-income workers and to offer information on jobs, careers, and education and training opportunities, along with job search assistance and training-related services. States will use One Stop grants ($200 million) to join with communities, schools, and the private sector to develop One-Stop systems that will coordinate the delivery of information, job search and training-related services.

- Adult Education and Literacy -- 14 programs will be consolidated into a single grant for States to use for basic skills instruction, GED preparation, and English-as-a-Second-Language.

- School to Work Second Chance -- 6 JTPA programs will be consolidated into a single grant through States to localities to integrate work-based learning with classroom learning for high-risk students and school drop-outs.

- School-to-Work -- 23 Education programs under the Perkins Vocational Education Act will be consolidated into one in-school youth grant to States.

**Q:** If there are 163 employment and training programs in the federal system, why are you only consolidating 70 programs? Why some programs and not others?

**A:** The issue isn't the number of funding streams, but their accessibility and accountability to the customer. The proposal radically restructures incetnvies and accountability by shifting maximum control to workers and job seekers. To this end, the proposal pulls 70 separate programs into a comprehensive system, representing 60% of fiscal year 1995 funding for all employment and training programs. The other programs identified by GAO either are not really training (e.g. economic development programs), or they serve substantially different populations or have highly specific objectives best served by separate programs.

**Q:** Who qualifies for these skill grants and how can they be used? Can workers get both skill grants and student loans? If people change jobs seven times in their careers, as you've said many times, can I tap into skill grants and student loans seven times for retraining?

A: Skill grants will be available to workers who are dislocated and to low-income workers. Laid-off workers will be eligible for Skill Grants upon confirming evidence, usually supplied as a matter of course by their previous employers, that they have been permanently laid-off. For low-income workers, eligibility will be basically the same as for Pell grants. These Skill Grants would be for each of two years within any 5-year period.

Eligibility for Skill Grants would be limited to persons enrolled in training programs leading to a certificate or other award. All grant recipients will get some career counseling, labor market information, consumer report and job placement information before enrolling.

All workers, including those getting Skill Grants, would have convenient access to student loans through an expanded Individual Education Account. They will have the option to repay the loans at the pace their income allows so they can spread the cost of skill investments over time. Workers who have paid back their loans or have a good repayment track record will have repeated access to loan resources as needed.

You will be able to receive a Skill Grant for each of 2 years within any 5-year period. Although you would not be able to get a Skill Grant more frequently, you could get a student loan as frequently as you want, provided that you maintain a good payment record.

**Q:** How will you prevent Skill Grants from becoming a boondoggle for fly-by-night training operations? How will you ensure that people won't invest in ineffective training?

A: First, the G.I. Bill for workers will offer "consumer reports" and other information to workers, so they can learn which operations teach real skills and get people into jobs, and which ones don't. If the programs aren't getting results, people won't choose them.

Second, all training providers will now have to meet minimum quality standards in order to receive Federal funds. It isn't this way now. But with a new "gatekeeping" function, individuals will only be able to use Federal dollars at institutions with good track records for delivering job market success.

The principle here is clear. With some precautions, a reinvented government can't be afraid to trust in the good sense of ordinary people to look out for their own interests. That's what we do.

**Q:** How many people will participate in the program each year?

A: Our best estimate is that approximately 1.8 million low-wage workers and nearly 300,000 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 better manage their own careers.

We also expect that about 3 million adults will receive family and adult literacy services. The School-to-Work Second Chance system is expected to serve about 600,000 low-income youth through the summer component and the out-of-school youth component. In addition, the Perkins Vocational Education component will reach young people in about 84 percent of school districts and about 90 percent of community colleges.

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

**A**: The private sector's role is pivotal.

The President's proposal invites the private sector to become a full partner in devising and implementing 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 developing 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.

DRAFT

# HOW THE PRESIDENT'S PROPOSAL FOR A MIDDLE CLASS BILL OF RIGHTS WORKS FOR AMERICAN WORKERS

"For too long, too many Americans have worked longer for stagnant wages and less security. For the past two years we have pursued an economic strategy that has helped to produce over 5 million new jobs. But even though the economic statistics are moving up, most of our living standards are not....More jobs aren't enough. We have to raise incomes.
"Fifty years ago, an American president proposed the GI 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. Tonight, I propose a middle class bill of rights."

President Clinton
Address to the Nation
December 15, 1994

Two generations ago the G.I. Bill of Rights provided millions of ordinary Americans with a new chance at education and training to prosper in the challenging era following World War II. They applied their new skills to realize the American Dream of middle class prosperity for themselves, their families and the nation. President Clinton's Middle Class Bill of Rights is designed to provide every American worker who is willing to learn and to work with a fair chance to build such a better future in a new American economy:

- **Education and training tax deductions** will help working Americans pay for building new skills that lead most directly to better jobs and wages. And **tax credits for families with children** will expand the budgets of middle class families to invest as they see fit.

- **Expanded IRA's** will enable working families to save from current earnings and to invest when they want in building new skills or buying a first home, as well as providing for retirement.

- Laid-off and low-wage workers, who often have too little income to benefit from tax incentives, can get **Skill Scholarships**. The current welter of federal education and training programs for adults will be eliminated and the dollars put directly in the hands of these veteran workers, so they can get the skills they need on their own terms.

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

- **Better information** on jobs, essential skills and education providers will be made readily available so that all workers can make informed choices about learning new skills and finding more rewarding jobs.

- **Making business a full partner** in developing workforce skills and applying new skills to more productive work will help build the skilled workforce they need and equip workers to earn higher wages.

The President's proposal builds on his successful, bi-partisan initiatives over the first two years to increase educational opportunity for the nation's young people -- setting challenging standards for our nation's schools, enabling more high school students to learn in the context of work and apprenticeships, making college loans more affordable. The Middle Class Bill of Rights now calls for increasing the opportunity of all American workers to learn and to apply new skills that will enable them to build a better future for themselves and their families.

## THE CHALLENGE

In the closing years of the 20th century, America's workforce is riding a roller-coaster of economic change. New technologies and global competition are reshaping the industrial landscape. Overall, our nation is well-equipped to prosper in a fast-paced, increasingly integrated world economy: Change has always been America's strong suit.

The bad news is that too many of our workers are being left behind as the economy moves into the future. Average hourly wages have declined. Families work longer hours and take extra jobs simply to achieve the living standards that one paycheck used to deliver. America's workforce is increasingly divided according to skills. Most Americans with education and skills are making good wages. The American dream of upward mobility remains within their grasp. But those whose skills are out of date or out of synch with the economy's transformation contemplate their prospects with anxiety. And Americans without education or skills are falling further behind.

This division in the workforce has been a generation in the making as the economy has struggled through a rough transition: from high wages for the gritty application of muscle-power in the mass production plants of the old industrial economy, to high wages for the innovative application of brain power in flexible firms producing customized goods and services. In this new economy, skills matter more. A generation ago, a male college graduate earned less than 50 percent more than a man with only a high-school degree. Today, he outearns his high-school graduate counterpart by 83 percent. Overall, from 1973 to 1992, the average hourly wages of all workers actually fell, as the country's rate of productivity growth slowed to less than one-third the pace of the previous generation. As a result, living standards for most American families have stagnated.

The good news is that the skills essential to boosting productivity and wages can be learned. Every year of education or job-training beyond high school -- whenever it occurs in a person's life -- increases future earnings by 6 to 12%. America is blessed with a rich array of learning institutions to deliver the skills workers need to earn higher wages. And an increasing percentage of America's firms are finding that the surest path to durable competitive advantage is embedding learning in the workplace and empowering front-line workers. Since four-fifths of the nation's workers of the year 2000 are already in the workforce, lifelong learning (for veteran workers as well as young people) is essential to productivity and income growth. President Clinton's Middle Class Bill of Rights is designed to offer every American worker a fair chance to apply this lever of lifelong learning to earn a more rewarding role in the new economy.

Of the 5.2 million net new jobs created in the first 21 months of the Clinton Administration, most are good jobs paying high wages. For the first time in a generation, America is once again leading a global recovery. Our increasingly productive manufacturing, farming, service, entertainment, communication, information, university and research sectors are setting the world benchmark for quality, value and innovation. The President's plan to put our federal fiscal house in order has slashed the annual deficit for three years in a row, to a rate that is a smaller fraction of our national economy than all but one of our major trading partners or economic competitors around the world.

With the fall of communist command and control economies and the ratification of new agreements to tear down trade barriers, the world economy is on the brink of a transformation with enormous promise for America. Rapidly expanding markets are clamoring for American-made goods and services, as well as American-style economic and political freedoms. This presents an unprecedented opportunity for replacing today's stagnating living standards with a new American economy and a generation of prosperity for America's families. Our responsibility is to assure that every worker has the opportunity to learn and to apply new skills that will earn higher wages in this new economy.

Such challenges are not new to America. During two marked episodes of rapid change in the past century, we seized the opportunity to move forward: first, in the transition from a manual labor, agrarian economy to the mass production leader of the world at the turn of the century; and, then again, in the transition from war-time production to an astonishingly vibrant peace-time economy in the generation following World War II. Only once during this century has our country flinched: following World War I we sought to isolate ourselves from the rest of the world with protectionist barriers, and the Great Depression ensued.

Today, America's choice in the new, global economy is clear: high skills or low wages. Our heritage and our national character summon us to the high road of shared productivity and prosperity. But there are hurdles to surmount.

## THE BASIC STRATEGY

We must remedy the rift dividing those who have the right skills to compete and those who don't. To do so, we must:

- expand the opportunities for lifelong learning for all workers so they can learn and apply new skills to earn higher wages at more rewarding work

- construct a reliable system of labor market information and reemployment so that workers displaced by economic change can get back on their feet and back to work, while workers looking for better jobs get new skills for more productive work.

Our workers, given a fair chance to arm themselves with the skills and data needed to compete in the new American economy, will take responsibility for building a better future. But if we fail to provide such opportunity, the divide between those earning high wages and those with low skills will grow. Our productivity and living standards will stagnate for another generation. And we risk losing the tradition of broadly shared middle class prosperity that is the essence of the American Dream.

Having succeeded over the last two years in getting our economy moving forward and reversing the runaway federal deficits of the prior 12 years, it is now time to invest the resulting returns in building a brighter future for America's hard-working families. The President's Middle Class Bill of Rights proposes to put resources directly in the hand's America's workers so that they can invest in learning and applying new skills, the linchpin of our nation's future competitiveness. America's workers and families will reap the reward: clearer pathways to higher wages and rising living standards for all who continue to learn and to work.

**The Initiative--Initial Steps**

Lifelong Learning: The Goals 2000: Educate America Act lays the foundation for our agenda of reform: "By the year 2000, every... American will...possess the knowledge and skills necessary to compete in a global economy."

Key building blocks are already in place:

- Goals 2000 and the Elementary and Secondary Education Act encourage local communities to adopt challenging standards for all students.

- The School-to-Work Opportunities Act fosters new partnerships between local high schools, businesses, colleges and technical schools, students and parents to better prepare all youth for a successful transition from the world of school to the world of work and continuous learning.

- Individual Education Accounts provide every post-secondary student with convenient access to loans to acquire new skills. A wide array of repayment options, including those based on ability to pay from future earnings, make higher education and technical training more affordable for all students.

- The President's National Service Corporation lets Americans earn resources for education while gaining the kinds of practical experience that motivate learning and set it in context.

- Voluntary occupational skill standards, developed by business-based coalitions, will let workers, community colleges and universities know what skills matter most in the marketplace, and give workers a portable credential to demonstrate their productive potential to employers.

Labor Market Information and Reemployment: The Clinton Administration has aggressively deployed existing authority and resources to begin building a better system of labor market information and reemployment services, while shaping proposals for legislative change:

- About half of the states--empowered with federal grants--are planning or assembling networks of One Stop Career Centers to offer efficient, customer-driven access to counseling, labor-market information, job listings, training and education, and other reemployment services.

- Workers applying for unemployment insurance, or subject to plant closings or defense conversions, are getting individual assessments of their skills and risks of long-term unemployment, so that each can quickly find the help they want to get new work.

- Changes in unemployment insurance laws encourage laid-off workers to start their own businesses.

**Next Steps -- THE MIDDLE CLASS BILL OF RIGHTS**

> "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....So let's invest the fruits of today's recovery into tomorrow's opportunity."
>
> President Clinton, Address to the Nation, December 15, 1994

Accomplishments to date, however important, are only a beginning. If America is to restore its defining bargain--that if you work hard and play by the rules, you should be able to get ahead--we need to transform the old federal workforce programs, root and branch. We can't afford to pay laid-off workers under an out-dated unemployment system to wait for old jobs that aren't coming back; these veterans of the workforce want to get back to work at new and better jobs. Nor does it make sense to feed the budgets of government bureaucracies, federal or state, on the worn-out belief that government knows best; workers want access to reliable information and new skills that will enable them to make their own career choices. We need to empower workers by putting learning resources and labor market information directly into their hands, so they can make their own choices about the skills they need and about how to leverage their skills to get better jobs.

This initiative takes its inspiration from the G.I. Bill of Rights enacted at the end of World War II, which helped trigger the transition from a period of conflict and anxiety to an astonishingly prosperous postwar era. The G.I. Bill empowered a generation by putting learning resources directly into the hands of ordinary Americans. The rest is history--indeed, one of the brightest episodes in our history: These returning veterans turned their new skills into higher productivity, greater innovation, rising wages, and soaring living standards. The dream of a secure, productive place in an upwardly mobile middle class became a reality for a majority of our nation's people.

Half a century later, America faces another turning point, one marked by rapid change, anxiety, and--for all too many of us--stagnant or falling living standards. Most Americans with education and skills are making good wages. Those without skills--or whose skills are out of date--have been falling behind. Solid research shows that every year of education or training after high school boosts earning by six to twelve percent. It is time for another campaign of investment in the skills of our workers. It is time for another generation of hard-working people who play by the rules to get a fair shot at middle-class prosperity.

The President's proposal for a Middle Class Bill of Rights is designed to do just that. Five key principles drive the President's plan: **individual opportunity; accountability; leaner government; making business a partner; and doing right by our kids.**

**1. Individual Opportunity**

Americans already have an array of options for education and training -- community colleges, universities, technical schools, private training institutions. Adding to that supply is not the answer to building new skills. Indeed, new learning technologies, skills standards, and world class benchmarking promise to increase the productivity and accessibility of all of these education enterprises for students and workers of all ages, interests, and needs. The best solution is to put the resources and the opportunity for learning new skills directly in the hands of individuals so that they can choose the training best for them. The President proposes to empower working families with choices that will enable them to learn the skills essential to earning good wages at good jobs and to building a prosperous, upwardly mobile middle class in a new American economy:

- A **tax deduction** for post-secondary education and training costs up to $10,000 per year for families making up to $120,000 will be phased-in. This will help working families pay for acquiring the skills the parents need to advance their own careers and for sending their kids to college or technical school.

- An **expanded IRA** will encourage families earning up to $100,000 to put $2000 per year in a tax-free account. Working families will then be better able to invest in learning new skills for themselves and their children when they want, as well as buying a first home, caring for a dependent family member, or saving for retirement.

- Access to **Individual Education Accounts** will be made convenient for all students and workers. This will enable all Americans to finance at any time the education and training they want--with the option to repay the loans at the pace their income allows--so they can spread the cost of skill investments over the course of their careers.

- Laid-off and low-wage workers, who often have too little income to benefit from tax incentives, will be offered **Skill Scholarships.** These personal skill grants will finance up to two years of education or training that can lead to a better job. Workers who need to start a new career, or make a fresh start, will have access to this gateway to better jobs.

Each of these opportunities for learning is put under the individual's control. Instead of going for training where government might dictate, workers and their family members can use their purchasing power where they choose. As with the G.I. Bill before, the Middle Class Bill of Rights puts opportunity in the hands of the individual, with full confidence that ordinary Americans will take responsibility for learning new skills and applying them to more productive work. This is the surest path for American workers to earn good wages, and to build a growing middle class for years to come.

**2. Accountability**

We propose to make the education and training system meet the test private businesses face every day. It will have to **deliver value** to its customers, **or risk losing resources.**

Informed **choice will enforce accountability**. The new system will create a buyer's market. Programs will have to offer training that truly helps workers sharpen their skills and land a better job. If they fail to deliver, workers can take their resources and spend them elsewhere. Satisfying ordinary Americans--not meeting bureaucratic requirements--will be the measure of success.

In order to inform choice, **reliable labor market data** and **information on the quality and results offered by education providers** will be made readily available. In addition, new measures will be taken **to screen out incompetent or unscrupulous providers** so that they don't waste hard-working people's time and money.

**3. Leaner Government**

The proposal would **consolidate** dozens of **federal adult training programs**. Rather than simply repackaging the maze of adult programs into fewer boxes, or putting state bureaucrats instead of federal bureaucrats in charge, we aim to radically restructure incentives and accountability by **putting the resources and choice directly in the hands of workers.**

The current welter of **youth programs** will also be replaced by a **coherent system rooted in the school-to-work** approach taking hold throughout the country.

**Government's role is stripped to the essentials.** Government's responsibility--largely performed through One Stop Centers--is to serve as the conduit for putting learning opportunities in the hands of individuals; publish labor market data to inform individual choice; report on the performance of training institutions; broker reemployment services; and police the system to ensure that every individual and institution plays by the rules. Building on the strengths of our federal system, the initiative will encourage implementing these responsibilities **as states and communities see fit to best meet local conditions and priorities.**

Government won't dictate to people or require particular programs. It will be up to learning institutions--spurred by competitive pressures from their customers, firms and individuals--to decide how best to deliver new skills. It will be up to individuals--the best judges of their own interest--to decide what skill investments make sense for them.

### 4. Making Business a Partner

America's best firms are ready to become full partners in helping to implement the Middle Class Bill of Rights. They need skilled workers and lifelong learners to produce the increasingly customized, high quality goods and services, and to undertake the constant innovation that provides our country with a competitive edge. And firms want more workers earning rising incomes so that America's families can afford to buy and to invest more.

Firms are already providing the leadership -- and the youth apprenticeships -- to **implement the School-to-Work** initiative in every state and region. They are spearheading the **development of the skills standards** that will provide the benchmarks so that schools, colleges, students and workers know what skills firms will reward.

Under the proposal, firms in each labor market will work closely with the local schools, colleges, technical institutions and One Stop Centers to provide **essential labor market information** on what skills are in demand, what jobs are available, and what career opportunities are growing. This local information will flow continuously into a bank of national labor market data from which useful information--on regional trends, job demands from employers, and supplies of skilled workers--can be made readily available, through convenient electronic access, to individual firms and workers. Private brokers of information and job search intermediaries will be able to access and add value to these banks of information on jobs and talent, to better meet the needs of employers and workers.

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. We propose to recognize and reward those firms that best exemplify the shared payoff to such practices. Coupled with research (and dissemination of information) on new

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and more effective practices, and tax deductibility for firm investments in education and training, such rewards will expand and focus the building of skills in the workplace.

**5. Doing Right by Our Kids**

The same principles of accountability, efficiency, and practical linkages to the working world apply to our **youth program consolidation**. But kids have special needs, so **institutional reform** must play a larger role here.

Our proposal builds on the momentum, and affirms the principles (**career pathways, work-based learning, world-class standards**) of the **Goals 2000, School-to-Work and Skill Standards** initiatives of the President's first two years.

We propose **consolidating federal youth employment and training programs into a coherent system** anchored in the foundation of the **school to work** transformation already underway in all fifty states. For kids still in school, we propose to **consolidate vocational education programs** into the nation-wide movement for work-based learning and successful transition to rewarding careers and continuous learning emerging under the School-to-Work Opportunities Act. For kids who have dropped out of school, we propose to **consolidate other federal youth programs** into an integrated **School-to-Work Second Chance**. For young Americans isolated in high-poverty pockets, added outreach is essential to make sure that the school-to-work movement also connects them to career pathways and continuous learning; we therefore propose to offer additional **incentives for private employers, colleges, and non-profit organizations to join in partnerships** with parents, youth and schools in distressed communities to connect responsible youth to the mainstreams of economic opportunity.

Finally, financing young people's post-secondary training and education will be made more affordable for all families-- through **tax deductions** and **expanded IRA's** for parents, and Pell Scholarships and **Individual Education Accounts** for students themselves.

## CONCLUSION

The President's proposal 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 GI Bill before, the President's Middle Class Bill of Rights will put the opportunity for learning and applying new skills directly in the hands of the people. Now, as then, it is up to individual Americans to make the most of this opportunity -- in their own way, at their own time, to build a better life for themselves and their families. And, in the process, they will restore and pass on to generations to come the cherished American tradition of middle class prosperity.

> "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 of the future."

President Clinton, Radio Address, December 18, 1994

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**Education and Training in the
President's Proposal for a Middle Class Bill of Rights**

Americans who need new skills to get good jobs confront a confusing maze of separate programs. The Administration proposes to cut through this clutter, bypass the bureaucracies, and put resources directly into workers' hands. We intend to arm individual Americans with **tax cuts, skill scholarships, loans, and information,** all under their own control, so they can chart their own paths to good middle-class careers.

This initiative takes its inspiration from the G.I. Bill of Rights enacted near the end of World War II, which helped trigger the transition from a period of conflict and anxiety to an astonishingly prosperous postwar era. The G.I. Bill empowered a generation by putting learning resources into the hands of ordinary Americans. The rest is history--indeed, one of the brightest episodes in our history. Those returning soldiers turned their new skills into higher productivity, faster innovation, rising wages, and soaring living standards. The dream of a secure, productive place in the middle class became a reality for a majority of our nation's people.

Half a century later, America faces another turning point, one marked by rapid change, anxiety, and--for all too many of us--stagnant or falling living standards. Most Americans with education and skills are making good livings. Those without skills--or whose skills are out of date--are falling behind. Solid research shows that every year of education or training after high school--whenever it occurs in the course of a career--boosts earning power by six to twelve percent. It is time for another campaign of investment in the skills of our workers. It is time for another generation of hard-working people who play by the rules to get a fair shot at middle-class prosperity.

Our plan for making this happen--which builds on the foundation of Goals 2000, school-to-work, skill standards, and other bipartisan innovations--is rooted in five principles: **individual opportunity; accountability; leaner government; making business a partner;** and **doing right by our kids.**

**1. Individual Opportunity**

We propose to empower all working Americans with resources for getting skills that lead to good jobs--resources made available in the form that suits individuals' needs, and usable as they see fit:

- **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. And **tax credits for families with children** expand working families' budgets.

- **Expanded IRA's** will let workers save from current earnings so they can invest when they want in buying a first home or building new skills.

- Laid-off workers and low-wage workers, who often have too little income to benefit from tax breaks, can get **Skill Scholarships**, to sue 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 income allows--so they can spread the cost of skill investments over the course of their careers.

**2. Accountability**

The powerful force of **customer choice**--backstopped by new measures to disseminate data and to screen out incompetent or unscrupulous providers--will enforce accountability on education and training providers, who will now have to prove they can deliver value.

**3. Leaner Government**

We propose to **consolidate dozens of separate programs**. Rather than simply repackaging programs into fewer boxes, or shifting control from federal bureaucrats to state bureaucrats, we aim to radically restructure incentives by putting workers in charge. The initiative is structured to exploit the strengths of our federal system by giving states and communities the freedom to deploy resources in way that best meet local conditions and priorities. Government's responsibility--largely performed through customer-oriented One Stop Centers--is to serve as the conduit for resources, publish labor-market data to inform individual choice, report on the performance of training institutions, broker reemployment services, and police the system to make sure that people and institutions play by the rules.

**4. Making Business a Partner**

Business must play a key role in the next stage of our workforce agenda. Firms will be suppliers, consumers, and value-added processors of labor-market information. New recognition programs, as well as tax deductibility, will expand and focus skill investments in the workplace. And our emphasis on customer choice will maximize the private sector's role in education and training.

**5. Doing right By Our Kids**

Young people have special needs, so **institutional reform** must play a larger role in youth programs. We propose **consolidating youth employment and training** into two systems linked to the **school-to-work transition** movement already underway in all fifty states. Vocational education programs will be merged into the school-to-work system, while other youth programs will be consolidated into a new **School-to-Work Second Chance**. And financing our young people's post-secondary education and training will be made more affordable for all families--through education tax deductibility and IRA's for rents, and Pell Scholarships and Individual Education Accounts for students themselves.

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**Who will be eligible for Skill Scholarships?**

Skill Scholarships will be available to low-income workers and workers who are dislocated. For low income workers, the eligiblity criteria will be similar to the current Pell-Grant eligiblity criteria. For dislocated workers it is even easier -- they will merely have to show proof that they were permanently laid-off from a job [or that they are long-term unemployed and have limited job opportunities with in their previous employer or in their local community].

The Higher Education Act specifies the "need analysis" formula that calculates eligibility for student financial assistance based on family income, assets, and other variables. This formula, combined with the award rules in the Pell Grant program, efficiently targets Pell Grants on the lowest income students:

Recipient distribution. About half of all current Pell Grant recipients have family incomes less than $10,000, and about 90 percent have family incomes less than $30,000.

Funds distribution. About half of the program funds go to recipients with less than $10,000 in income, and about 95 percent of funds go to recipients with less than $30,000.

**Eligibility for Services**

In general, under last year's REA, individuals were considered dislocated workers and eligible for services if:

1. They were (or are apt to be) permanently laid off from a job, they were unlikely to return to that job, or the layoff was due to a plant closure.

2. They were long-term unemployed (26 weeks or more) and had limited job opportunities with their employer or in their local community.

3. They were referred to the program after being profiled by the UI system.

We would expect similar criteria to apply in the new initiative.

**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 informed choices about how, when and where to invest in learning the skills they need to earn higher wages at better jobs in the new economy. 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 living standards for themselves and their families. 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 learning resources be put 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 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 income allows--so they can spread the cost of skill investments over the course of their careers.

Q. How long has the stagnation in ages and living standards plagued the county?

A. From 1973 to 1993 average real compensation has basically stagnated, increasing only 0.1% per year, compared to 2.4% 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 \$46,600 rather than \$35,400.

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 with education, training and skills. For example, wages of male high school graduates fell 17 percent from 1979 to 1993, while the wages of male high school drop-outs fell by 25 percent.

Q. What other evidence is there that education, training and skills matter and 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. What is the size of the individual Skill Grant?

A. Up to approximately $2600 per year -- enough to pay the costs of tuition, fees, books and expenses at most community colleges and technical schools.

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, the eligibility criteria will be similar to the current criteria 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; and every individual can choose to repay through a variety of options, including a "pay-as-you" approach that enables every American to invest in their new skills and repay at the pace their future income allows.

Q. How many persons do you estimate may take advantage of the 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 3.3 million low-wage or dislocated workers may use the Individual Skill Grants, while 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.

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. Once the new tax policy is fully implemented, up 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. 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 job and at what wages. In addition, the federal government will work closely with the states 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 school. In full cooperation with the States, new accountability measures will weed out those institutions that are incompetent or fraudulent. 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. While institutions might try to raise tuition in response to deductibility, much of the benefit will remain with middle-class families. There will be strong pressures working against any attempt by schools to soak up the benefits of the tax break. Post-secondary education has become a highly competitive industry, with thousands of institutions scrambling for the student's dollar. Institutions won't be able to simply raise their prices to absorb the tax deduction for tuition and fees. 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 eliminate or consolidate?

A. The resources from over fifty current programs are included (see attached list), while another 16 are proposed to or are already terminated. Equally 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, 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. 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 consolidates and eliminate many more programs 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 many 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 the American people and American firms that have the real 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

Office of the Press Secretary

For Immediate Release December 15, 1994

ADDRESS BY THE PRESIDENT
TO THE NATION

The Oval Office

9:00 P.M. EST

THE PRESIDENT: Good evening. My fellow Americans, ours is a great country with a lot to be proud of. But at this holiday season, everybody knows that all is not well with America; that millions of Americans are hurting, frustrated, disappointed, even angry.

In this time of enormous change, our challenge is both political and personal. It involves government, all right, but it goes way beyond government, to the very core of what matters most to us. The question is, what are we going to do about it?

Let's start with the economic situation. I ran for President to restore the American Dream and to prepare the American people to compete and win in the new American economy. For too long, too many Americans have worked longer for stagnant wages and less security. For two years, we pursued and economic strategy that has helped to produce over five million new jobs. But even though the economic statistics are moving up, most of our living standards aren't. It's almost as if some Americans are being punished for their productivity in this new economy. We've got to change that. More jobs aren't enough. We have to raise incomes.

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. Tonight, I propose a Middle Class Bill of Rights.

There are four central ideas in this Bill of Rights: First, college tuition should be tax deductible. Just as we make mortgage interest tax deductible because we want people to own their own homes, we should make college tuition deductible because we want people to go to college.

Specifically, I propose that all tuition for college, community college, graduate school, professional school, vocational education or worker retraining after high school be fully deductible, phased up to $10,000 a year for families making up to $120,000 a year. Education, after all, has a bigger impact on earnings and job security than ever before. So let's invest the fruits of today's recovery into tomorrow's opportunity.

Second, bringing up a child is a tough job in this economy. So we should help middle-class families raise their children. We made a good start last year by passing the Family Leave Law, making college loans more affordable, and by giving $15 million American families with incomes of $25,000 a year or less an average tax cut of more than $1,000 a year.

MORE

Now, I want to cut taxes for each child under 13, phased up to $500 per child. This tax cut would be available to any family whose income is less than $75,000.

Third, we should help middle-income people save money by allowing every American family earning under $100,000 to put $2,000 a year tax-free in an IRA, an Individual Retirement Account. But I want you to be able to use the money to live on, not just retire on. You'll be able to withdraw from this fund, tax-free -- money for education, medical expenses, the purchases of a first home, the care of an elderly parent.

Fourth, since every American needs the skills necessary to prosper in the new economy -- and most of you will change jobs from time to time -- we should take the billions of dollars the government now spends on dozens of different training programs and give it directly to you, to pay for training if you lose your job or want a better one.

We can pay for this Middle Class Bill of Rights by continuing to reduce government spending, including subsidies to powerful interests based more on influence than need. We can sell off entire operations the government no longer needs to run, and turn dozens of programs over to states and communities that know best how to solve their own problems.

My plan will save billions of dollars from the Energy Department, cut down the Transportation Department, and shrink 60 programs into four at the Department of Housing and Urban Development. Our reinventing government initiative, led by Vice President Gore, already has helped to shrink bureaucracy and free up money to pay down the deficit and invest in our people. Already, we've passed budgets to reduce the federal government to its smallest size in 30 years, and to cut the deficit by $700 billion. That's over $10,000 for every American family.

In the next few days, we'll unveil more of our proposals. And I've instructed the Vice President to review every single government department program for further reductions.

We've worked hard to get control of this deficit after the government debt increased four times over in the 12 years before I took office. That's a big burden of you. About five percent of your income tax goes to pay for welfare and foreign aid, but 28 percent of it goes to pay for interest on the debt run up between 1981 and the day I was inaugurated president. I challenge the new Congress to work with me to enact a Middle Class Bill of Rights without adding to the deficit and without any new cuts in Social Security or Medicare.

I know some people just want to cut the government blindly, and I know that's popular now. But I won't do it. I want a leaner, not a meaner government, that's back on the side of hard-working Americans; a new government for the new economy -- creative, flexible, high quality, low cost, service oriented -- just like our most innovative private companies.

I'll work with the new Republican majority and my fellow Democrats in Congress to build a new American economy and to restore the American Dream. It won't be easy. Believe you me, the special interests have not gone into hiding just because there was an election in November. As a matter of fact, they're up here stronger than ever. And that's why, more than ever, we need lobby reform, campaign finance reform and reform to make Congress live by the laws it puts on other people.

Together, we can pass welfare reform and health care reform that work. I'll say more about what I'll do to work with the new Congress in the State of the Union address in January.

But here's what I won't do. I won't support ideas that sound good, but aren't paid for -- ideas that weaken the progress we've made in the previous two years for working families; ideas that hurt poor people who are doing their dead-level best to raise their kids and work their way into the middle class; ideas that undermine our fight against crime, or for a clean environment, or for better schools, or for the strength and well-being of our Armed Forces in foreign policy. In other words, we must be straight with the American people about the real consequences of all budgetary decisions.

My test will be: Does an idea expand middle class incomes and opportunities? Does it promote values like family, work responsibility and community? Does it contribute to strengthening the new economy? If it does, I'll be for it, no matter who proposes it. And I hope Congress will treat my ideas the same way. Let's worry about making progress, not taking credit.

But our work in Washington won't be enough. And that's where you come in. This all starts with you. Oh, we can cut taxes and expand opportunities, but governments can't raise your children, go to school for you, give your employees who have earned it a raise, or solve problems in your neighborhood that require your personal commitment. In short, government can't exercise your citizenship. It works the other way around.

The problems of this new world are complicated, and we've all got a lot to learn. That means citizens have to listen as well as talk. We need less hot rhetoric and more open conversation; less malice, and more charity. We need to put aside the politics of personal destruction and demonization that have dominated too much of our debate. Most of us are good people trying to do better. And if we all treated each other that way, we would do better. We have got to be a community again.

Yes, some people do take advantage of the rest of us -- by breaking the law, abusing the welfare system, and flaunting our immigration laws. That's wrong, and I'm working to stop it. But the truth is that most people in this country, without regard to their race, their religion, their income, their position on divisive issues, most Americans get up every day, go to work, obey the law, pay their taxes and raise their kids the best they can. And most of us share the same real challenges in this new economy. We'll do a lot better job of meeting those challenges if we work together and find unity and strength in our diversity.

We do have more in common, more uniting us than dividing us. And if we start acting like it, we can face the future with confidence. I still believe deeply that there is nothing wrong with America that can't be fixed by what's right with America. This is not about politics as usual. As I've said for years, it's not about moving left or right, but moving forward; not about government being bad or good, but about what kind of government will best enable us to fulfill our God-given potential. And it's not about the next election, either. That's in your hands.

Meanwhile, I'm going to do what I think is right. My rule for the next two years will be: Country first and politics as usual dead last. I hope the new Congress will follow the same rule. And I hope you will, too.

This country works best when it works together. For decades after World War II, we gave more and more Americans a chance to live out their dreams. I know -- I'm blessed to be one of them.

I was born to a widowed mother at a time when my state's income was barely half the national average; the first person in my family to finish college, thanks to money my parents couldn't really afford -- scholarships, loans, and a half a dozen jobs. It breaks my heart to see people with their own dreams for themselves and their children shattered. And I'm going to do all I can to turn it around. But I need your help. We can do it.

With all of our problems, this is still the greatest country in the world -- standing not at the twilight, but at the dawn of our greatest days. We still have a lot to be thankful for. Let's all remember that.

Happy holidays, and God bless America.

END 9:12 P.M. EST

*Remarks prepared for*
*U.S. Secretary of Labor Robert B. Reich*

*National Press Club*
*Washington, DC*
*January 5, 1995*

# The Choice Ahead

In this new season of Republican dominance in Congress, what is at stake, simply, is the future of working Americans. For a decade and a half, ordinary families have been working harder and getting less, puzzled that somehow they've been disinherited from the American Dream. Our middle class, as I noted on Labor Day, has become an anxious class.

It was this frustration with the present, combined with a fear of the future, that helped make Bill Clinton President in 1992 and Newt Gingrich Speaker of the House last November. If the elections of 1994 were the revolt of the anxious class, the next two years will be a battle for the anxious class's soul. The biggest defections from Democrats last November were among workers who had lost the most -- workers without college degrees. The popular consensus to do something to reverse the breakdown of America's middle class has become an unstoppable political force.

But do what? Today I want to talk about the real choice before us. As Washington speculates about reforms in how Congress does business, we must remember that procedural changes--however welcome they may be--are about means, not ends. The end toward which we struggle must be restoring America's heritage of middle-class prosperity. When the hoopla of this week dies down and the hard work of the coming month begins, Americans will rightly apply the following test to the Republican agenda, and to ours: Will this make my family and me better off? It will become clearer and clearer, in the months ahead, that their agenda does not put ordinary working families first. Ours does.

The context of this choice--somewhat ironically--is an extraordinary boom in the overall economy. While the employment statistics for December haven't been compiled yet, we know that America has been achieving buoyant job growth -- well over five million new jobs in the past two years, most of them in high-paying occupations. The unemployment rate is lower than it has been in four years, yet there are no signs of accelerating inflation. Even more important is the resurgence of productivity growth, the vital precondition for rising living standards.

Yet while productivity and corporate profits are up, the wages of most Americans are not. This has been the pattern. Since 1979, household incomes have swelled by $826 billion, in 1993 dollars. But about 98 percent of the increase has gone to the top fifth. Everyone else--80 percent of American households--has shared just 2 percent of the income gains. The typical American family is living on less than it did fifteen years ago, adjusted for inflation. **(Chart One)**

Let me be clear. The problem is not that some of us are getting rich. That's good news. The problem is that most of us are getting nowhere. We are hurtling toward a two-tiered society composed of a minority who are profiting from economic growth and a majority who are not.

The consequences of this erosion extend beyond economics. It helps explain why hard-pressed parents can't find the time to raise their kids the way they were raised, and to pass on the values they grew up with; why voters whose family budgets pinch so tightly are outraged about government inefficiency and waste; why even instinctively generous Americans find their compassion toward the less fortunate flagging; why our politics has become so angry, sometimes ugly.

Perhaps most important are the moral consequences. Put simply, it just isn't right. The glaring, grotesque wrongness of what's happening to hardworking American families spawns despair and cynicism. It affronts our values, mocking the American bargain linking effort and reward. It makes responsible people feel like suckers, and gnaws away at the precious ethic of responsibility. It closes the gate to the very poor. Ultimately, the hollowing-out of the middle class and the creation of a two-tiered, class-ridden society poses a mortal threat to what's always been special about our country.

It didn't used to be this way. During the three decades after the Second World War, nearly everyone's income rose as the economy grew. **(Chart Two)** Millions of Americans--myself included--were raised to believe in a simple bargain: Anybody who worked hard and played by the rules could earn a better life for themselves and their family. That's anybody--not just the well-born, not just the well-connected. Anybody with the drive and discipline to make the most of their opportunities had a decent chance to make it. Corporate America backed the bargain, too. Employees who worked hard and gave it their all could share in their company's success. If the company did well, their jobs were reasonably secure, and their wages and benefits rose.

In the 1950s, my mother and father worked six days a week in a small clothing shop, selling skirts and dresses to the wives of factory workers. I remember making signs when they had special sales: cotton dresses, $2.99, blouses $1.00. As factory wages went up, local families had a bit more to spend every year, and my parents' little business grew less precarious. We all did better together. Growing together was the way it worked in America. **(Chart Three)** But today, we are no longer growing together. We are growing apart -- and at a quickening pace.

My parents retired before the new economy elbowed out the old. Most of those factory jobs are now gone. Jobs like them accounted for over a third of all American jobs in the 1950s; now, no more than 16 percent. Many of the old service jobs have disappeared as well. Telephone operators have been replaced by automated switching equipment, bank tellers by automated teller machines, gas station attendants by self-service pumps which will now even accept credit cards, and secretaries by computers and voice mail. Any job that can be done more cheaply by a computer is now gone, or pays far less than before. Global competition has accelerated this revolution.

Yet the same forces are creating millions of new jobs, some paying better than ever. The right education and skills don't guarantee a good job in the new economy, and certainly not job security. But it is getting harder to have either without education and skills. The three-fourths of American workers without college degrees have suffered the sharpest drop in wages and benefits. Fifteen years ago, a male college graduate typically earned 49 percent more than a man whose formal education ended with a high-school diploma--not too large a difference for the two groups to share the label "middle class." But by 1993 the average male college graduate was earning 83 percent more than his high-school counterpart--a difference so great that they no longer inhabited common territory. Women are divided along similar, although less stark, lines. **(Chart Four)**

Thus, the nation's challenge To restore middle-class prosperity. Thus, the nation's choice: Which path promises to lead us there?

The new Republican agenda defines one path. First, cut taxes on capital gains, even on the sale of assets that investors already own. The theory is that such tax cuts will trigger an economic surge that will raise everyone's income. The problem with the Republican approach to capital gains taxation is not simply that almost all the immediate benefits would go to the well-off, with 45 percent collected by the small fraction of families earning over $200,000 per year. **(Chart Five)** Perhaps more economic inequality would be a tolerable price to pay, if it would reliably boost capital spending, and if more capital spending reliably led to higher incomes for everyone. But the evidence linking their tax-break idea to any significant and sustained investment increase is far too weak to warrant the massive redistribution the Republicans are proposing.

A related proposal is to grant corporations far larger tax deductions for purchasing equipment, machinery, and buildings. This proposal may increase business investment, but at a huge cost: a $169 billion windfall that would essentially eliminate the corporate income tax and resurrect the tax-shelter industry that squandered so much of America's potential productivity in the 1980's. Their corporate tax break proposal is carefully crafted to elude the discipline of the budget process -- a fiscal time bomb set to explode after five years. But the more fundamental problem is that it will <u>not</u> restore the incomes of working Americans. Consider: Over the last 15 years, spending on durable capital equipment, as a share of the overall economy, has climbed by as much as a third. Capital investment <u>has</u> risen. But over the same period of time, most families' real incomes have fallen. Spending on new machines and buildings is necessary. But it is not enough. **(Chart Six)**

A third proposal is to lighten the regulatory burden on business in order to spark higher profits and more job growth. The theory here is that corporations are so entangled in regulations that they are producing paperwork and little else. Release them from these ties, and businesses will increase profits to the benefit of ordinary working Americans. This argument, too, deserves a respectful look. There is no dispute that the benefits of regulations--even those that protect the health or safety of consumers and workers, fight fraud, and maintain the integrity of financial markets--should be weighed against their burdens, and regulations which don't measure up should be scrapped. But blaming the middle class's decline on regulations that strangle job creation does not accord with the facts. Job growth is booming today. Indeed -- despite the cyclical ups and downs of the past fifteen years -- employment has grown even while the middle class has lost ground. **(Chart Seven)**

The words in which these proposals are couched reflect some cherished economic truths. Private investment <u>is</u> important. Government <u>must</u> be efficient and accountable. Regulations that don't make sense <u>should</u> be fixed or ended. On these points, there is little disagreement. The ultimate question, the real test, is whether their proposals will make working families' incomes higher and more secure -- whether they will put working Americans back on the path to prosperity.

I am convinced that the hard-won evidence of our recent economic history reveals their proposals to be irrelevant to the cause of restoring America's middle class.

At worst, they move us in the opposite direction. Their tax proposals will drain the Treasury of so much revenue that--unless they allow the deficit to explode once again, or unless they subject national defense, Social Security, and Medicare to major cuts--they would force crippling reductions in education, job training, Head Start, and all other investments in working families. Most of these tax savings, on the other hand, would go to families earning six-figure incomes. And despite their free-market slogans, few Republicans in Congress have shown any inclination to join the President's recent call to curb needless subsidies for well-connected special interests.

They believe--or they want us to believe--that the middle class is breaking down because capital spending is insufficient and corporate profits are too low. But these simply are not the root causes of working Americans' distress, and remedying them will not restore prosperity. The core challenge facing Americans is to adapt to a new economy which is fundamentally different from the old; an economy driven by advanced technologies and global competition; an economy in which productive skills are the keys to individual success.

The best way to increase the wages of most Americans is to follow a different path--one that this Administration has begun to blaze: Equip all Americans to earn their own prosperity in this new economy. The evidence is overwhelming that the sharper a person's skills, the higher that person's wages. Each year of education or job training after high school, whenever it occurs in the course of a career, increases average incomes by 6 to 12 percent

Most of the good-paying jobs that have been created in the last two years require some technical know-how That doesn't mean that everyone has to get a college diploma. In fact, many men and women whose traditional education ends at high school can earn comfortable middle class incomes. Gas station attendants are lucky to make $12,000 a year, but an auto mechanic skilled in computer diagnostics can earn up to $70,000. Unskilled assembly-line workers rarely take home more than $20,000, but the yearly pay of a programmer or repairer of computerized machine tools begins at $50,000 All across this country there is booming demand for workers with technical skills--sales technicians, physical and occupational therapists, desk-top publishing operators, x-ray technicians, computer-aided designers. There is no quick fix to the plight of working Americans But many technical skills can be learned in a year or two by someone with a high school degree.

Our campaign of human investment is already underway, propelled by a strong bipartisan consensus in the last Congress on the importance of education and job training. Each year, 130,000 additional children are able to enroll in Head Start, a proven first step on the path of lifelong learning. School systems throughout America have millions of dollars in new incentives to improve their performance, in line with voluntary national standards of excellence. Within a few years, a half-million youth apprentices a year will move from the classroom to a skilled job with a future. Three and a half million people who take out education loans each year can now borrow at lower interest rates -- and can repay their loans at the pace their future income allows. We are transforming the old unemployment insurance system into a reemployment system, ensuring that this year alone an additional 150,000 Americans who have lost their jobs will get the skills or the job-search help they need to find new ones.

A few weeks ago the President mapped the next steps, in his call for a Middle Class Bill of Rights. First, a tax deduction for education and job training, starting at $5,000 a year and rising to $10,000 a year within four years. The significance of this idea has been little noticed in the horse-race coverage of competing tax cut proposals. But tuition deductibility is not merely a tax cut; it is pathbreaking tax <u>reform</u>. It puts a family's investments in skills on an equal footing with corporate spending on machines, advertising, buildings, or business lunches.

Under current law, any business spending that conceivably can be called an investment qualifies for favorable tax treatment. Yet the tax code does little to encourage the investment linked most directly to rising middle-class living standards-- investments in education and lifelong job training. It treats them the same way it does expenditures on water skis or bubble gum. This makes no sense. Our plan would fix it. If companies get a tax break on their investments, so should families.

This means that for a typical family, the after-tax cost of equipping a parent with new job skills, or paying the kids' college tuition, would be cut by 15 to 28 percent. Research suggests that well over half a million Americans each year who wouldn't otherwise get advanced education or job training will do so because of this tax break. And there's little reason to fear that the benefits of the tax cut will be swallowed up by rising tuition. Tuition inflation is already slowing, and competition among the thousands of community colleges, technical schools, and other educational institutions will ensure that most of the gains of tuition deductibility will stay with the families who make the investments

But bringing the tax code into the 21st century isn't enough. If America is to restore its defining bargain -- that if you work hard and play by the rules, you should be able to get ahead -- we need to completely transform the patchwork of federal employment and training programs For Americans who are unemployed, or whose wages are too low for them to take advantage of tuition deductibility, the President proposes skill grants of $2000 to $3000 per year, for up to two years. This represents a radical shift from <u>programs</u> to <u>purchasing power</u>. Instead of feeding the budgets of bureaucracies -- federal or state -- we'll channel the resources directly into the pockets of ordinary Americans so they can get the skills they need -- at the time, in the place, in the way that makes sense for them. Workers who need to start new careers, and low-wage workers who need to make a fresh start, will have a new gateway to better jobs--and information on what skills are in demand, to guide them through those gateways.

What the Administration has already set in motion, coupled with the steps the President has just proposed, defines a strategy for empowering working Americans to build a better life for themselves and their families. But it also depends on what happens in the workplace. The future of the middle class will be determined less in hearing rooms here in Washington than in factories and offices across America. Companies must treat their workers not as costs to be cut but as assets to be developed. They may be able to reap short-term profits by cutting payrolls, shifting production to lower-wage nations, replacing older workers with younger and cheaper ones, or substituting temps and independent contractors for full-time employees. But the best-run companies in America are proving that longer-term rewards come through training workers, giving them more responsibility and job security, and linking pay to profits. Forging stronger and more constructive ties between workers and their companies must be part of any plan for restoring middle class prosperity. We are eager to work with Congress and the private sector to develop effective and fair ways to encourage this.

The agenda I have outlined will not create a new middle class overnight. It will take years. But it is the only realistic approach. And it is resonant with American values--that we earn our keep, that opportunity is the solution to inequality, that work is always better than welfare, that people should develop their talents and make the most of their abilities, and that economic growth should work for everyone. Our solution depends on people taking responsibility, but it gives them a chance to turn their responsibility into results. It doesn't look to government or to corporations to rescue hardworking Americans. It empowers working men and women to prosper on their own.

Our strategy is not entirely new. It owes part of its inspiration to the G.I. Bill of Rights enacted near the end of World War II, which helped trigger the transition from a period of conflict and anxiety to an astonishingly prosperous postwar era. The G.I. Bill gave ordinary Americans a chance at world-class skills. The rest is history -- indeed, one of the brightest episodes in our history. The dream of a secure, productive place in the middle class became a reality for a majority of our nation's people.

Nor, of course, is there anything fundamentally new about their ideas. Behind the rhetoric of change is a rerun, on a larger screen, of twelve years of Republican government--twelve years of stagnation or decline for most working Americans. We've seen this movie before, and we know the plot.

We are eager to cooperate with Congress in the days to come. But America cannot simply split the difference between the two visions. The choice cannot be sidestepped.

Their long list of tax cut proposals conspicuously omits investments in skills. What's worse, the price of their bid to boost profits and capital spending will be sharp cuts in education, job training, and other investments in working people. Our strategy centers on building skills.

They ask of corporations no other duty than to maximize profits, and imply that if they do so the future will take care of itself. We say there is no automatic link between economic growth and the living standards of ordinary Americans; that link must be forged.

They ask America's middle class to entrust its fate to the masters of physical and financial capital. We want to equip all working Americans to become masters of their own economic fates.

Which is the better path? Which do you believe will make working families better off? This is the choice before us.

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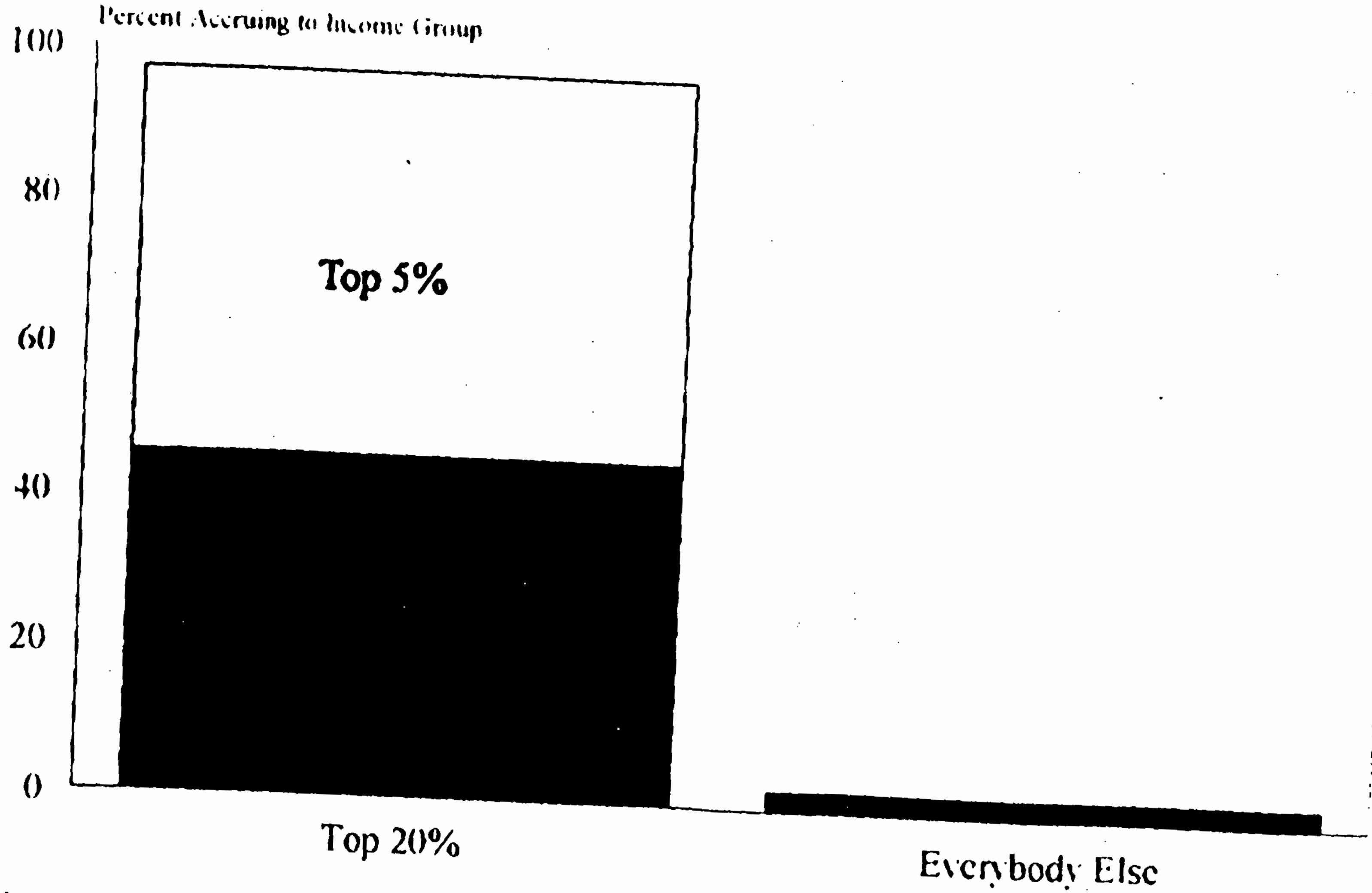
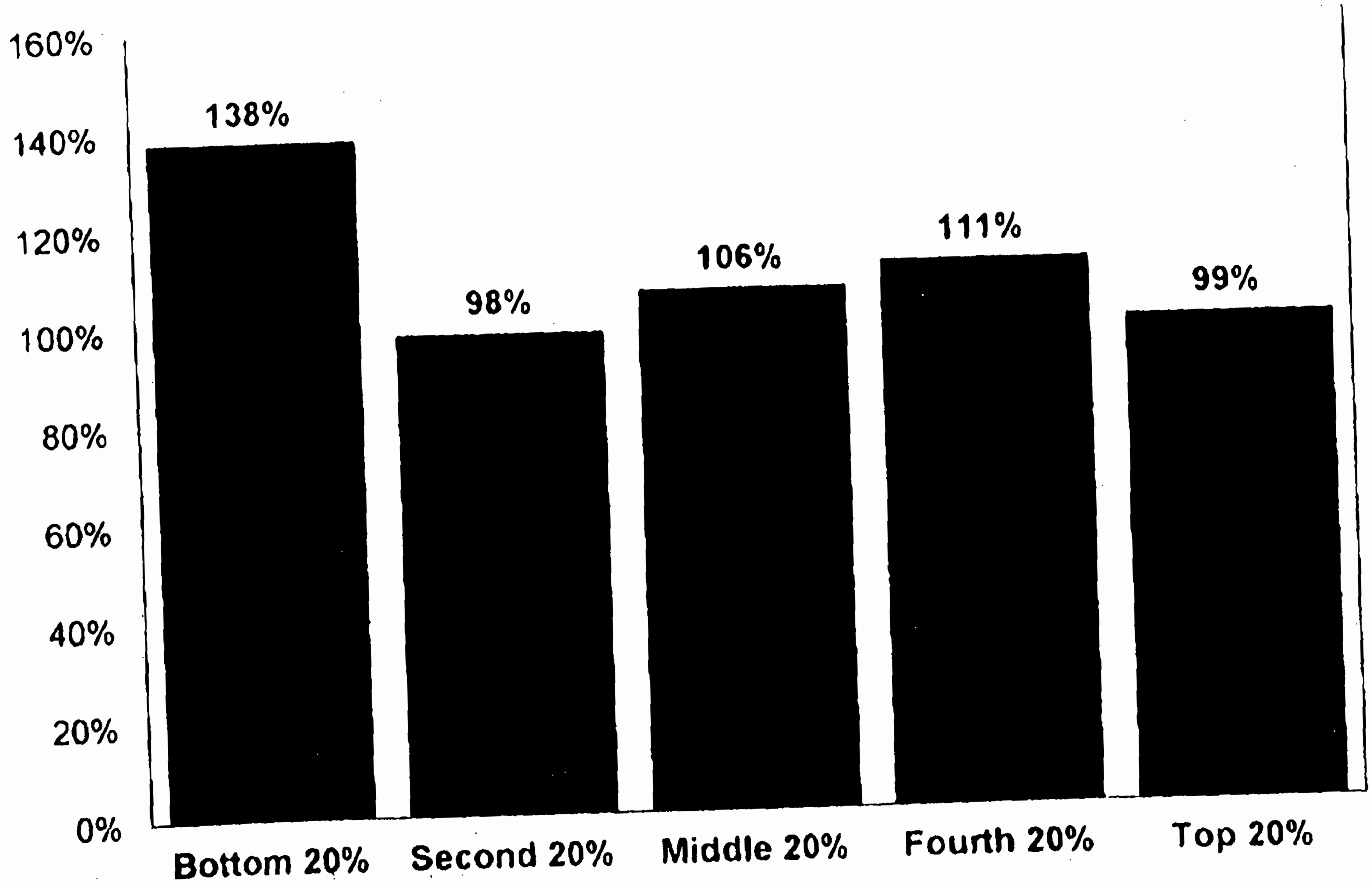
# 1979 to 1992 -- Who Got the Growth?

## Shares of Average Household Income Growth



# 1950 to 1978 -- Growing Together

Real Family Income Growth By Quintile

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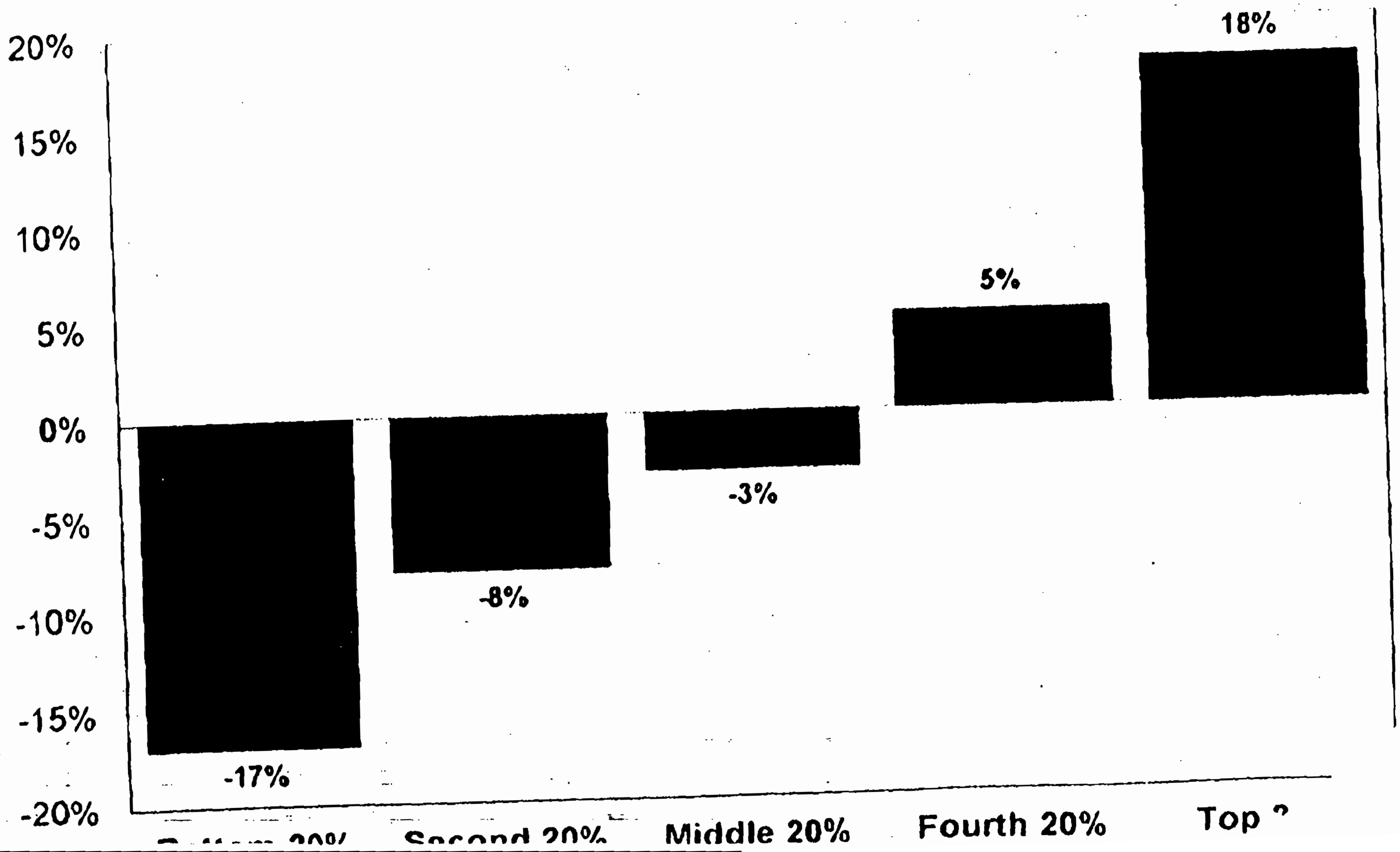
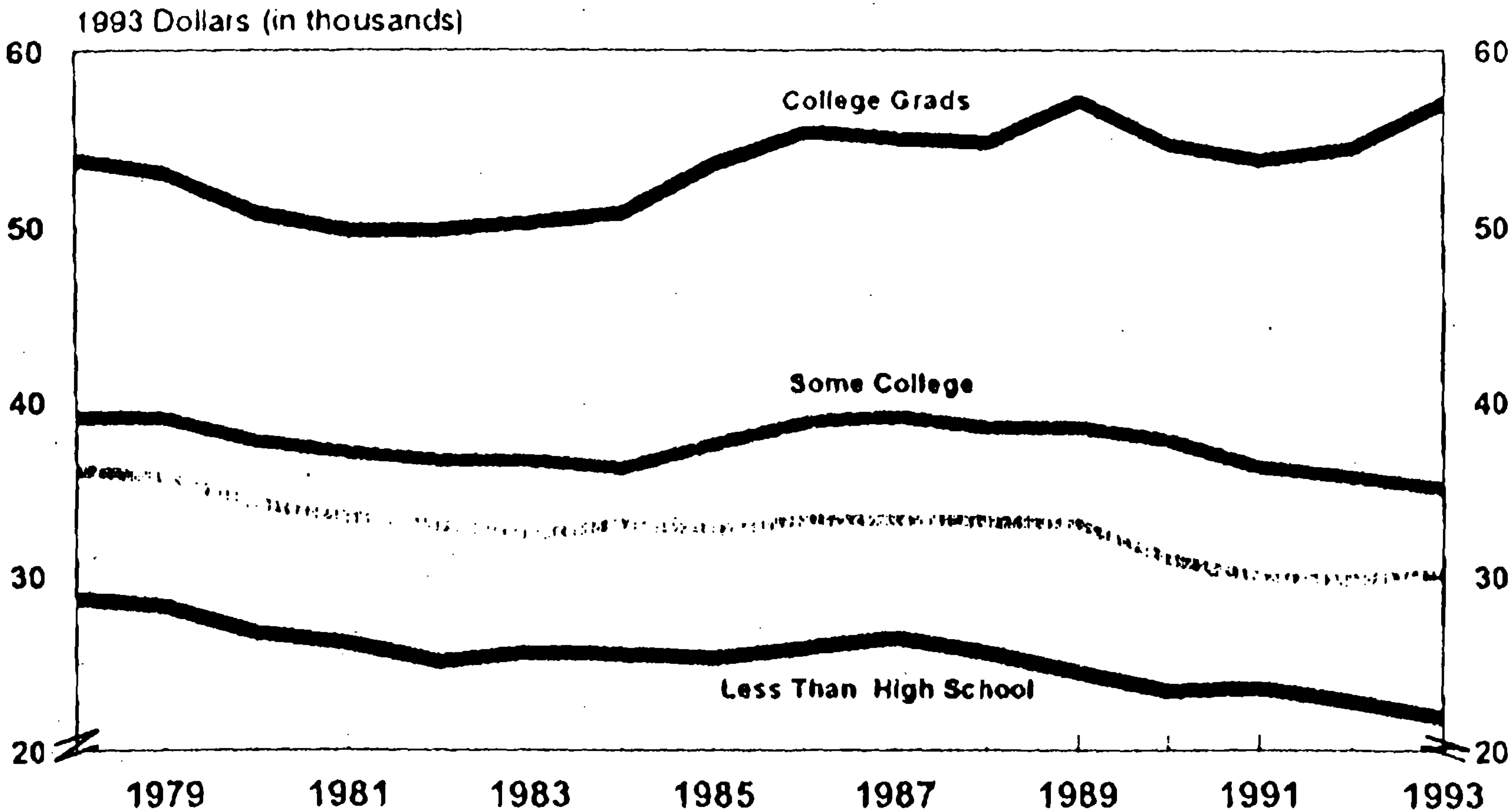
# 1979 to 1993 -- Growing Apart

## Real Family Income Growth By Quintile



# Skills Matter More

## Average Annual Earnings of Men by Educational Attainment

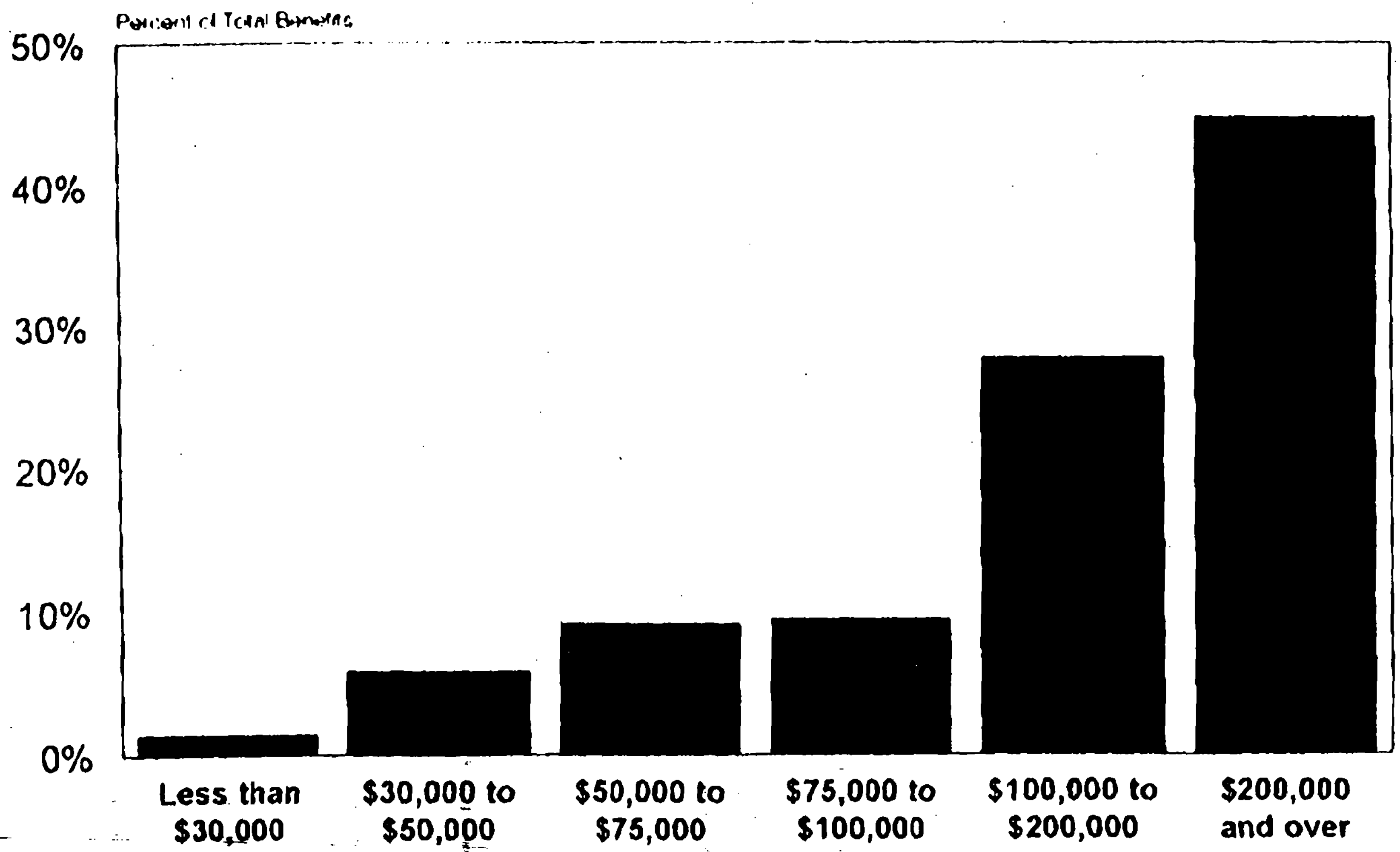



Note: Workers 25 years of age and older working year round full time. Data on educational attainment for 1991 through 1993 are not directly comparable to those from prior years. Numbers for 1993 used 1990 population weights whereas data for other years used 1980 population weights.

Source: Bureau of the Census, Current Population Survey

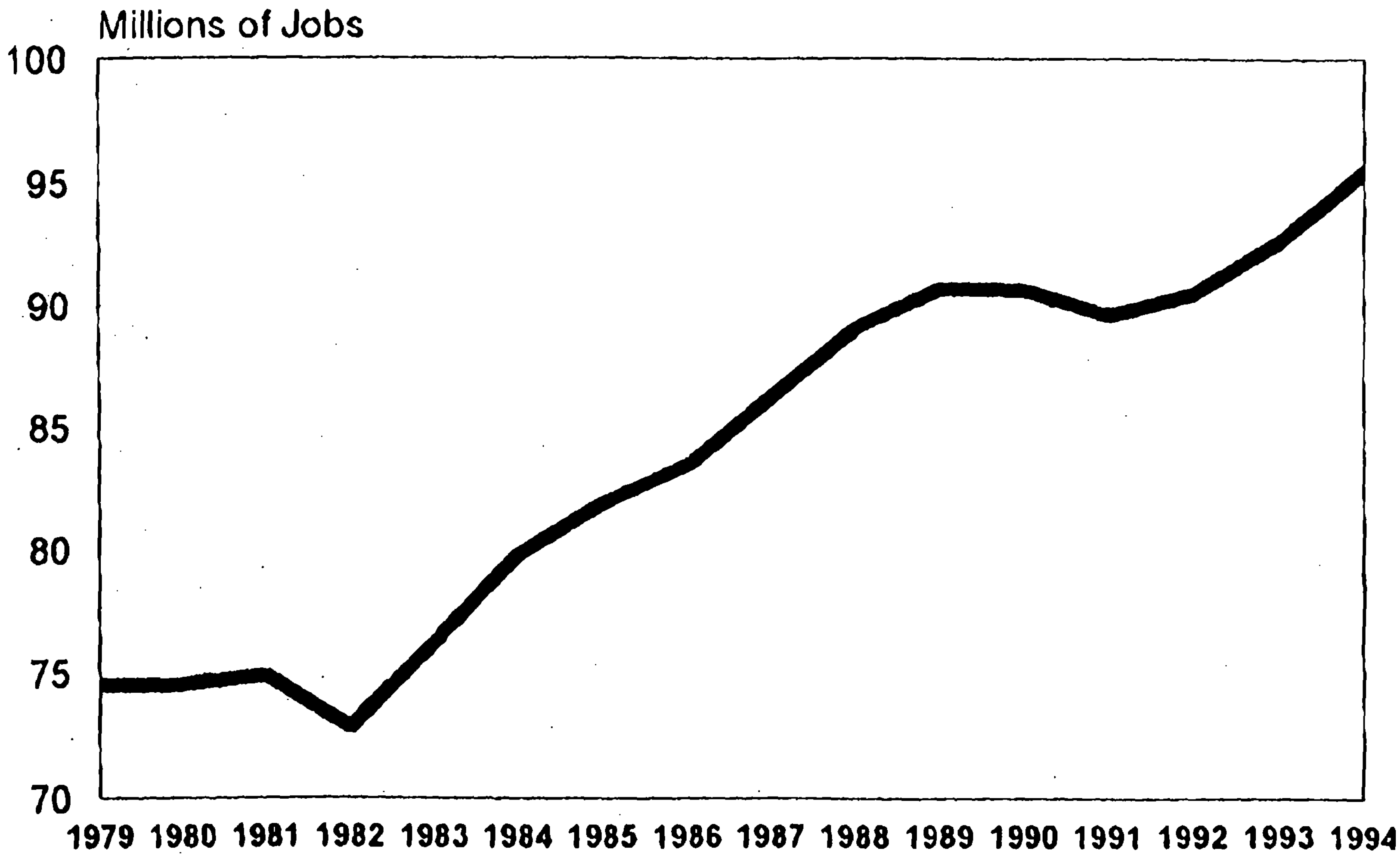
# Capital Gains Tax Break: Who Gains?

## Distribution of Benefits From the Republican Capital Gains Proposal in 1999



# Companies are Creating Jobs

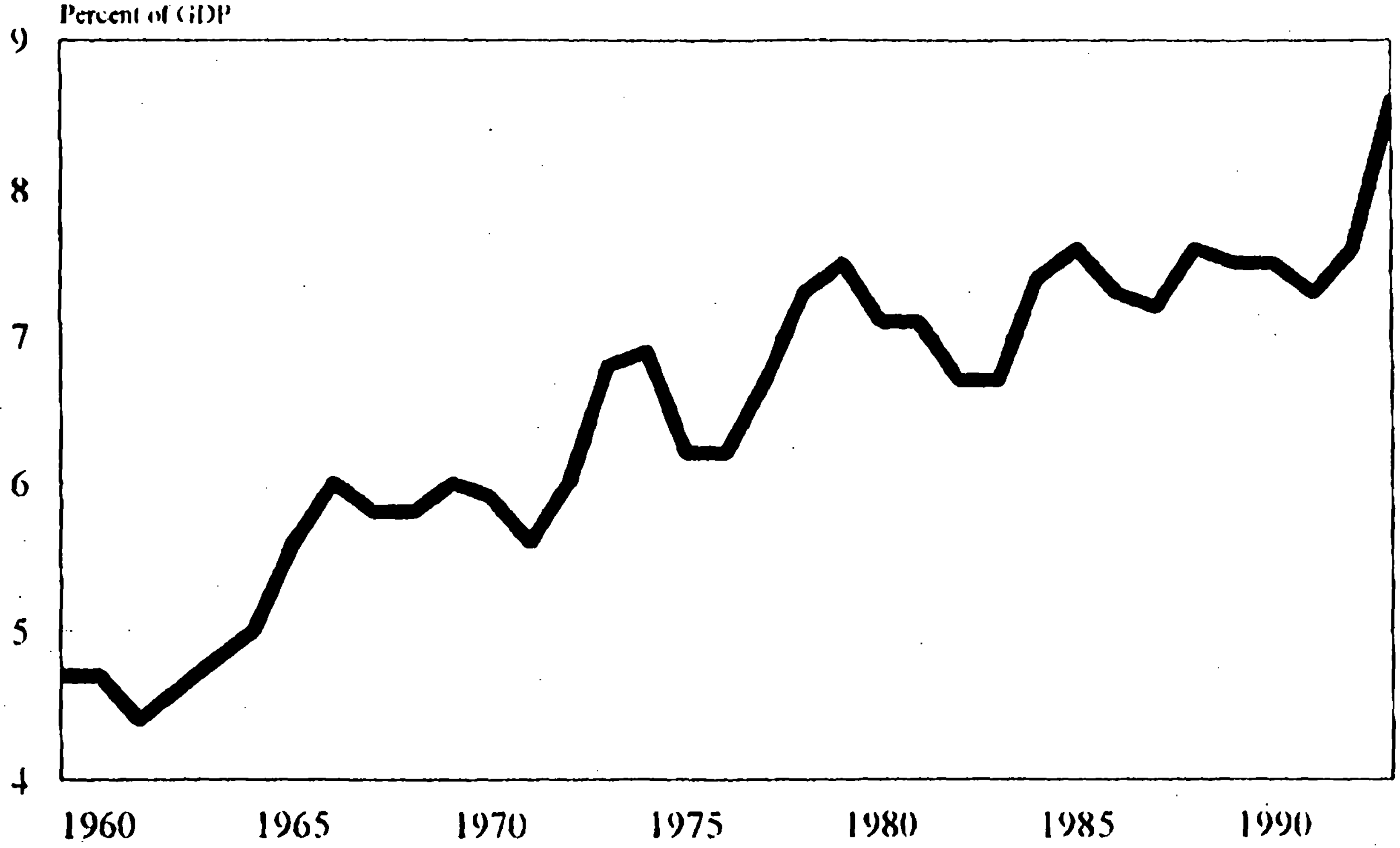
## Total Private-Sector Employment, 1979-1994




SOURCE B

# Capital Spending is Up

**Gross Durable Equipment Investment As A Share of GDP, 1959-1993**




Source: [illegible]