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TO: Interested Parties

FROM: Anne Kim, Director, Middle Class Program, and Jim Kessler, VP for Policy

RE: 100 Days for the Middle Class

The 111th Congress will convene in January, buoyed by an historic campaign and eager to flex its new muscle. At the same time, it confronts a virtually unprecedented series of challenges to the American economy and to government. During these initial critical weeks, Congress must secure the trust of the American public and use its new majority to build a lasting mandate.

To most effectively win that trust, the first 100 days of the new Congress should have this central focus: the middle class. This means two things: first, an explicit, public commitment by the Congressional leadership to make middle class concerns the unifying communications priority; and second, it means effectively delivering on a series of legislative proposals that would maximize the ability of Americans to attain middle-class success, even in turbulent times. This agenda should be achievable, target the right audience, be broad-based and bipartisan in its appeal, and have an immediate positive impact on middle-class pocketbooks.

The Need for Quick Action

While Americans at the bottom of the ladder will undoubtedly face great hardships during this recession, it is suburban and middle-class Americans who have suffered the most unexpected and devastating hits to their wealth, economic security and potential for financial success:

- The Congressional Budget Office estimates that Americans' retirement plans have lost as much as $2 trillion in the past 15 months, or nearly one-fifth of their value.[1]
- Since mid-2006, Americans have already lost more than $4 trillion in real housing wealth, or an average of more than $50,000 per household.[2]
- 49% of Americans have little or no confidence they'll have enough income and assets to last through retirement,[3] and nearly two-thirds of older workers say they'll put off retiring if the economy doesn't get substantially better.[4]
- For the first time in many years, average Americans have a negative view of their own personal financial situation.[5]

A policy agenda aimed at restoring the wealth of the middle class would not only repair the individual fortunes of middle-class households but also set the economy on the course toward recovery by 2010. Because the middle class is the economic engine of America, it is also the engine of recovery.

Second, a middle-class agenda would not only be meaningful but new. America's middle class has long been neglected—not just in the last eight years of conservative rule—but also by progressives, who often conflate the economic needs and circumstances of the poor with those of the middle class.

Many existing government programs are perceived to be irrelevant or tangential by working-age households (those between the ages of 25 and 60), whose incomes are typically between $50,000 and $100,000 a year. These families are too wealthy for signature progressive initiatives such as Pell Grants or the Earned Income Tax Credit but are not nearly wealthy enough to benefit from conservative trickle-down tax policies.[*]

A 100-days agenda aimed at the "sweet spot" of the middle class—households with $50,000 to $100,000 in annual income (and as high as $200,000, representing the outer limit of households benefitting from the Obama tax plan)—would plant a flag in new and genuinely unexplored territory. And it is this segment of households that are at the epicenter of the financial quake.

The Imperative of Winning Trust

A 100-days agenda for the middle class would also pay significant dividends to Congress. Only by solidifying public trust in progressive economic leadership can Congress earn the political capital necessary to pursue a transformative progressive agenda.

Major progressive efforts on health care, energy, financial regulatory reform, and poverty will succeed only as far as the middle class allows their success. If middle-class Americans don't feel their needs are being met, if they feel ignored, if they feel that their anxieties are misdiagnosed, and if they have to wait their turn—they will be that much more hesitant to support large government ideas that reinforce their qualms about government's competence or motives.

Moreover, as Clinton Administration veterans Bill Galston and Elaine Kamarck write in a forthcoming Third Way paper, public trust is both the precondition and the predicate for lasting and fundamental change. Low levels of public trust were the soft underbelly of the Clinton Administration's failed health plan.

Solidifying middle-class trust in government is even more critical today. In August, only 6% of Americans said they trust the federal government "a lot" to "do the right thing for middle class Americans,"[6] and given the rancor surrounding the passage of the rescue bill, it's likely that public trust is even worse today. The collapse of the financial system could just as easily be read as a failure of government as it is a failure of the marketplace.

Without a solid foundation of public trust, the promise of change that progressives are offering cannot be fulfilled.

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[*] The median income of a working age household is expected to be about $68,000 in 2008.

100 Days for the Middle Class

A robust middle-class agenda should speak as much to middle-class aspirations for success as it does to economic security. Indeed, for today's middle class, success *is* economic security.

Four decades ago, economic security might have meant a job, a diploma and food on the table. Today, the requisites of economic security are significantly more broad and complex. It's not enough just to have a job but to have one with upward mobility. It's not enough to have a diploma but to have a college degree or certificate. And it's not enough to have a pension, but to own a house and have enough wealth to retire in comfort and dignity.

To be maximally effective, a middle-class agenda must know its audience: legislative items should ideally benefit working-age families with household incomes between $50,000 and $100,000. They should also be broad-based and independent of interest-group politics and have bipartisan appeal (if not bipartisan support). Initiatives should also have immediate impact on the pocketbooks of middle-class Americans and the overall economy. And they should be eminently achievable in the first 100 days.

Finally, to have the broadest impact, proposals must be framed within a coordinated communications strategy (from town halls and press releases to constituent mail) that is centered with unwavering focus on the middle class.

The legislative ideas that follow are a sampling of ideas that are aimed squarely at an aspirational middle class and that would fit within the frame proposed in this memo. Many of these ideas could also serve to complement the Obama campaign's proposed broad-based tax cut for the middle class. Some of these ideas are new, while others are based on existing proposals, such as those proposed by the Obama campaign, the Middle Class Working Group in the House (MCWG), several U.S. senators, and other sources.

Policy Goals: 100 Days for the Middle Class

- Rebuild retirement wealth
- Help home values recover
- Create new middle-class jobs
- Boost small business
- Provide clean, affordable and American sources of energy
- Make college affordable
- Ensure health care coverage between jobs
- Relieve stress for two-career households

Rebuild retirement wealth

- **Federal 401(k) match.** Provide federal matching funds to 401(k) and IRA contributions, up to $1,000 per worker per year.
- **Temporary tax exemption for 401(k) withdrawals.** Provide a temporary exemption from federal income taxes for the first $15,000 in 401(k) withdrawals for seniors who are withdrawing from their accounts.
- **Streamlined consolidation of 401(k) accounts.** Nearly half of all workers who switch jobs cash out their 401(k)s. Create a streamlined, automatic roll-over process for workers with multiple 401(k) accounts or who are switching jobs to avoid the problem of "cash out."
- **Federal 401(k) contribution insurance.** For most workers today, a 401(k) account is the centerpiece of their retirement security and savings. Yet workers approaching retirement are unprotected from having their investments decimated by market shocks. Create an entity modeled after the Federal Deposit Insurance Corporation that would protect the principal contributed to workers' 401(k) accounts until a worker retires.

Help home values recover

- **Emergency mortgage loan assistance fund.** Create a federal program modeled after the Delaware Emergency Mortgage Assistance Program to provide homeowners who lose their jobs with short-term loans to help cover mortgage payments.
- **First-time homebuyer credit.** Extend the existing first-time homebuyer credit and convert it into a $3,000 permanent credit.
- **Refinancing credit.** Provide a $2,000 tax credit to cover closing costs for homebuyers refinancing into new mortgages.
- **Ban on short-sale penalties.** A "short sale" is currently as damaging to someone's credit record as a foreclosure. Sellers in areas where home prices have fallen by more than a certain percentage and who have been current with their mortgage payments should be protected from taking a hit on their credit if the sale price of their home is less than what they owe on the mortgage.

Create new middle class jobs

- **First-year capital cost recovery for small and medium start-up manufacturers.** Allow start-up small and medium-sized manufacturers to depreciate 100% of the cost of capital equipment purchased for the manufacturing process in the first year (instead of depreciating it over a period of years).
- **Double the R&D tax credit for companies that manufacture what they develop here in America.** Some U.S. companies perform their research domestically but manufacture their products overseas. Reward companies that manufacture products in the United States with a double R&D credit.

- **Invest in infrastructure.** Invest in state-of-the-art infrastructure modernization to make ports, rail and transit globally competitive. Create a schools and universities modernization fund, repair aging bridges and subsidize energy-efficient "smart-growth" projects that mix residential and commercial development and promote better land-use planning.

Boost small business

- **Direct loans to small business.** Expand existing direct lending capability in the SBA to create an expanded loan program modeled after federal direct lending for students.
- **Temporarily waive guaranty fees on 7(a) loans**. Currently, the Small Business Administration charges a 2% fee on its 7(a) loans to pay for the cost of the program. Temporarily waiving these fees would open up access to more small-business loans. Congress could also increase the guarantee rate to 90%.
- **Standard home office deduction.** Create an optional $2,000 standard home office deduction as an alternative to the existing deduction, which is too complex for many small business owners to use.
- **Double the deduction for small business start-up costs**. Allow new small businesses to deduct up to $10,000 in start-up costs.

Provide clean, affordable and American sources of energy

- **Invest in clean energy technology.** Substantially increase government investment in research and development of next generation clean energy technologies by funding basic research, expanding the production tax credit for geothermal, solar and wind to five years, and providing financing for the demonstration and deployment of new technology such as cellulosic biofuels, advanced batteries and clean coal power production.
- **Help consumers spend less on energy.** Expand and improve incentives for consumers to reduce energy consumption by increasing existing tax credits for the purchase of energy-efficient appliances and vehicles, doubling tax breaks for energy-efficient home improvements and providing incentives for power companies to encourage energy savings rather than profit from wasteful electricity use.
- **Modernize the grid**. Create new financing options for building a new "smart-grid" for electricity transmission that would allow consumers to save energy when it costs the most, encourage the installation of solar panels by allowing consumers to sell extra electricity back to power companies, and provide new and upgraded transmission lines and interconnections to areas with renewable energy resources.

Make college affordable

- **Generous college tuition tax credit.** Consolidate and expand existing college tuition tax credits and deductions to create a single, simplified generous college tuition tax credit. Create a new, 50%, $5,000 college tuition tax credit.

- **College savings "insurance" for 529 plans.** Allow accountholders to buy into a subsidized insurance fund that would protect parents from a catastrophic decline in their children's 529 accounts within three years of their entry into college by guaranteeing a set rate of return on their savings in return for their premiums paid.
- **Expand federal student loan availability for mid-career students.** Extend federal student loan availability to less-than-part-time students who are currently ineligible for federal student loans.

Ensure health care coverage between jobs

- **Bridge insurance.** Create a $2,500 refundable, advanceable credit that is automatically available to workers who receive unemployment insurance to pay for COBRA coverage. The credit could also be available for workers with a waiting period to receive coverage or who are waiting for Medicare to begin.

Relieve stress for two-career households

- **Elder care credit.** Allow the Dependent Care Credit to be used for qualified elder care expenses.
- **Double child care credit.** Increase the allowable credit for child care expenses to 35% of expenses for all families.
- **New baby tax credit.** Defray the "start-up" costs of having (or adopting) a child by increasing the child tax credit by $1,000 for at least the first year of a child's life.

Endnotes

[1] Nancy Trejos, "Retirement Savings Lose $2 trillion in 15 months," Washington Post, October 8, 2008.

[2] Dean Baker and David Rosnick, The Impact of the Housing Crash on Family Wealth, Center for Economic and Policy Research, July 2008, available at http://www.cepr.net/documents/publications/wealth_2008_07.pdf

[3] ABC News/Washington Post Poll, Oct. 10-11, 2008. N=517 adults nationwide.

[4] AARP Poll, September 3-21, 2008. N=1,628 employed adults age 45 or older,.

[5] American Research Group, 1,100 sample size, October 16-19, 2008, 53% of Americans describe their household finances as bad, very bad, or terrible (monthly survey on the economy).

[6] Third Way/Global Strategy Group, July 29-Aug. 7, 2008. N=1000 adults nationwide, including 470 interviews of adults in households with annual incomes between $30,000 and $100,000. Margin of error: +/- 3.1%.