



Obama to Stake Out Ambitious Plan to Help Poor and Middle Class

How Obama is trying to shore up his legacy and help Democrats seeking to win the White House in 2016.

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Barack Obama will focus on the gap between wealthy Americans and middle- and lower-income households Tuesday night in Washington when he lays out his plans for what the White House is calling the “fourth quarter” of his presidency.

Obama is trying to shore up his legacy and help Democrats seeking to keep the White House in 2016 with policies intended to aid those who have failed to benefit from the economic recovery. Gains made in alleviating unemployment and expanding output give the administration room to push for higher taxes on the rich to pay for programs intended to help those in the lower income bands.

“The key is making the right choices,” Obama said in a video the White House released Monday. “Now that we have fought our way through the crisis, how do we make sure that everybody in this country -- how do we make sure they’re sharing in this growing economy?”

“The key is making the right choices.”

President Barack Obama

Obama’s speech was still being completed Monday afternoon, though White House advisers said they were ahead of schedule. In the video, the president said he’s more relaxed about the annual State of the Union address than in previous years.

On Jan. 17, the White House began releasing highlights from the speech, including a call for new taxes on the richest Americans to fund more tax credits for higher education and child care and create a new break for two-earner couples, policies that will aid the middle class.

From expanded health coverage to broadening a tax credit for workers, the president also wants to put more money in the pockets of lower-income earners. In the run-up to Tuesday night's address, he has been unveiling initiatives including one for paid family leave and another to make community college free.

Republican Reaction

Republicans, who control both chambers of Congress, lambasted the proposals with Representative Jason Chaffetz of Utah calling the tax plan a “non-starter” Jan. 18 on CNN. The Obama administration expected resistance and the president made clear he’s not backing away from the challenge even though just two years remain in his term. “Anybody who is a sports fan knows you have to play the whole game,” he said in the video.

Many Americans have continued to lose ground since the 18-month recession ended in June 2009. Median household income fell 3.9 percent to \$51,939 in 2013 compared with 2009 when Obama took office, U.S. Census Bureau data show. The poorest fifth fared even worse, with incomes dropping 5.9 percent to \$20,900.

While workers at the bottom have been aided by government transfer payments, the picture is grim: Transfers boosted after-tax 2011 income for the bottom fifth from \$15,500 -- based solely on earnings from work -- to \$24,100, according to a November 2014 Congressional Budget Office analysis that uses different data than the Census report.

Safety Net

The safety net stabilized income in the 2007-2009 recession and its aftermath. While most policies were in effect when Obama entered office, his economic-stimulus plan -- which included initiatives such as an expansion of a refundable tax credit -- helped bolster some household incomes.

Critics say that’s not enough.

Transfer payments don’t have the same quality-of-life value as earning money from work, said Mark Calabria, director of financial-regulation studies at the Cato Institute in Washington and a former Republican Senate aide. Amid low wage growth, he said, “the bottom fifth has not done well.”

Now the president is proposing measures that could do more by promoting family stability and education.

“Our job now is to make sure that every American feels that they’re a part of our country’s comeback,” he said in his Jan. 17 weekly radio address.

Sick Leave

Obama directed federal agencies to let employees take six weeks of paid leave to care for a new child or ill family member. It's the first step in what the White House says will be a renewed campaign to expand benefits for workers, including a push for Congress to pass legislation allowing them to get seven days of paid sick leave per year.

About 43 million workers are without any sick leave, senior Obama adviser Valerie Jarrett said in a posting on LinkedIn.

"People with the cushiest jobs and the biggest salaries have the most flexibility at work," said Jared Bernstein, former chief economist to Vice President Joe Biden and a senior fellow at the Center on Budget and Policy Priorities in Washington. A single mom who switches her fast-food restaurant shift "can lose her job for it."

Community College

The president has proposed free community college education for millions of students, at a cost of \$60 billion over 10 years. The plan would provide about three-quarters of average tuition, with states kicking in the rest.

Forty percent of college students attend a two-year institution, according to a White House fact sheet, and as many as 9 million could benefit from the program.

Community college has kept Luis Veloz, 21, attached to higher education. Veloz left Southern Methodist University, forfeiting a full-ride scholarship, to support his family after his father fell sick in 2012. The Dallas student has been attending community college and working double-shifts in a restaurant, and his family has saved enough that he plans to return to a four-year school this fall.

Even so, he's skeptical about free community college.

"I don't think a lot of students get that guidance, and that mentorship, that they need" at community college, he said. "That worries me when I go into these classes -- although the teachers are amazing, a lot of the students, like myself, are working full time or have children."

Slim Chance

In any case, chances are slim that such sweeping initiatives could pass the Republican-run Congress, said Isabel Sawhill, a senior fellow at the Brookings Institution in Washington.

"I'm not sure any of these proposals will get off the runway, but I'm glad that the plane is loaded with our baggage," she said. "It shows what his intentions are."

The drive for new initiatives has been bolstered by the Center for American Progress, a research group with close ties to Democrats, including Obama and 2016 Democratic presidential front-runner Hillary Clinton.

CAP, founded by Obama counselor and expected Clinton campaign chairman John Podesta, released proposals last week that it says will promote prosperity for all. The center's president is Neera Tanden, a longtime policy adviser to Clinton who worked in the Obama White House.

This administration isn't new to ambitious plans to benefit the poor: The president's health law is intended to offer low-income Americans stability through insurance.

Increase Incomes

Obamacare was projected to increase incomes for the bottom fifth of earners by almost 6 percent in 2016, using the most generous estimates, based on a Brookings Institution study from last January. That gain would come as people get access to subsidies to buy insurance and expanded Medicaid.

Obama has also sponsored proposals intended to help middle-income Americans.

The latest plan, released on Saturday, would increase the top tax rate on capital gains and dividends to 28 percent from 23.8 percent and impose capital-gains taxes on asset transfers at death. That would fund a \$500 tax credit for married couples when both spouses work, and triple the maximum tax credit for child care to up to \$3,000 for children under 5. That credit could be claimed by families making as much as \$120,000.

Obama would also consolidate several education tax breaks into a single tax credit worth up to \$2,500, and is proposing to end taxation of some student loan debt forgiven under income-based repayment plans.

Housing Plan

Earlier this month, he announced that the Federal Housing Administration would cut its mortgage-insurance premiums by about 37 percent, enough to save most borrowers \$900 a year on their loan payments. The Department of Housing and Urban Development predicted the move will bring 250,000 first-time buyers into the market.

The administration's homeownership focus provides little relief to poor renters, Calabria said. For low-income households, "first and last, the biggest expense is housing, and that cost has not moderated on the rental side," Calabria said. Median asking rent climbed to \$756 in the third quarter 2014 from \$716 for the same period in 2009, based on Census data.

Little Help

Homeownership policies would benefit poor Americans only if they can earn enough to pull themselves up -- and the outlook isn't good. Wage growth remains tepid, and falling gas prices, a boon to the middle class, have done little to help low-income Americans, who often don't drive.

Jean Busby, 59, has watched in disappointment as economic growth has failed to trickle down. She has gotten both a bachelor's and a master's degree since being laid off from her full-time position in 2009 yet only landed a part-time, \$20,000 job as a community organizer in Charlotte, North Carolina. She's living with family members and struggling to pay \$92,000 in student loans.

"I figured I'd get this degree, I'd get a good job, so I could pay the loans back," Busby said. "But that's not the real world -- because people are not hiring."

Obama last year proposed expanding the earned income tax credit for childless, unmarried workers. Under the plan, about 7.7 million workers would qualify for a larger credit and 5.8 million more would become newly eligible, according to an administration analysis.

Minimum Wage

Obama also called on Congress to raise the minimum wage to \$10.10 from \$7.25, which would benefit 28 million Americans, according to the Department of Labor. While the proposal stalled in Congress, almost half of U.S. states increased the floor on Jan. 1.

Such measures wouldn't be enough to alleviate pain for many of America's poor. About 45.3 million Americans were in poverty in 2013. Of prime-age adults, just 10.7 million of the impoverished worked, while 15.7 million didn't.

"The No. 1 thing that can really help workers is a stronger economy," said Elise Gould, an economist at the Economic Policy Institute in Washington.