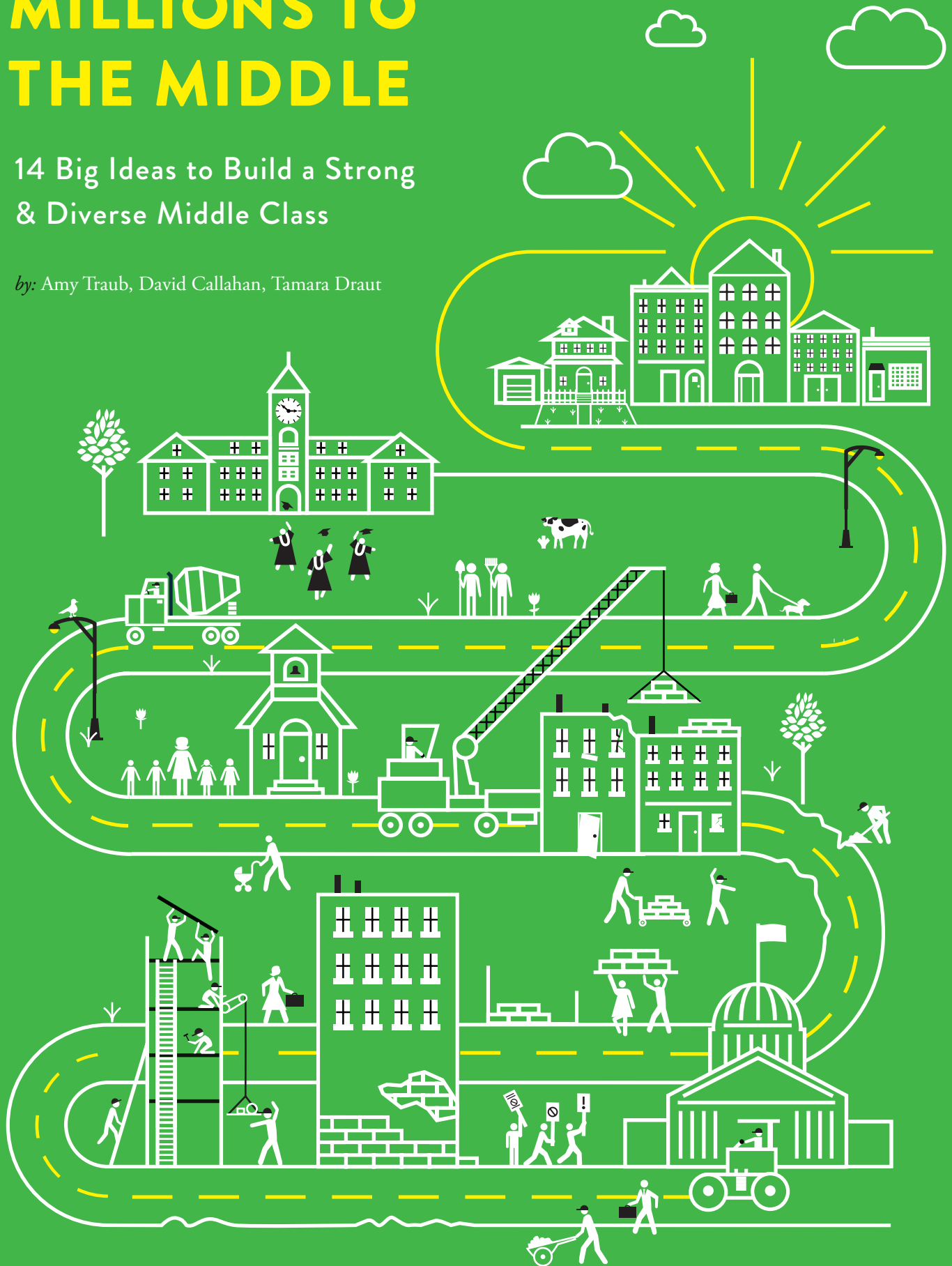


MILLIONS TO THE MIDDLE

14 Big Ideas to Build a Strong & Diverse Middle Class

by: Amy Traub, David Callahan, Tamara Draut



Dēmos

DĒMOS is a non-partisan public policy research and advocacy organization founded in 2000. Headquartered in New York City, Dēmos works with policymakers around the country in pursuit of four overarching goals—a more equitable economy with widely shared prosperity and opportunity; a vibrant and inclusive democracy with high levels of voting and civic engagement; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world.

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SUMMARY OF POLICIES

INVESTMENTS IN HUMAN CAPITAL & EDUCATION: THE ZERO-16 CONTRACT FOR EDUCATION

- **The American Family Trust**
Enable working people to care for a new child or a loved one in need without losing their paychecks or their jobs through a family leave insurance system.
- **Early Care and Education Plan**
Invest in affordable, high-quality child care and education to ensure all American children a strong start in life and enable them to begin school ready to learn.
- **The Contract for College**
Reinvent the federal financial aid system to double the percentage of college-qualified students from low- and moderate-income families who enroll and complete college degrees.

SUPPORT FOR GROWTH, JOB CREATION, AND CAREER DEVELOPMENT

- **Public Jobs for Economic Recovery**
Directly create jobs for the unemployed by hiring them to produce goods and services for the public benefit while we recover from the Great Recession.
- **Public Investment Plan**
Provide a foundation for sustained private sector growth and productivity through improvements in physical infrastructure, investment in clean energy, and the creation of state-level public banks.
- **Level the Playing Field for American Manufacturing**
Support the growth of middle-income manufacturing jobs by ending tax breaks that encourage offshoring, strengthening Buy American provisions, and improving the safety net for workers impacted by trade.

- **The Career Opportunity Plan**
Offer job training and career ladders to boost economic mobility.
- **Federal Reserve Mandate for Full Employment**
Use monetary policy to explicitly promote full employment.
- **Raise Work Standards**
Ensure that all American jobs meet basic standards of decent employment by raising the minimum wage, guaranteeing paid sick days to working people, and ensuring that worker protections are effective and are applied to everyone.
- **Strengthen the Rights of Working People to Organize**
Rebuild labor rights so that Americans can band together to negotiate pay and benefits that enable them to enter the middle class.

HELPING AMERICANS BUILD ASSETS

- **American Retirement Accounts**
Create voluntary annuitized pensions with a guaranteed minimum rate of return to increase Americans' retirement security.
- **A Home Owners' Loan Corporation for the 21st Century**
Establish a new public agency to acquire distressed mortgages from private lenders and directly refinance them under more affordable terms.
- **Fairness in Bankruptcy Act**
Allow bankruptcy judges to reduce the mortgage principal on a primary residence and to discharge student loan debt.
- **Borrower Security Act**
Ensure the nation's lending industry provides credit to individuals on fair and responsible terms by creating a floating federal usury limit and capping loan penalty fees.

INTRODUCTION

Widely shared middle-class prosperity is a signature of American society. It has made the United States the most hopeful and dynamic country on earth and it is a foundation of strong democracy. Expanding and protecting the middle class must be an overriding national priority. We must both make it possible for millions of low-wage workers to lift their families into the middle class and reduce the insecurity of Americans who have managed to attain a middle-class standard of living.

Yet today, America's middle class is in trouble – and those troubles long preceded the financial crash of 2008 and the downturn that followed. As a result of major economic and policy changes over the past three decades, the traditional routes into the middle class have become more difficult to travel and security has eroded for those already in the middle class. Many jobs do not pay enough to cover basic living expenses, much less allow workers to save money and build assets for the future. In fact, a quarter of full-time working-age adults are still not earning enough money to meet economic needs like housing, utilities, food, health care, and transportation for themselves or their families.¹ A college education has become ever more critical to moving up the income ladder—even as it has also become less affordable and the earning power of a college degree has stagnated. Building significant wealth assets for retirement or to help the next generation remains an impossible dream for millions and many households are instead mired in debt. In short, too many people who play by the rules and do everything right find that they cannot climb into the middle class—or stay there.

The hard economic times of the past few years have compounded the long accumulating challenges facing the middle class. Jobs are harder to come by amid extended high unemployment. Many jobs lost during the recession may never come back as a result of corporate policies that have eliminated jobs, moved them overseas, or replaced people with technology. The nation's new jobs disproportionately offer lower wages and fewer benefits than those they replaced.² The dream of homeownership has turned into a nightmare for millions of Americans who have lost their homes to foreclosure or now find themselves owing more on their mortgages than their homes are worth. Retirement savings accounts were hit hard by the stock market plunge of 2008-2009. Government investments in education and job training have declined amid draconian budget cuts and hundreds of thousands of once secure jobs in the public sector have been eliminated.

America's economy has been an awesome engine of wealth creation in the past two decades but the new prosperity has disproportionately gone to the highest paid. Between 1979 and 2007, according to the Congressional Budget Office, American households in the top 1 percent of the income distribution saw after-tax income gains of 275 percent – while the 60 percent of the households in the middle saw their incomes grow by just under 40 percent over this same period.³ And, according to much research, social mobility – the very essence of the American idea – has stagnated or declined in the United States, with many young people struggling to replicate their parents' standard of living.⁴ For example, young men are earning 10 cents per dollar less than their fathers did 30 years ago, according to research from Dēmos.⁵ A persistent and growing racial wealth gap, with historic inequities and injustices exacerbated by the recent iniquity of predatory lending, restricts opportunity for people of color to join or remain part of the nation's middle class. Princeton economist Alan Krueger observes that the economic data “challenge the notion that the United States is an exceptionally mobile society. If the United States stands out in comparison with other countries, it is in having a more static distribution of income across generations with fewer opportunities for advancement.”⁶

This isn't how America is supposed to be. And just as a host of public policy choices created this state of affairs – including tax cuts that disproportionately benefitted the wealthy, financial deregulation, state divestment in public higher education, and decisions to let the minimum wage stagnate, to name only a few – things are likely to get worse without major policy corrections. The long-term trends that have moved America toward a postindustrial service economy are here to stay and, in fact, have accelerated during the economic downturn. Over the next two decades, the Department of Labor projects that the largest job growth will be in low-wage jobs offering little opportunity for advancement and that do not offer health insurance or pay enough to allow workers to put money toward home equity and retirement savings. Meanwhile, most of the good jobs that are created will require a post-secondary education that is likely to remain out of reach for millions as college tuition costs continue to rise.

Even as structural changes have imperiled the middle class, national action has been lacking. Over recent decades, many political leaders have failed to reckon with a basic fact of the new economic era – for millions of Americans, no amount of individual effort or self-improvement or thrift can guarantee a secure middle-class life. The American social contract – a promise of opportunity and security for those who act responsibly – is fundamentally broken.

Dramatic new public policy initiatives are needed to accomplish two broad interrelated goals: to ensure that all Americans have a chance to move into the middle class and, second, to ensure greater security for those in the middle class. Such initiatives should be rooted in mainstream American values and able to command strong public support over the long term. They must also move far beyond incremental measures and be of sufficient scale to permanently address the economic insecurities of what is now a vast number of U.S. households.

AGENDA FOR A MIDDLE-CLASS AMERICA

This report takes a long-term view to expanding and strengthening the middle class. Looking ahead to where the United States could be a decade from now, we advance policy proposals that would be phased in over time and are big and bold enough to fully meet the challenge at hand. In imagining the future, we have looked to the past for insights – and specifically to the early decades of the postwar era, where policymakers helped to orchestrate a historic expansion of the middle class through broad initiatives that enjoyed strong bipartisan support and wide public approval.

While understanding that conditions have changed radically over the past four or so decades, our agenda draws on the impressive postwar policy record for guidance and inspiration. We also have rooted our initiatives in a close examination of current public attitudes. The proposed agenda is firmly rooted in a core set of American values that enjoy robust public support and focuses on three strategies that have historically been pivotal to the expansion and protection of the middle class. Our agenda includes:

- **INVESTMENTS IN HUMAN CAPITAL AND EDUCATION.** We advocate major new investments in human development and education to ensure that all young Americans have the best chance to realize their potential and that anyone who wishes to improve their future prospects has the ability to do so.
- **SUPPORT FOR GROWTH, JOB CREATION, AND CAREER DEVELOPMENT.** We propose new initiatives to create more middle-class jobs through steps aimed at expanding high-value sectors of the economy, strengthening career ladders, and raising labor standards. We also propose the near-term creation of public jobs to address the unemployment crisis.
- **HELPING AMERICANS BUILD ASSETS.** We outline major steps to help Americans build greater financial assets through help for homeowners, a new retirement pension system, and greater protections against usurious practices that strip Americans of wealth.

What each of these strategies has in common is that they empower individuals to advance themselves through self-improvement, hard work, and responsible planning for the future. The three strategies work in combination with one another to help people to move up the ladder of economic opportunity and, in turn, pass on opportunity to their children. Education and good job opportunities are critical to increased earnings which, in turn, are essential for accumulating assets. Assets, and the economic cushion they provide, are vital to security both in one's working years and in retirement. Assets are also a key to upward intergenerational mobility.

Dramatic new investments in human capital, assets, and the foundations of a productive economy would help usher in a new era of expansion and security for the middle class. But much more needs to be done beyond these three areas and our agenda here is not meant to be comprehensive.

BUILDING THE MIDDLE CLASS: LESSONS FROM THE POSTWAR YEARS

The United States has previously made huge steps forward in expanding the middle class, and we can do so again. In the three decades following World War II, tens of millions of households moved securely into middle class prosperity – typically on the paycheck of a single earner. Never before in U.S. history did the standard of living improve so quickly for so many people. This didn't "just happen." Public policy played a key role in the rise of America's new middle class during the postwar years. Beyond broad economic policies that nurtured tight labor markets and strong labor unions, the three strategies we outline in this report played a key role in the great middle class expansion that followed World War II.

First, government invested in massive new support for education, and higher education in particular. The G.I. Bill provided a free college or graduate school education to all veterans, propelling the rapid expansion of the state university system, which offered low-cost or no-cost education and training to millions of Americans. The Higher Education Act of 1965 offered further public support for college students and their schools. In 1950, only 6.2 percent of Americans over 25 had attained a bachelor's degree; by 1980, 16.2 percent had.⁷ Government also invested heavily in primary and secondary education, particularly after Sputnik was launched in 1957. Education spending doubled as a percentage of GDP between the late 1940s and the 1970s. In addition, major new spending on anti-poverty programs, starting in the 1960s, reduced the number of children growing up amid extreme privation.

Second, government made huge new investments in asset accumulation. Various public policies helped to increase the number of American homeowners during the early postwar years, including assistance with down payments through the G.I. Bill, government initiatives to enable more people to get mortgages, the home mortgage interest deduction, and large-scale subsidies for new suburban housing development through public investments in roads and other infrastructure. As well, government invested heavily in retirement security by greatly increasing

Social Security benefits and offering tax subsidies for 401(k)s, IRAs, and other retirement accounts. And, until the 1980s, government regulations helped protect investors and borrowers from being preyed on by the financial services industry, making it easier for Americans to preserve the wealth they accumulated.

Third, government played a proactive role in the postwar period in creating an economy that produced plentiful good jobs and also ensured high labor standards, including the right to form labor unions, so that workers shared the prosperity they had created. Government invested heavily in infrastructure, tripling spending on transportation between 1950 and 1975.⁸ Public spending on scientific research also grew dramatically in the 1950s and 1960s.⁹ At the same time, U.S. policymakers were highly successful at opening markets overseas for U.S. exports, ensuring buyers for the new products created by a dynamic U.S. economy. In addition, the National Labor Relations Board played a strong role during this period by ensuring organizing rights for workers. The minimum wage climbed steadily in the postwar years in inflation adjusted terms, hitting a high in 1968.

The policies of the early postwar period that built the middle class were flawed in that they did not extend to all Americans. Career options for women were limited and people of color were excluded from many of the opportunities created by the federal government, especially in the area of home ownership. This legacy of past exclusion continues to powerfully shape opportunity – especially for people of color born to households with limited family assets and coming of age in urban or rural areas geographically removed from good schools and good jobs. We also face the urgent challenge of extending economic and civil rights to 11 million undocumented immigrants.¹⁰ In building tomorrow's middle class in a country where people of color will be a majority by mid-century, it is crucial to address structural racial inequities. New policies for growing the middle class must be maximally inclusive, and a key task for policymakers is to address racially skewed opportunities in this country – a challenge that promises to grow even more acute, and more socially explosive, in the decades ahead.

AMERICAN VALUES, UPWARD MOBILITY

Postwar efforts to build the middle class were rooted in widely shared American values. If you worked hard, you could get ahead while building a future for your children. Such values must also be central to any new agenda to raise millions to the middle class. A close reading of public opinion suggests that a strong majority of the public believe that the path to a better life lies in hard work, self-improvement, and thrift for the future. Most Americans agree that those who embrace these virtues should be rewarded with a decent life. The notion of reciprocity is centrally important here.

The U.S. economy has long operated at odds with key American values around work and opportunity, but that disconnect has sharpened amid an economic crisis that has left millions, through no fault of their own, without work and with less wealth. New policy initiatives are needed to close a growing disconnect between effort and reward, and to ensure that the aspiration to move into the middle class through effort remains realistic and achievable. The United States must recreate the conditions whereby motivated individuals can reliably secure a decent life for themselves and their family. The initiatives we suggest are guided by the following values-based propositions:

- **SELF-IMPROVEMENT SHOULD BE POSSIBLE.** The United States has historically been a nation of self-improvers where those who make the effort to invest in their own future – especially through education – garner rewards for doing so. Our education initiative is designed to ensure that no one who wishes to make an investment in their future through college or vocational training will be prevented from doing so by financial barriers.
- **WORK SHOULD BE REWARDED.** Few virtues are respected more by Americans than the ability to work hard for what one wants. Our jobs agenda aims to ensure that anyone who wants to work can find

- a job and that those who work full-time will be rewarded with a minimally decent standard of living, opportunities for advancement, and a fair share of the wealth they create with their labor.
- **THRIFT AND PLANNING SHOULD BE ENCOURAGED.** Sacrificing today for a brighter future tomorrow has long been another key ingredient in the American formula for middle-class success. Our asset-building plan helps Americans save more for retirement and be secure in old age. It also will help extend homeownership to millions of working Americans and protect people from wealth stripping practices of the financial services industry.
- **FAMILIES ARE IMPORTANT.** Strong families have always been the backbone of the American middle class. Our policy on family leave enables working people to care for their children, elderly parents, and other loved ones. Our investment in high-quality early education and child care ensures that the next generation has the best start in life.
- **WE ARE ALL IN THIS TOGETHER.** Americans must work together and look out for one another. Not only do we have a moral obligation to our fellow citizens, but we will each do better if we cooperate to build and maintain the public structures that undergird prosperity and ensure security.

CONCLUSION

More than three decades after the onset of de-industrialization, the United States is now well into a new economic era. As of yet, policymakers have not risen to this challenge and the American Dream is at risk of being denied to millions of Americans.

In this report, we have, on one hand, sought to think outside the confines of the current policy debates to lay out a bold vision of a society with higher levels of opportunity, mobility, and security. On the other hand, we have put forth a vision that is respectful of the values that most Americans bring to debates on equity. Our proposals will be politically difficult to achieve in the near term, but they are very much in keeping with core American values and, if implemented, can be expected to command strong public support over the long term.

In addition, there is a very good reason to lay out big policy proposals that may be hard to accomplish any time soon: Those who care about living in a fairer society must have a vision of what they ultimately hope to achieve if they are ever to have a chance of realizing that vision.

INVESTMENTS IN HUMAN CAPITAL AND EDUCATION

Middle class Americans don't spring into being with briefcase or lunch pail in hand—they are human beings who come from families and have families of their own; they are the beneficiaries of the care they received in childhood and illness, and are caregivers themselves; their success stems—at least in part—from the quality of their educations, and one of their highest aspirations is to provide a good education for their own children.¹¹ Therefore, investing in education and human development, ensuring that future generations are well cared for and well educated, and that working people have the time they need to be caregivers to the people they love is a key starting point for moving millions of Americans into the middle class. We propose the Zero-16 Contract for Education, designed to provide a strong foundation that empowers individuals to advance themselves through self-improvement and hard work.

Education has long been recognized as a primary means of improving one's economic prospects and moving into the middle class. Yet researchers and educators increasingly recognize that success in high school and beyond is built on a foundation of learning acquired in the earliest years of life. As a result, a growing number of states and school districts embrace the importance of an integrated system of education stretching from early childhood through post-secondary education. Often called “P-16 education” with reference to a cohesive preschool (P) through 16 system (12 years of high school plus up to four years of college or technical training), this idea provides the basis for our more comprehensive proposal that education and human development be considered on a Zero-16 basis—encompassing children's development from birth (age zero) through college.

Providing the next generation with a good start in life begins with the ability of parents to spend time with their children, especially with newborn or newly-adopted youngsters. Yet over the past decades, public policy and workplace practices have not kept up with parents' and caregivers' increasing labor force participation. Unlike

169 other countries in the world, federal policy in the U.S. does not guarantee any form of paid leave to new parents.¹² The deficiency deeply impacts Americans trying to work their way into the middle class: faced with the need to cope with a family illness or the arrival of child, many low-wage workers see no option other than to quit or take time off that they know will result in the loss of their job.¹³ The birth of a child is thus recognized as a significant risk factor for low- and moderate-income families falling into poverty.¹⁴ To provide children and their families with a modicum of support as they cope with life-changing events, the Zero-16 Contract for Education establishes a national system of paid family leave based on successful programs already operating in California and New Jersey.

Ensuring that children begin school ready to learn is the next task of the Zero-16 framework, which incorporates the role of both preschool and high quality child care for young children into the educational continuum. Decades of research indicate that

quality early education improves academic outcomes for children later in life, and that children from low-income families – who otherwise begin school already behind their more advantaged peers in vocabulary and cognitive skills – see the greatest benefits.¹⁵ Yet low- and moderate-income families struggle to afford stimulating child care and good preschool programs and existing public programs do not meet the need. The Zero-16 Contract for Education enables children from modest backgrounds to begin kindergarten with a foundation for later academic and workforce success.

If America is to fully recognize the promise of education for strengthening and expanding the nation’s middle class, we must make a substantial effort to expand access to higher education. As college tuition has tripled since 1980,¹⁶ rising faster than both inflation and family income, more students are being denied the opportunity to reap the social and economic benefits of higher education. While young people are going to college at higher rates than ever before, wide disparities in access and completion remain. The enrollment gap between low-income families and high-income families is as high as it was three decades ago.¹⁷ Many hardworking students are priced out of

PUBLIC OPINION DATA

- 82% of Americans say family and maternity leave is a “very important” workplace standard, rating it even higher than basic protections like the minimum wage or overtime pay.¹⁹ Other surveys show similarly strong public support for a paid leave standard written into federal law.²⁰
- 57% of parents of young children report that child care is an economic necessity. Three-quarters of such parents rate affordable child care as the most or one of the most important factors in helping working families.²¹
- Next to hard work and personal ambition, Americans see access to a quality education as the most important factor in whether a person gets ahead economically.²²
- The number one thing Americans want to see government do to help people get ahead is “ensuring all children get a quality education” – a policy goal that even trumps promoting job creation.²³
- Ninety-four percent of American parents say they expect their own child to attend college.²⁴
- A majority of Americans now believe that higher education is absolutely necessary for success – a proportion that has risen dramatically over the past decade.²⁵ Yet only 35 percent of parents earning less than \$35,000 a year are confident that they will be able to save as much as they expected to for their child’s college education.²⁶
- 7 out of 10 Americans now say that there are many qualified people who do not have access to higher education because of the cost.²⁷

pursuing and completing higher education – a fundamental component to upward mobility and opportunity in American society. And those who do enroll are leaving college with unprecedented levels of debt, often without a degree in hand. In 2010, the nation’s total outstanding student loan debt outpaced its credit card debt for the first time,¹⁸ and student indebtedness is likely to continue growing quickly in the absence of bold policy reforms like those included in the Zero-16 Contract for Education.

The Zero-16 Contract of Education is designed to ensure that all young Americans have the best chance to realize their potential and that anyone who wishes to improve their future prospects – and invest in their own children – has the ability to do so. It includes the following components:

- **The American Family Trust** – Enable working people to care for a new child or a loved one in need without losing their paychecks – or their jobs – through a family leave insurance system.
- **Early Care and Education Plan** – Invest in affordable, high-quality child care and early education to ensure all American children a strong start in life and enable them to begin school ready to learn.
- **The Contract for College** – Reinvent the federal financial aid system to double the percentage of college-qualified students from low-and moderate-income families who enroll and complete college degrees.

Zero-16 Contract for Education responds to one of the deepest middle-class aspirations – the dream of a better life for one’s children. At the same time, it provides young people with the opportunity to improve their own lives and invest in their own futures by working hard in school and garnering rewards for doing so. Finally, by expanding access to quality early childhood care and education and a 2- or 4-year college or technical degree, the Zero-16 Contract for Education upgrades the nation’s future workforce, builds the economy, and expands the middle class.

POLICY: THE AMERICAN FAMILY TRUST

Enable working people to care for a new child or a loved one in need without losing their paychecks—or their jobs—through a family leave insurance system.

POLICY RATIONALE

In today's economy, families increasingly depend on the incomes of all adults in the household, yet many working people also have responsibilities as parents and caregivers. Public policy has not kept up with the changing workforce: without access to paid leave, employees who need flexibility in their work lives to recover from illness or care for family members often face economic hardship. Family leave insurance addresses the reality of people's lives as they strive to work their way into the middle class.

While still the typical primary caregiver, the number of women in the American workforce has expanded dramatically in the past decades: today nearly two-thirds of American families with children – including both married couples and single parents – have all adults in the workforce.²⁸ At the same time, one in five American adults reports having caregiving responsibilities for another adult, such as a disabled or elderly relative, and most of these caregivers are employed.²⁹ The proportion of the workforce with caring for elderly loved ones will continue to grow as the U.S. population ages.

Uncompensated caregiving responsibilities have very real economic consequences for working Americans. For example, an adult caring for his or her aging parent stands to lose as much as \$303,880 cumulatively in lost wages, Social Security, and pension benefits due to leaving the labor force early and/or working reduced hours because of caregiving responsibilities, according to one recent estimate.³⁰ Yet it is low-income workers who are least likely to have access to any form of paid leave. Low-wage workers often hold jobs with rigid or unpredictable schedules that further exacerbate conflicts between work and family responsibilities.³¹ Faced with the need to cope with a family illness or the birth of child, many workers see no option other than to quit or take time off they know will result in being fired from their job.³²

The Family and Medical Leave Act, passed in 1993, was intended to provide some security to families facing a sudden illness, providing family care, or welcoming a new child. The law guarantees 12 weeks of unpaid leave to Americans working at businesses with 50 or more employees. Employers cannot replace workers on FMLA leave or retaliate against them in any way. Since its implementation, workers have used FMLA leave more than 100 million times.³³ But four in ten American workers are not eligible because they work for smaller companies or have not been on the job long enough, and millions of Americans cannot afford to take leave without pay.³⁴ Because only a small proportion of employees receive paid leave benefits directly from their employers, working Americans are still forced to risk their incomes and jobs to maintain their families.³⁵ Employees of small companies lack any federal protection whatsoever.

OPINION SNAPSHOT

- 82% of Americans say family and maternity leave is a “very important” workplace standard, rating it even higher than basic protections like the minimum wage or overtime pay.¹⁹
- Other surveys show similarly strong public support for a paid leave standard written into federal law.²⁰

The U.S. policy of offering only unpaid leave to deal with major life events stands in sharp contrast to the rest of the world. For example, 169 countries guarantee some form of paid leave to new parents – the U.S. joins Liberia, Papua New Guinea, and Swaziland on the short list of nations that leave workers alone to cope with this life-changing event and fail to mandate that employers provide paid time off when a child is born.³⁶ In contrast, Canada, which has fairly typical policies for a developed economy, provides up to 51 weeks of partially paid leave for parents to spend with a new child.³⁷ The new American Family Trust proposes a more modest standard for the United States: 12 weeks of partially paid leave to enable working families to provide needed care for loved ones without losing their jobs. This standard builds on successful paid leave programs already operating in states like California and New Jersey.

The American Family Trust would also have benefits for employers, especially small businesses that often have the greatest difficulty providing paid leave on their own. Enabling employees to address major life events like the arrival of a new baby or a spouse's serious illness enables companies to recruit and retain the best employees and can improve workplace morale and productivity. It will also help employers save money in reduced turnover costs. For example, California's modest six-week paid family leave program has improved retention among low-wage workers by ten percent.³⁸ This represents no small savings given that turnover costs can amount to 25 to 200 percent of an employee's annual compensation when recruiting, hiring, training, and other requirements are taken into account.³⁹ Although business lobbyists were initially the most vehement opponents of California's paid leave program, five years after its implementation nine out of ten employers reported no negative effect on business profitability or performance, with small businesses even less likely to detect any damaging impact on their bottom line.⁴⁰

Finally, providing family leave insurance reflects Americans' deep and widely shared values about the centrality and importance of family. Caring for children and sick loved ones is a concrete expression of that commitment. "You shouldn't have to risk your job to take care of your family," as advocates with the Multi-State Working Families Consortium put it, "and you shouldn't have to put your family at risk just to do your job."⁴¹ The American Family Trust, based closely on the Family Leave Insurance Act before the 111th Congress, will help to make that value a reality.⁴²

POLICY DESIGN

The American Family Trust would provide 12 weeks of paid benefits to employees who need time off work to care for a new child, a sick family member, or their own illness. The self-financing trust is funded by premiums paid equally by employees and employers.

- All full- and part-time employees who have worked for their current employer and paid into the Trust for at least six months will be eligible for coverage.
- Employees receive up to 12 weeks of paid leave over a 12 month period to care for:
 - a newborn, newly adopted child, or foster child
 - a seriously ill family member
 - a serious personal medical condition.

- Benefits will be based on wages and will be indexed for inflation:
- 100% of weekly earnings to \$20,000
- 75% of weekly earnings to \$30,000
- 55% of weekly earnings for \$30,001-\$60,000
- 45% of weekly earnings for \$60,001-\$97,000
- For those earning above \$97,000, 40% of the weekly earnings of a \$97,000 yearly income.
- Employees cannot be fired for using leave under the American Family Trust, and health insurance benefits continue without interruption.
- To fund the trust, employers and employees each pay a premium of 0.2 percent of each worker's gross pay.
- Both states and individual companies may opt out of the program if they already mandate or offer equivalent or better benefits.

POLICY: EARLY CARE AND EDUCATION PLAN

Invest in affordable, high-quality childcare and early education to ensure all American children a strong start in life and enable them to begin school ready to learn.

POLICY RATIONALE

Child care and early education are vital to economic growth and future competitiveness. Working families need access to affordable and high-quality child care and preschool education in order to meet their families' basic needs. At the same time, investing in child care also meets a national need by ensuring that children can develop their full potential to become critical thinkers and engaged citizens.

There is substantial research indicating that birth to age 3 is a crucial time in a child's development, impacting later school performance and life chances.⁴³ For example, children who benefit from early care and education programs are less likely to engage in criminal behavior later in their lives and are more likely to graduate from high school and college. Higher graduation rates translate to higher incomes upon entering the labor force, the long-term benefits of which include higher tax revenue which might be considered a return on the public's investment in that child. Multiple cost-benefit analyses conducted on three of the intensive educational programs that have been studied long term – Abecedarian, Perry Preschool, and ChildParent Center – have found that the public benefits far exceed the costs of the programs; benefits range from \$6 to \$13 for every \$1 spent on the programs.⁴⁴

Yet child care is exceedingly expensive: Dēmos and Young Invincibles' "State of Young America" study reports that child care fees for two children (an infant and a 4 year-old) in a child care center exceeded annual median rent payments in every state in the U.S.⁴⁵ The national average for center-based child care costs in 2010 was \$8,900 for full-time care for an infant and \$7,150 for full-time care for a preschooler.⁴⁶ While well-off families can afford the type of good child care and education all children deserve, low-income and middle-class families often cannot, and may end up with lower-quality care or lose jobs as they juggle unstable child care situations. The federal Head Start program, aimed at families in poverty, reaches only about half of three- and four-year-olds from poor families and seldom provides the full-day care that parents trying to work their way into the middle class often need. Federal block grants that subsidize child care are inadequate, as are tax credits that aim to offset the cost burden for middle-class families.

OPINION SNAPSHOT

- 57% of parents of young children report that child care is an economic necessity. Three-quarters of such parents rate affordable child care as the most or one of the most important factors in helping working families.²¹
- Next to hard work and personal ambition, Americans see access to a quality education as the most important factor in whether a person gets ahead economically.²²
- The number one thing Americans want to see government do to help people get ahead is "ensuring all children get a quality education" – a policy goal that even trumps promoting job creation.²³

Accordingly, the Zero-16 Contract for Education includes a plan for affordable, high-quality child care which expands tax credits to low- and middle-income families, increases federal block grant funding allocated to child care assistance, provides resources to enhance the training of child care providers, sets up a system to monitor child care facilities for safety, and calls for specific techniques and approaches for improving the quality of child care services to families with limited English proficiency and children with special needs. It also expands public investment in Head Start and Early Head Start to ensure access to all low-income families interested in enrolling their children. A high-quality early care system would cost an estimated \$88 billion a year.⁴⁷

POLICY DESIGN

The early care and education component of the Zero-16 Contract for Education is based on a blueprint for affordable, high-quality child care developed by a coalition of national and state educators, advocates, and analysts.⁴⁸ It will ensure all American children a strong start in life and enable them to begin school ready to learn.

A summary of the blueprint follows:

- To ensure that parents have access to a range of child care services, states will receive additional Child Care and Development Block Grant funding in order to double the number of children currently served nationally by child care assistance. States must also implement strategies to increase the supply of child care in underserved areas and to make these services more accessible to populations with limited English proficiency.
- To expand direct child care assistance to low- and middle-income families, the federal Child and Dependent Care Tax Credit will be made refundable, while the sliding scale for determining the amount of the credit will be expanded so that it begins at 50 percent of expenses for families with incomes of \$35,000 or less. In addition, the current expense limits of the credit will be maintained at no less than \$3,000 for one child or dependent and \$6,000 for two or more children or dependents. Finally, the credit will be indexed to inflation to maintain its value.
- The federally funded preschool programs Head Start and Early Head Start will see their funding expanded to ensure access to all low-income families interested in enrolling their children.
- Federal funding will also be authorized to provide a pool of capital to make grants to renovate and construct child care facilities in low-income communities.
- The Child Care and Development Block Grant will be expanded with funds sufficient to ensure that all child care meets basic health and safety and child development standards. The block grant will also provide funding for the licensing and regulation of child care providers and the establishment of a system to rate the quality of providers and provide support to help them improve. Efforts to improve care for infants and toddlers will receive significant new resources.

POLICY: THE CONTRACT FOR COLLEGE

Reinvent the federal financial aid system to double the percentage of college-qualified students from low-and moderate-income families who enroll and complete college degrees.

POLICY RATIONALE

Education has long been recognized as a primary means of improving one's economic prospects. Today, a postsecondary degree or certificate has become increasingly necessary for earning a middle-class living. The last two decades have greatly heightened the demand for a highly educated workforce—and the earnings differential between those with and without college degrees has widened substantially. A worker with a bachelor's degree now earns about 66 percent more than a worker with only a high school diploma.⁴⁹ Over a lifetime, that wage gap will add up to over \$1,000,000. At the same time, a college education has become more difficult for students from modest backgrounds to afford.

The rising cost of higher education is a problem in and of itself – and colleges and universities must act to keep their tuition in check. But students are also hindered by the way student aid is allocated. Over the last 20 years, federal financial aid has steadily shifted away from grant-based aid to a predominantly loan-based system. As a result, borrowing has become the most common way for students to finance their education. In 2009, the average graduating college senior from a four-year institution was saddled with \$24,000 in debt, a number that has been rising steadily.⁵⁰ This works out to a monthly payment of \$276, or 9.5 percent of the typical graduate's income. Yet repaying student loans will be even more difficult for many graduates given that the unemployment rate for young degree-holders soared to 8.7 percent in 2009.⁵¹ The picture is still darker for students who left school without completing a degree – of the students who entered college in 2003 (the most recent year for which data is available), 31 percent of those with student loan debt in excess of \$22,000 had not earned a degree six years later.⁵² The student loan burden is taking a toll on young adults' lives: almost 1 in 5 significantly changed their career plans because of student loans; nearly 40 percent delayed buying a home and just over 20 percent reported their debt burden caused them to delay having children.⁵³

The major reason for lower enrollments in 4-year institutions among qualified students from low-income families is the level of unmet need they face in attending college. Unmet need is the amount needed to cover expenses after all loans, grants and work study wages are accounted for. On average, the annual unmet need of low-income families has reached historic levels. In academic year 2007-08, the average low-income family faced \$6,480 in unmet need for a public 2-year institution; \$9,030 for a public 4-year institution; and \$10,400 for a private non-profit 4-year institution.⁵⁴

OPINION SNAPSHOT

- Ninety-four percent of American parents say they expect their own child to attend college.²⁴
- A majority of Americans now believe that higher education is absolutely necessary for success—a proportion that has risen dramatically over the past decade.²⁵ Yet only 35 percent of parents earning less than \$35,000 a year are confident that they will be able to save as much as they expected to for their child's college education.²⁶
- 7 out of 10 Americans now say that there are many qualified people who do not have access to higher education because of the cost.²⁷

Unmet need has forced low- and moderate-income students to abandon the most successful recipe for obtaining a college degree: full-time, on-campus study.

As a result of unmet need, the highest achieving students from poor backgrounds attend college at the same rate as the lowest achieving students from wealthy backgrounds. Or to put it more coarsely: the least bright wealthy kids attend college at the same rate as the smartest poor kids.

A four-year college degree is not the only way to achieve a middle class standard of living: associates degrees and one- and two-year credentials, especially in high-demand fields like engineering and health care, can also represent a path to economic prosperity, in some cases opening the door to earnings that outpace the salaries of some bachelors degree holders.⁵⁵ The Contract for College would not only provide grant and loan assistance to community college students, but would strengthen the nation's network of open-enrollment community colleges by reviving President Obama's plan for the American Graduation Initiative, investing \$12 billion in community colleges over the next decade with the aim of producing 5 million additional community college graduates.

Finally, the Contract for College expands college access for one particularly disadvantaged group of students: young people who have grown up in the United States and flourished academically at American high schools but do not have legal immigration status because of immigration decisions made by their parents, often when they were small children. An estimated 65,000 unauthorized immigrant students graduate from high school every year.⁵⁶ They are excluded from most scholarships, are barred from receiving federal financial aid, and cannot work legally to pay for college. Even a college degree will not guarantee them the opportunity to enter the legal workforce. Instead of making these young people a part of our future middle class, the nation squanders the talent and ability of unauthorized immigrant students by forcing them to remain in the shadows. The Contract for College includes provisions similar to the proposed federal DREAM Act which would offer a path to citizenship to unauthorized students who complete high school and agree to attend college.

POLICY DESIGN

The Contract for College would unify existing strands of federal financial aid – grants, loans and work-study – into a coherent, guaranteed financial aid package for students.⁵⁷ Grants would make up the bulk of aid for students from low- and moderate-income families. The Contract will recognize the important value of reciprocity – so part of the Contract for every student will include some amount of student loan aid and/or work-study requirement. The Contract is designed to reorient federal aid back to a more grant-based system and ensure that students from all financial backgrounds have upfront knowledge and understanding of the amount and type of financial aid that will be available during their entire course of study. The Contract also provides direct federal investment in community colleges to fund the President's American Graduation Initiative and offers temporary legal immigration status and path to citizenship for unauthorized immigrants who came to the U.S. as children and plan to attend college.

The key design elements to the Contract for College are featured below, including how existing federal policy and programs will be refashioned under the Contract system.

- The grants provided under the Contract would modernize the current Pell Grant system and would operate in much the same manner, with two exceptions. The first is that the Contract for College should be funded as an entitlement. One of the major deficiencies of the Pell Grant program is that it has been consistently underfunded, resulting in lower grant amounts than the maximum allowed by the law. The second is that the grants will be more flexible than the current Pell Grant system. The amount of the grant will be based on the cost of attendance at the public institution in which the student chooses to enroll, with students at private institutions receiving grants equivalent to the average costs at a 4-year public university.
- The amount a student can borrow through the federal student loan program will be determined by the cost of attendance minus the grant and work-study aid available to the student. Of course, with the enhanced level of grant aid, many families will no longer need their children to take out loans to help pay for college. For students from families whose income is high enough to make them ineligible for grant or work-study aid, the annual maximum loan amount will be \$10,000 in unsubsidized loans.
- Students will be awarded aid for enrollment in any two- or four-year public institution. The amount of the total aid package will be based on the tuition, fees, room and board and book costs provided by the college in which the student plans to enroll. Students who choose to live off-campus will receive the equivalent to those choosing to live on-campus. Students wishing to enroll in private institutions will be provided a financial aid package equivalent to the average costs at a 4-year public university. Dependent and independent students will be treated the same under the Contract.
- To encourage private and nonprofit entities to help low-income Americans with the full costs of higher education, the new system will match gifts or grants by private or nonprofit entities up to \$2,000 annually. For example, if a private college offers a scholarship of \$1,500 a year, the government will match the college's investment. Or, if a business sets up a fund to help local high school graduates attend college, the recipients of such gifts would also receive a match for gifts up to \$2,000. To further advance the goal of catalyzing new investments in higher education by businesses and philanthropies, we also propose creating the Contract for College Fund, a national trust that would actively seek out and match such investments.
- An important component in designing this program is to ensure that families have early knowledge of the financial resources available to their children to attend college. At the start of the program, all households with students in the 8th grade and above will receive their Contract for College that estimates their aid package using the average cost of attendance at public 4-year institutions. Alerting students and parents about the amount of student aid available will help increase the expectation that attending and completing college is a realistic goal.
- Invest \$12 billion in community colleges over ten years to create a challenge fund for colleges to modernize their facilities; innovate and expand education and administrative reforms, including efforts to increase community college graduation rates; and assess colleges' effectiveness, with the goal of producing 5 million new community college graduates by 2020.

- In order to remove barriers to opportunity for young people who grew up in the U.S., unauthorized immigrant students who came to the U.S. at age 15 or younger and have lived in the country for at least five years will become qualified for conditional permanent resident status if they are accepted to college, graduate from a U.S. high school, or are awarded a GED in the U.S. Qualified students would be fully eligible for other higher education benefits under the Contract for Education. Students would not qualify for this relief if they have committed crimes or are judged a security risk. If these students then attend college or serve in the U.S. military, they will become eligible for permanent legal status and ultimately citizenship. These provisions mirror one version of the federal DREAM Act.

While each student's final Contract will be based on the institution costs where the student chooses to enroll, we can use the average cost of attendance for 4-year colleges to model the type of aid students at different income levels will receive under the Contract. According to the College Board, the average total cost of attendance for one year at a public 4-year university was \$16,140 for the 2010-2011 school year.⁵⁸ This cost includes tuition, room and board, books and transportation.

The model below is for illustrative purposes. An actual plan would include more gradual phase-outs between each successive income level. It would also incorporate the likely grants by employers or NGOs and government matches, which are difficult to anticipate at this point.

THE CONTRACT FOR COLLEGE

Based on the average annual cost of attendance at 4-year public colleges (approximately \$16,000/year)

HOUSEHOLD INCOME BELOW \$25,000

Grant to cover 75% of costs	\$12,000
Work-study	1,500
Subsidized loan	2,500

HOUSEHOLD INCOME \$25,000-\$49,999

Grant to cover 65% of costs	\$10,400
Work-study	1,500
Subsidized loan	4,100

HOUSEHOLD INCOME \$50,000-\$74,999

Grant to cover 55% of costs	\$8,800
Work-study	1,500
Subsidized loan	5,700

HOUSEHOLD INCOME \$75,000-\$99,999

Grant to cover 40% of costs	\$6,400
Work-study	1,500
Subsidized loan	4,050
Unsubsidized loan	4,050

HOUSEHOLD INCOME ABOVE \$100,000

Unsubsidized loan	\$10,000
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SUPPORT FOR GROWTH, JOB CREATION, AND CAREER DEVELOPMENT

The goal is simple: a good job for everyone in America. That means rebuilding a society where everyone who wants to work can work; where all working people earn enough to support themselves and their families; and where those willing to work hard to get ahead can find opportunities for advancement. Yet today, economic opportunity is threatened. Millions of eager-to-work Americans cannot find jobs. A quarter of full-time working-age adults are still not earning enough money to meet basic economic needs like housing, utilities, food, health care, and transportation for themselves or their families.⁵⁹ Millions of workers who are putting in more hours of work than ever find themselves either hard pressed to ascend to the middle class – or hard pressed to stay there.

To realize the core American value that hard work should be rewarded, we need more jobs capable of lifting a family out of poverty and into the middle class. Yet the workings of the market alone will neither create sufficient jobs, nor ensure that new jobs are good jobs.

Consider the millions of Americans seeking work. Joblessness is not a reflection on the work ethic of the unemployed or lack of appropriate skills, but rather of the nation's deep jobs deficit in the aftermath of the Great Recession. Today there are more than four jobseekers for every single job opening. On the nation's current economic trajectory, we will endure another five years of high unemployment before finally returning to pre-recession employment levels. It will take forceful public intervention to provide employment for out-of-work Americans.

Similarly, if current trends continue and we do not act to raise the standard of our nation's jobs, many of the jobs of America's future will be low-wage, dead-end positions. The Department of Labor projects that over the coming decade, the largest job growth will be in currently low-paying occupations such as home health aides, food service workers, and retail salespeople.⁶⁰ The seeds of this proliferation of low-wage positions began in the decades before the Great Recession, fueled by factors such as the falling value of the minimum wage, the decline

of union representation, and the failure of federal worker protections to keep pace with a changing labor market, as well as a corporate-led model of globalization that put less-educated American workers into direct competition with their low-wage counterparts abroad. The recession merely widened the already growing earnings shortfall: during the downturn, 60 percent of jobs lost nationwide were middle-income positions, yet most employment growth since the official end of the recession has been in low-wage occupations.⁶¹

Ensuring that hard work offers an opportunity for Americans to enter the middle class is a two-part challenge: America must create jobs and also increase job quality so that more jobs are good, middle-class positions – or, at a minimum, offer a means to climb into the middle class. In this section, we propose seven policies aimed at addressing these challenges:

- **Public Jobs for Economic Recovery** – Directly create jobs for the temporarily unemployed by hiring them to produce goods and services for the public benefit while we recover from the Great Recession.
- **Public Investment Plan** – Provide a foundation for sustained private sector growth and productivity through improvements in physical infrastructure, investment in clean energy, and the creation of state-level public banks.
- **Level the Playing Field for American Manufacturing** – Support the growth of middle-income manufacturing jobs by ending tax breaks that encourage offshoring, strengthening Buy American provisions, and improving the safety net for workers impacted by trade.
- **The Career Opportunity Plan** – Offer job training and career ladders to boost economic mobility.
- **Federal Reserve Mandate for Full Employment** – Use monetary policy to explicitly promote full employment.
- **Raise Work Standards** – Ensure that all American jobs meet basic standards of decent employment by raising the minimum wage, guaranteeing paid sick days to working people, and ensuring that worker protections are effective and are applied to everyone.
- **Strengthen the Rights of Working People to Organize** – Rebuild labor rights so that Americans can band together to negotiate pay and benefits that enable them to enter the middle class.

Together, these policies lay the groundwork for jobs to be created and sustained, for the worst jobs to be improved, for working people to move up to better positions and to have the opportunity to raise the quality of their existing employment through unionization and collective bargaining. They represent a comprehensive package of reforms to bring us closer to the reality of the American Dream in which hard work is rewarded with economic success. Moreover, these policies reflect strategies that have worked in the past to build our nation's middle class and are strongly favored by the American people.

PUBLIC OPINION DATA

- 71 percent of voters support putting unemployed people back to work at government-funded public service jobs.⁶²
- 66 percent of voters say that improving the nation’s infrastructure is important and 79 percent agree that “in order for the United States to remain the world’s top economic superpower we need to modernize our transportation infrastructure and keep it up to date.”⁶³
- 86 percent of Americans favor increasing the minimum wage; 67 percent support an increase to \$10 an hour. Veteran pollster Celinda Lake notes that “raising the minimum wage is one of the most intuitive and widely appealing policies out there... the breadth and depth of public support is especially impressive in today’s polarized environment.”⁶⁴
- 78 percent of Americans say they support legislation that would make it easier for workers to bargain with their employers for better wages, benefits, and working conditions. 75 percent favor the specific mechanisms we outline in this report: allowing employees to collectively bargain once a majority of employees in a workplace sign authorization cards indicating that they want to form a union.⁶⁵
- 63 percent of likely voters agree “manufacturing is the single most important part of the American economy and we need a manufacturing base here if this country and our children are to thrive in the future.”¹⁷⁰
- 86 percent of likely voters say they would favor “a national manufacturing strategy to make sure that economic, tax, labor and trade policies in this country work together to help support manufacturing in the United States.” 68 percent strongly favor such a proposal.¹⁷⁰
- 75 percent of Americans – including a majority of Republicans, Democrats, and Independents – support increasing federal government spending for job training and education for the long-term unemployed.¹⁷¹
- 86 percent of Americans support laws guaranteeing paid sick time and 75 percent believe paid sick days are “a basic workers’ right.”¹⁷²

POLICY: PUBLIC JOBS FOR ECONOMIC RECOVERY

Reinvent the federal financial aid system to double the percentage of college-qualified students from low-and moderate-income families who enroll and complete college degrees.

POLICY RATIONALE

More than two years after the recession officially ended, 25 million Americans – 16 percent of the labor force – are still out of work or underemployed.⁶⁶ There are more than four jobseekers for every job opening. 6.2 million people have been out of work for more than six months. While the economic consensus is that federal stimulus measures prevented an even greater loss of jobs and a more severe downturn,⁶⁷ these actions were clearly inadequate. The non-partisan Congressional Budget Office projects that with current policies in place, it will take until 2016 to return to pre-recession employment levels.⁶⁸ In short, the nation has a severe and persistent jobs deficit that will not be corrected simply through the workings of the market.

OPINION SNAPSHOT

- 71 percent of voters support putting unemployed people back to work at government-funded public service jobs.⁶²

Persistent unemployment deepens existing inequalities, causing long-lasting harm to an individual's future job prospects⁶⁹ and making it harder for disadvantaged workers to ever work their way into the middle class. Population groups that are disproportionately unemployed – including people of color and Americans without a college education – suffer a far greater share of the long-term damage. Young people who are out of work also bear a greater long-term burden: even when employment rebounds, young adults will have more difficulty finding a job where they can reach their productive potential if they lack experience and professional networks built in their early working lives. For this reason, our jobs plan places priority on unemployed young people.

The jobs deficit is also an obstacle to the economy's overall recovery. While large-scale job loss was initially a result of the recession, it has become a self-reinforcing drag on economic growth. With so many people out of work, consumer spending remains sluggish and the housing market and construction industry cannot rebound. At the same time, businesses won't see it as profitable to invest and hire more workers in the United States until consumer demand picks up. With no strong private-sector source of growth on the horizon, the jobs deficit provokes a vicious cycle that will keep unemployment high for years to come unless the dynamic is altered by decisive government action. Using public employment to create jobs for the unemployed directly and immediately is the most effective way to disrupt the cycle, accelerating economic recovery and giving those hardest hit by the recession what they need most – an opportunity to work.

POLICY DESIGN

In a paper for Dēmos, economist Philip Harvey makes the case that a direct and immediate public jobs program would produce substantially more job creation for each public dollar spent than conventional fiscal stimulus measures such as tax cuts and public spending increases.⁷⁰ A \$100 billion, two-year public jobs program would create more than 1.5 million new jobs at peak employment, compared to 568,000 jobs created by a comparable increase in spending on unemployment insurance and food stamps, or just 108,000 jobs created by Bush-style tax cuts of comparable size.⁷¹

JOB CREATION EFFECT OF A 2-YEAR \$100 BILLION FISCAL STIMULUS (NUMBER OF JOBS CREATED)

JOB CREATION EFFECT	TYPE OF STIMULUS		
	Direct Job Creation	UI and SNAP Benefits	Bush Tax Cuts
Peak Effect on Payroll Employment*	1,519,000	568,000	108,000
Directly-Created two-year jobs (available immediately)	1,075,000	—	—
Indirectly-Created Jobs (peaks towards end of second year)	444,000	568,000	108,000
Job-years of Payroll Employment** Created During First 2 Years	2,635,000	619,000	118,000
Directly-Created Jobs	2,151,000	—	—
Indirectly-Created Jobs	484,000	619,000	118,000
Job-years of Payroll Employment** Created over 4 years	2,635,000	1,130,000	216,000
Directly-Created Jobs (available exclusively during first 2 years)	2,151,000	—	—
Indirectly-Created Jobs	884,000	1,130,000	216,000
Job-years of FTE Employment*** Created over 2 years	2,709,000	714,000	136,000
Directly-Created Jobs	2,151,000	—	—
Indirectly-Created Jobs	558,000	714,000	136,000
Job-years of FTE Employment*** Created over 4 years	3,374,000	1,564,000	299,000
Directly-Created Jobs (available exclusively during first 2 years)	2,151,000	—	—
Indirectly-Created Jobs	1,223,000	1,564,000	299,000

* Payroll employment equals the number of persons employed as of a particular date, regardless of how long their employment lasts or whether it is full or part time.

** Job-years of payroll employment equals 52 weeks of employment, regardless of whether the employment is full or part time.

*** A Job-year of full-time equivalent employment equals 2080 hours of employment (40 hours of employment per week for 52 weeks).

SOURCE: Philip Harvey, “Back To Work: A Public Jobs Proposal for Economic Recovery,” Dēmos 2011.

As Harvey explains, this strategy “also allows the government to offer work where it is most needed and to those individuals who most need it. Finally, it allows these jobs to be made available to people immediately, when they need them, rather than requiring them to wait for the economy to recover before they can put their lives back on track.”⁷²

We propose investing a net \$235 billion in the first year and \$147 billion in the second year of a two-year public jobs program. This would create 8.2 million direct and indirect jobs, sufficient to reduce the nation's unemployment rate to a pre-recession 4.5 percent. The program could be funded through the expiration of the Bush tax cuts (approximately \$295 billion per year). The program design is described below.

- The program would create jobs for unemployed Americans addressing unmet needs in the communities where they live. The program should thus be targeted to states, cities, and communities with the highest unemployment rates, and should offer priority to young adults.
- Federally funded jobs could include rehabilitating and weather-proofing housing, improving public buildings and parks, building affordable housing, providing child care and elder care, teaching preschool in communities where these programs are not currently offered and staffing after-school and tutoring programs.
- Program participants would be paid at prevailing wages and benefits for employees with similar qualifications and would enjoy the same rights as other workers.
- The jobs program would be administered by the federal Department of Labor based on work categories and projects suggested by local governments.
- To ensure that total employment is increased, monitoring and safeguards would be implemented to ensure that the new public jobs are not used in ways that replace existing public workers or private contractors, since this would simply substitute program jobs for other jobs.
- The cost would be a net \$235 billion in the first year and \$147 billion in the second year of a two-year public jobs program.

POLICY: PUBLIC INVESTMENT PLAN

Provide a foundation for sustained private sector growth and productivity through improvements in physical infrastructure, investment in clean energy, and the creation of state-level public banks.

POLICY RATIONALE

Sustaining a strong middle class – and a strong and competitive American economy – over the long term requires a foundation of robust public investment. From physical infrastructure investments in efficient roads, rail lines, seaports and airports, safe drinking water and waste systems, and reliable electrical transmission, to investment in new scientific research, 21st century energy technologies, and a financial system that successfully provides credit to small businesses, public investment lays the groundwork for private sector productivity and the private creation of solid, middle-class jobs.

These investments produce critical public goods that the private market relies on – like a transportation system that can bring millions of workers to their jobs quickly and affordably – but would not generate on its own. Yet despite a one-time infusion of public dollars through the American Recovery and Reinvestment Act, the nation’s long-term investment in infrastructure is inadequate. The American Society of Civil Engineers gave the nation a grade of D on the state of its physical infrastructure in 2009.⁷³ Meanwhile the world’s other major economic powers, including China and the European Union, are making substantial national investments in transportation infrastructure, including freight facilities, ports, and high speed rail lines that will promote economic growth in the coming decades.⁷⁴ With lagging resources, America risks losing ground to countries that have invested more wisely.

President Obama’s proposal to invest \$60 billion in the nation’s physical infrastructure, including the creation of a national infrastructure bank to leverage public and private capital, is a powerful step in the right direction.⁷⁵ His American Jobs Act reflects the nation’s long history of making prudent long-term investments even at times of debt and war. From the Erie Canal to the Interstate Highway System to the American military’s investments in the basic research and development that produced jet aviation, the internet, and the computer, the American government has historically played a critical role in making the investments that spurred private enterprise and productivity. As the bipartisan political leaders of the Building America’s Future fund note, “the infrastructure past generations built for us – and the good policy making that built it – is a key reason America became an economic superpower.”⁷⁶

To continue that tradition, we propose investing 1.5 percent of the nation’s gross domestic product (about \$228 billion) annually in the development and maintenance of physical infrastructure, clean energy, and providing credit to small businesses. Another critical part of the nation’s infrastructure – the schools, colleges, and training programs that produce an educated citizenry and workforce – is considered in its own section of this report.

OPINION SNAPSHOT

- 66 percent of voters say that improving the nation’s infrastructure is important.
- 79 percent agree that “in order for the United States to remain the world’s top economic superpower we need to modernize our transportation infrastructure and keep it up to date.”⁶³

The American Society of Civil Engineers projects that an additional investment of \$1.1 trillion over five years beyond what the nation is currently spending is needed to bring the country's physical infrastructure up to good condition.⁷⁷ We propose a new investment of \$200 billion per year to both maintain and upgrade the nation's physical infrastructure, creating nearly 5 million jobs over the next decade.⁷⁸ At the same time, lifting millions of Americans into the middle class demands not just adequate investment in physical infrastructure but careful attention to where facilities are built and improved. Infrastructure – from rail lines to broadband access – can connect people in low-income communities to economic opportunity, or, in the case of public housing complexes in remote corners of a city – leave people isolated in pockets of concentrated poverty. Too often, public investments in parks and other amenities are concentrated in wealthier localities, while communities struggling to work their way into the middle class receive a disproportionate share of infrastructure burdens like a polluting power plant or waste treatment facility in their neighborhoods. Guided by principles of regional equity, areas with deficient or deteriorating infrastructure and poor access to mass transit must be targeted for priority investment.⁷⁹

Broad investments in renewable energy and improved energy efficiency would produce multiple benefits for the U.S. economy and the long-term flourishing of the middle class. By laying the groundwork for a transition to a cleaner economy, renewable energy investments cut pollution, decrease the perils of climate change, reduce energy costs for households and businesses, and create millions of jobs in the transportation, construction and manufacturing sectors. But these are not benefits that can be realized quickly: building a clean energy economy demands consistent levels of public investment, policies to steer private capital toward clean energy investments, and public support for technological innovation in energy efficiency and green energy. By making investments that build on the American Recovery and Reinvestment Act and establishing sensible regulations like a national renewable energy standard, the government can create a market for clean technology products and services – from manufacturing hybrid buses to designing biodegradable packaging to weatherproofing services – that will ultimately sustain millions of middle-class American jobs.⁸⁰ We can further promote a clean energy economy by financing the cost of investments through a carbon tax levied on fossil fuels, a policy estimated to raise \$846 billion over ten years.⁸¹

Just as the nation's physical infrastructure provides a critical foundation for the private sector to move goods, increase access to those goods for employees and customers, and a host of other functions, financial infrastructure ensures that the contemporary financial system, including deposits, credit, payments, and insurance, operates fairly and effectively. From this perspective, the recent home mortgage crisis that precipitated the Great Recession can be seen as a massive failure of the nation's financial infrastructure.⁸² Since the recession and its aftermath, we have seen another malfunction of the nation's financial infrastructure in the inability of small businesses to access credit that would enable them to expand and hire employees. A recent study by the Federal Reserve Bank of New York concluded that while a lack of consumer demand was the primary factor inhibiting the recovery of America's small businesses, constrained access to credit was also a significant impediment to small business growth and hiring.⁸³ When the financial crisis hit, small businesses suffered the sharpest fall-off in lending since 1942 as the large banks that had come to dominate our credit markets pulled back. Without access to affordable credit, small businesses across the country laid off workers, stopped buying from suppliers, and went out of business. Despite trillions of dollars in public bailouts, the nation's major banks have failed to keep credit flowing to America's small businesses, preferring instead to redirect public money into more immediately profitable areas, such as securities trading and overseas operations.⁸⁴

To restore the flow of credit to small companies and enable them to begin hiring again, we propose the establishment of state-level Main Street Partnership Banks modeled on the nearly 100-year-old public Bank of North Dakota (BND). By partnering with local community banks to make loans to small businesses, Main Street Partnership Banks create new jobs and spur economic growth. Even though they have less than one-third of banking assets, community banks account for more than half of small business lending⁸⁵ – and small businesses

have been responsible for two out of every three jobs created over the past 17 years. It works through a public investment mechanism: when North Dakotans pay their taxes, instead of being deposited into private commercial banks, the funds go to the Bank of North Dakota, which in turn reinvests in both sectors of the local economy: private and public. BND supports private banks and local business borrowers by offering “banker’s bank” services to community banks in ways that increase local lending. BND supports the public sector by saving local and state governments money through profit-sharing and financing for local infrastructure projects. In addition to generating new revenue for the state, the bank enabled North Dakota to keep credit moving to small businesses when they needed it most. BND’s business lending actually grew from 2007 to 2009 (the tightest months of the credit crisis) by 35 percent.⁸⁶ The bank is also one reason North Dakota has consistently enjoyed the nation’s lowest unemployment rates throughout the recession and its aftermath.

POLICY DESIGN

- This policy should be implemented after our temporary Public Jobs for Economic Recovery program has run its course.
- Commit to investing \$200 billion per year in maintaining and upgrading the nation’s physical infrastructure, targeting areas with deficient or deteriorating infrastructure for priority investment. The infrastructure investment should include a focus on mass transit, which not only creates more jobs proportionately but also lowers transportation costs for current and aspiring middle-class families that use it.
- Invest \$16 billion per year in renewable energy and improved energy efficiency. This policy design is based on the recommendations of the American Energy Innovation Council, which notes that “This is about \$11 billion more than we now spend in a typical year, and will put energy research, development and deployment (RD&D) closer to (though still well short of) other technologically intensive sectors; bring U.S. investment in line with those of its trading partners and competitors; and meet the bottom-up needs of major technologies... By comparison, the United States sends \$16 billion overseas for petroleum every 16 days.”⁸⁷ In addition to multi-year research grants, funds should be used to:
- Establish a National Energy Strategy Board, convening experts to develop a National Energy Plan with clear objectives and a course toward achieving them.
- Establish and maintain centers of excellence in energy innovation, along the lines of North Carolina’s Research Triangle or the Combustion Research Facility (CRF) at Sandia National Laboratory, which concentrate public and private investment, equipment and facilities, and research expertise to develop new energy technology.
- Provide an annual grant of \$1 billion to the federal Advanced Research Project Agency-Energy program to focus on high-risk, high-payoff energy technologies.
- Launch a New Energy Challenge Program to conduct large-scale demonstration projects.
- Partially fund infrastructure investments through a carbon tax, estimated to raise \$846 billion over ten years.
- Incentivize states to create Main Street Partnership Banks modeled on the Bank of North Dakota to catalyze small business lending and invest in local projects.

POLICY: LEVEL THE PLAYING FIELD FOR AMERICAN MANUFACTURING

Support the growth of middle-income manufacturing jobs by ending tax breaks that encourage off-shoring, strengthening Buy American provisions, and improving the safety net for workers impacted by trade.

POLICY RATIONALE:

The manufacturing sector once offered a large supply of stable, middle-class jobs to American workers. Yet middle-income manufacturing jobs have been disappearing from the United States for the past 30 years. While technological innovation has played a much-recognized role in the erosion of the nation's manufacturing base, policy failures also contributed to the disappearance of industrial jobs. Leveling the playing field for domestic manufacturing will ensure that the U.S. can compete on a global scale for the decent-paying jobs that will help to support the next generation of middle-class Americans.

From 1980 to 2005, low-skill jobs and high-skill jobs alike grew by nearly 30 percent, while the share of employment represented by middle-skill, middle-wage jobs dropped by nearly 12 percent.⁸⁸ To put this story another way, the U.S. labor market has changed qualitatively over the last 30 years, marking a virtual disappearance of the jobs in sales, office administration, production, and operations that built the middle class in the mid-20th century. In exchange, there has been a rapid rise in low-skill positions in protective services, personal care, and maintenance, along with a spike in the employment of high-skill managerial and professional positions. As the labor market has polarized in this manner, the middle class has shrunk considerably.

There are two sets of possible responses to the disappearance of middle-skill, middle-wage jobs. First, as we have already stated, it is crucial to improve the pay and benefits offered for low-skill jobs: to this end, we call for raising the minimum wage and strengthening the power of Americans to collectively bargain for higher wages by forming a union. At the same time, we have called for aggressive investment in job training and human development more broadly, which will ensure that every American who works hard and plays by the rules will have the chance to develop the skills required for higher-paying positions.

But these interventions will not, by themselves, protect Americans from the economic vulnerability created by exposure to cheap overseas products. While many economists hold to the traditional theory that increased trade invariably generates greater gains across the board, recent analyses reveal a much different picture – indeed, ac

OPINION SNAPSHOT

- 63 percent of likely voters agree “manufacturing is the single most important part of the American economy and we need a manufacturing base here if this country and our children are to thrive in the future.”¹⁷⁰
- 86 percent of likely voters say they would favor “a national manufacturing strategy to make sure that economic, tax, labor and trade policies in this country work together to help support manufacturing in the United States.” 68 percent strongly favor such a proposal.¹⁷⁰

According to David Autor of MIT, between one-third and two-thirds of the gains from international trade are wiped out by the subsequent increase in unemployment, wage depression, and hikes in public safety net payments.⁸⁹ The facts could not be clearer: a \$1,000 per worker increase in import exposure in a single locality results in a 0.77 percent reduction in the employment to population ratio (about three quarters of which is due to losses in manufacturing). This shock, moreover, is absorbed disproportionately by lower-skill workers, whose employment to population ratio actually declines by 1.1 percent, while that of higher-skill workers declines by 0.42 percent.

Given the subsequent rise in payments of disability and Social Security in localities exposed to imports from overseas, it is crucial to sustain not only Trade Adjustment Assistance for workers affected by overseas imports (manufacturing and service sectors alike) but also ensure that unemployment insurance and SNAP benefits remain available for the long-term jobless.⁹⁰ These safety net programs have a proven record of preventing middle class families affected by international trade, and economic dislocation more generally, from sliding into poverty.⁹¹

POLICY DESIGN

- Strengthen Buy American rules based on the *“Invest in American Jobs Act of 2011” (H.R. 3533)*.⁹⁵
 - Strengthen existing Buy America requirements for investments in highway, bridge, public transit, rail, and aviation infrastructure and equipment to ensure that all of the steel, iron, and manufactured goods used in these projects are produced in the United States.
 - Apply Buy America requirements to other transportation and infrastructure investment, including rail infrastructure grants, loans, and loan guarantees, Clean Water State Revolving Fund grants, and Economic Development Administration (EDA) grants.
 - Require Federal agencies to justify any proposed waiver of the Buy America requirements and ensure that the American public has notice of and an opportunity to comment on any proposed waiver prior to it taking effect.
- End wasteful tax breaks that encourage offshoring.⁹⁶
 - Remove deductions offered in the tax code for transporting operations to overseas facilities.
 - End tax breaks that allow companies to shift profits earned from American-made patents overseas.
- Affirm Trade Adjustment Assistance, Unemployment Insurance, and SNAP Benefits for Workers Affected by Exposure to International Trade.
 - Ensure that social safety net programs like SNAP and Unemployment Insurance are understood as important features of U.S. trade policy and are enhanced, along with Trade Adjustment Assistance, as a condition of any new free trade deal.

While it is important to strengthen the safety net for Americans harmed by imports from low-wage countries, it is also possible to work more proactively to limit the damage caused by international trade. The most logical step here is to level the playing field for domestic manufacturing. Despite the odds, the American manufacturing sector has experienced a modest rebound as of late: over the past two years, as many as 330,000 manufacturing jobs have been created in the United States. Of course, this comes after 7.5 million manufacturing positions have been lost over the last 30 years, but there is reason to believe that smart policy can strengthen domestic industry and offer the middle class new options for middle-skill, middle-wage jobs.⁹²

The U.S. tax code offers tax breaks that do not serve the interests of working Americans, allowing companies to deduct from their taxable income the cost of moving operations overseas – this, along with tax loopholes that allow U.S. companies to shelter profits overseas from intangible property such as patents, make it unnecessarily difficult for domestic manufacturing to thrive. Eliminating tax exemptions for U.S. companies to shelter profits on intangible property overseas would alone save the U.S. \$23 billion and would also ensure that companies do not incur wasteful costs for choosing to remain at home and employ American workers.

Lastly, the U.S. government has the opportunity to take the lead by encouraging consumers to purchase domestic products by strengthening already existing Buy American laws and by toughening reporting requirements to ensure that public tax dollars are spent on American-made goods, where possible. A fully-robust Buy America provision would increase manufacturing jobs by as much as 33 percent;⁹³ moreover, recent polling reveals that fully 91 percent of voters support restrictions on public taxpayer dollars being spent strictly on domestic-produced goods – indeed, 89 percent of self-identified Tea Party members support this provision along with 94 percent of Democrats.⁹⁴

In order to rebuild the American middle class, it will be necessary to create the conditions for middle-skill, middle-wage jobs to thrive again – this can be achieved in part by leveling the playing field for the domestic manufacturing industry that once provided these jobs in abundance.

POLICY: THE CAREER OPPORTUNITY PLAN

Offer job training and career ladders to boost economic mobility.

POLICY RATIONALE

Investing in a skilled workforce is vital to America's long-term economic growth and global competitiveness. Even as the Zero-16 Contract for Education proposed earlier would enable young people graduating from high school to pursue college or career training, the Career Opportunity Plan would increase opportunities for those who have already begun their working lives, particularly low-wage workers and the unemployed, to qualify for jobs that can support a middle-class standard of living. While worker retraining will not, by itself, solve America's unemployment problem or transform the nation's low-wage workforce, access to training is nevertheless critical for expanding economic mobility. Access to job training is particularly important for the growing number of long-term unemployed (5.4 million Americans have been out of work for 27 weeks or longer as of February 2012)⁹⁷ as their skills become increasingly disused or outdated.

OPINION SNAPSHOT

- 75 percent of Americans—including a majority of Republicans, Democrats, and Independents—support increasing federal government spending for job training and education for the long-term unemployed.¹⁷¹

In the coming decades, a large proportion of new jobs are projected in fields like health care that require education and training beyond high school, but not necessarily a four-year college degree.⁹⁸ Enabling adults to retrain for these largely middle-class jobs provides an important mechanism for individuals to improve their economic prospects.

Investment in workforce development has traditionally been strongly bipartisan. With support from both major political parties, the Workforce Investment Act of 1998 streamlined the array of federal job training programs to create a decentralized network of “one-stop career centers” where jobseekers could access local employment and training opportunities and support programs under one roof.

In response to the mass unemployment and worker displacement of the Great Recession, the American Recovery and Reinvestment Act provided a \$4 billion boost in funding for job training programs in 2009, including grants earmarked to support training in the most rapidly growing sectors of the economy. These extra resources enabled a substantial increase in the number of citizens participating in occupational training and other workforce development programs—more than 8 million Americans accessed such services under the Workforce Investment Act in the 2009 program year.⁹⁹ But the temporary increase failed to reverse the long-term shortfall in federal job training resources: funding for the Workforce Investment Act has fallen almost 30 percent over the past decade in real dollars, while funding for other adult education and workforce preparedness programs has also declined.¹⁰⁰

In addition to greater investment in workforce development, it is also critical that job training programs correspond to the workforce needs of local and regional employers so that jobseekers are trained for positions that

actually exist in their area. Our proposal is modeled on the Strengthening Employment Clusters to Organize Regional Success (SECTORS) Act, passed unanimously by the House of Representatives in 2010 but never taken up by the Senate. The legislation would provide grants under the Workforce Investment Act to promote partnerships between employers and postsecondary educational institutions in order to tailor job training programs to labor demand in a region's growing industries.

Just as the Zero-16 Contract for Education encourages states to create an integrated educational system with clearly marked pathways for each educational stage, the nation's workforce development system should also align programs and institutions to streamline career pathways for working adults. Finally, the Workforce Investment Act should shift its focus from short-term training and swift reemployment to also allow for longer-term training and certificate programs that will enable workers to qualify for middle class jobs.

POLICY DESIGN

This policy is based on recommendations developed by National Skills Coalition.

- To respond to the continuing demand for worker retraining produced by high unemployment, the Workforce Investment Act formula funding for adult, youth, and dislocated worker programs should be increased to match its peak level under the American Recovery and Reinvestment Act.
 - Establish a grant program, along the lines of the SECTORS Act, to invest in industry partnerships that connect multiple businesses and educational institutions in order to tailor job training programs to labor demand in a region's growing industries.
 - Support state efforts to establish career pathways by encouraging states to maximize the number of participants taking advantage of both job training and basic adult education programs and allowing states greater flexibility to blend various job training funding streams.
 - Make the attainment of industry-recognized credentials a core performance indicator for the Workforce Investment Act in order to assist workers in qualifying for jobs with the potential to lift them into the middle class.
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POLICY: FEDERAL RESERVE MANDATE FOR FULL EMPLOYMENT

Use monetary policy to explicitly promote full employment.

POLICY RATIONALE

From its establishment in 1913, the Federal Reserve has had a clear dual mandate to minimize inflation and maximize employment.¹⁰¹ Over the last several decades, however, the Fed has overwhelmingly prioritized its commitment to combating inflation while allowing the pursuit of full employment to take a back seat. As a result, while creditors benefitted from low inflation, Americans who could have been working instead remained unemployed. We believe these anti-inflationary priorities are fundamentally incompatible with the advancement of an economy that promotes widely-shared prosperity and broad access to the middle class.

In recent decades, the Federal Reserve has operated on the theory that “full employment” is an impossible condition to achieve through management of the monetary supply.¹⁰² According to this theory, there is a “natural” rate of unemployment that invariably arises in the labor market, and once this level has been achieved, monetary policy should be devoted solely to reducing inflation. But the Federal Reserve’s experience with expansionary monetary policy in the late 1990s suggests otherwise – illustrating that a genuine full employment agenda can be pursued without devastating consequences of high inflation.

Consider the facts. Although the recession of the early 1990s peaked in March of 1991, unemployment continued to increase until the middle of the following year, when it began to decline and reach its pre-recession level of 5.5 percent in January of 1996. Many who believe in the existence of a “natural” rate of unemployment expected the unemployment rate to level off at 5.5 percent, but contrary to their expectations, unemployment continued to decline steadily, reaching a three-decade low of 3.9 percent in September 2000.¹⁰³ In other words, the economy of the late 1990s demonstrates that unemployment can diminish without setting off an ever-increasing inflationary spiral. As Jared Bernstein and Dean Baker observe, the country as a whole “benefited enormously from the fact that the Federal Reserve Board was willing to allow the unemployment rate to remain below the estimates of the [natural rate of unemployment] and to wait and see what happened.”¹⁰⁴

The benefits of declining unemployment were enjoyed most by those experiencing the greatest exclusion from economic prosperity: From 1995-2000, real hourly earnings for low-wage male workers grew 1.5 percent annually after a twenty year period of falling by 1 percent each year; earnings for low-wage female workers – which were flat for the previous 20 years – grew by 1.8 percent annually from 1995-2000. Unemployment levels dropped at much faster rates for African Americans and particularly African American teenagers than the rest of the economy as a whole.¹⁰⁵

Needless to say, these trends did not continue, and economic inequality has only increased over the last 10 years. While the Great Recession clearly contributed to the reversal of these gains, monetary policy also played a role. The process had already started once the Fed resumed its contractionary monetary policy at the beginning of the last

decade.¹⁰⁶ In order to boost employment over the long term and strengthen the middle class, the Federal Reserve must prioritize its mandate to pursue full employment and maintain low interest rates accordingly.

It is important to note that, as of late, the Federal Reserve has adopted a considerably more expansionary monetary policy, reducing interest rates to the lowest levels in decades and implementing “quantitative easing” policies to expand credit availability.¹⁰⁷ These policies are a welcome shift from the blind spots that marked the Fed’s pre-recession focus on inflation, when, despite their mandate to promote economic stability, staff and leaders failed to notice the rise of an \$8 trillion housing bubble or to consider the spillover effects of its collapse. With the benefit of hindsight, it is clear that the Federal Reserve must take a broader view regarding the fundamentals of economic health. Current policies aim to mitigate that earlier failure, but they are intended largely as short-term stimulus measures to address the recession rather than long-term commitments to promoting full employment.

Our call for the Federal Reserve to embrace its mandate for full employment must be understood as a long-term priority rather than a singular proposal for spurring job growth in the wake of the current economic downturn. Inflationary targets are not enough for a responsible central bank. While aggressive expansionary policy must be maintained by the Fed in order to stimulate job growth in the short-term, it is important to emphasize that our call for full employment is a new framework for strengthening the labor market and expanding the middle class through Federal Reserve policy.

POLICY DESIGN

Full employment will always be relative to the particular dynamics of the current labor market. The Federal Reserve should explicitly adopt metrics relating to a high employment-to-population ratio, low numbers of discouraged workers, low numbers of involuntary part-time workers, and a high ratio of job openings to applicants as the basis for monetary policy in the U.S., supplementing its historic focus on inflation rates as the primary object of its attention.

POLICY: RAISE WORK STANDARDS

Ensure that all American jobs meet basic standards of decent employment by raising the minimum wage, guaranteeing paid sick days to working people, and ensuring that worker protections are effective and are applied to everyone.

POLICY RATIONALE

Americans believe that hard work should be rewarded – people who go to work every day should not then be forced to raise their families in poverty. Yet today nearly a quarter of working adults in the U.S. are laboring at jobs that do not pay enough to support a family at a minimally acceptable level. Because their wages are so low, working people are forced to rely on public benefits, from Medicaid to food stamps to rental assistance, in order to make ends meet. Raising work standards would enable them to become more self-reliant and would raise the floor for all working people.

Increasing mobility out of low-wage, no-benefit jobs, as we propose with the Career Opportunity Plan (see page X), is part of the solution, but fails to fully address the problem. Regardless of how many training opportunities are available to individuals, millions of jobs as home health aides, food service workers, retail salespeople and other currently low-wage occupations will still exist and, in fact, are projected to be among the nation's fastest growing positions in the future.¹⁰⁸

The nation must act to ensure that these jobs can, at minimum, lift families above the poverty line and provide basic workplace protections, strengthening the floor for employment in the United States. By lifting the bottom of the nation's labor market, we give working people a firm base from which they can work their way into the middle class. We also put a stronger backstop on the declining job quality of many formerly middle-class occupations.

Raising the lowest wages is the first step. The current minimum wage of \$7.25 an hour is a rate at which it is impossible for working Americans to independently pay their rent, feed their families or get needed medical care—much less save for the types of investments that make it possible to lift oneself into the middle class, like an education, a first home, or the chance to start a business. Indeed, the value of the minimum wage today is 30 percent below its peak in 1968. A majority of minimum wage earners are adults living in low-income households and making significant contributions to their family's total income. Assuming a full-time work schedule, a minimum wage job at the current rate of \$7.25 an hour brings in an annual income of \$15,080 – not enough to lift a family of three with a single working parent over the federal poverty threshold. The federal minimum wage

OPINION SNAPSHOT

- 86 percent of Americans favor increasing the minimum wage; 67 percent support an increase to \$10 an hour. Veteran pollster Celinda Lake notes that “raising the minimum wage is one of the most intuitive and widely appealing policies out there... the breadth and depth of public support is especially impressive in today's polarized environment.”⁶⁴
- 86 percent of Americans support laws guaranteeing paid sick time and 75 percent believe paid sick days are “a basic workers' right.”⁷²

for workers who earn tips – including food service workers, hotel bellhops, and nail service employees – is only \$2.13 an hour and has not increased in more than 20 years. We propose raising the minimum to \$10.00 an hour and \$5.50 an hour for tipped workers, and linking these minimums to inflation, lifting working families out of poverty and ensuring that the value of the minimum wage does not erode further.

As inadequate as the minimum wage is, millions of American workers bring home even less. Wage theft – the practice of illegally underpaying workers – has become commonplace in the low-wage labor market. A study of employment conditions in America’s largest cities found that one in four low-wage workers were paid less than the minimum wage in a given week.¹⁰⁹ Altogether, wage violations (including paying less than minimum wage, making employees work off the clock, pilfering tips, misclassifying employees as independent contractors, and a host of other schemes) robbed low-income employees of \$2,634 annually on average, out of total average earnings of just \$17,616. In addition to harming the families of low-income workers, wage theft drains tax revenue, deprives neighborhood businesses of the income low-income families would be spending, and puts law-abiding employers at a competitive disadvantage with those who break the law. It’s difficult to imagine anything more basic to a free economy than the right of an employee to be paid for his or her work: we propose strengthening the enforcement of basic workplace laws so that workers can bring home their full pay.

In addition to raising and enforcing workplace standards, giving all working people a shot at the middle class will require expanding the reach of basic labor protections to incorporate categories of workers that are currently left out. Domestic workers – a category that includes nannies, housekeepers, and elderly caregivers – and farm workers are among the employees who have been deliberately excluded from the protections of federal and state labor laws, originally due to discrimination against a labor force made up predominantly of women and people of color. Both industries now have a predominantly immigrant workforce and are generally low paid: a survey of domestic workers in New York found 26 percent earn wages that put them below the poverty line.¹¹⁰ Farm workers experience poverty rates more than double that of other wage and salary workers.¹¹¹ These employees, who are a critical part of our economy, should not have to raise their families in poverty.

Finally, we add a new workplace standard: everyone gets sick, so it’s no surprise that an overwhelming 77 percent of Americans say that having paid sick days is very important for workers.¹¹² Yet two out of three low-wage workers in the U.S. – the employees who can least afford to miss a paycheck – do not have a single paid sick day to recover from illness or take care of sick child or relative.¹¹³ These workers must choose between losing a day’s pay or coming to work sick, endangering their own health and the public. Many low-wage workers even risk losing their jobs and health coverage if they call in sick. According to one survey, one in six Americans says that they or a family member have been fired, suspended, punished, or threatened by an employer for missing work due to illness.¹¹⁴ The result is a more fearful and precarious low-wage labor force, just one illness away from slipping into poverty. The solution is simple: at least 145 countries around the world provide employees with some guarantee of paid sick days for short or long-term illnesses.¹¹⁵ But while states and cities from Connecticut to Seattle have acted in recent years to secure a few days off for sick workers, the United States as a whole offers no such guarantee. We propose a minimum nationwide standard that would enable workers to earn paid sick days.

Despite the frequently cited concern, improving conditions for low-wage workers does not inevitably lead to loss of employment. Indeed, research shows that a higher minimum wage does not result in lost jobs.¹¹⁶ For example, there is no evidence that states that increased their minimum wages above the federal level suffered job loss as a result. This research confirms earlier work by economists David Card and Alan Krueger.¹¹⁷ In fact, minimum wage increases stimulate economic growth by putting money in the pockets of people most likely to spend it: a recent study by the Federal Reserve Bank of Chicago concluded that every \$1.00 increase in the minimum wage results in a \$2,800 boost in spending by a low-wage worker’s household over the following year.¹¹⁸ Research on guaranteeing paid sick days similarly shows a net economic benefit and no loss of jobs.¹¹⁹

POLICY DESIGN

In an era where all able-bodied adults are expected to work, we must ensure that all American jobs meet basic standards of decent employment and keep families out of poverty. To achieve this, we propose the following policies.

- Increase the minimum wage:
 - Phase in an increase of the minimum wage to \$10.00 an hour by 2014, restoring much of its lost buying power and ensuring that a family of three with a single working parent will not fall below the federal poverty line.
 - Phase in an increase in the tipped minimum wage to \$5.50 an hour by 2014 .
 - Index the new minimum wage to inflation so that workers' wages keep up with the cost of living.
- Guarantee paid sick days based on the Healthy Families Act of 2011, (H.R. 1876, S. 984).
 - Enable workers in businesses with 15 or more employees to earn up to seven paid sick days each year which they could use to recover from their own illness, access preventive care, or provide care for a sick family member.
 - Workers earn one hour of paid sick time for every 30 hours worked, up to 56 hours (seven days) per year, unless the employer enacts a more generous program.
- Prevent wage theft based on the Wage Theft Prevention Act of 2010 and Fair Playing Field Act of 2010.
 - Expand the number of United States Department of Labor wage and hour inspectors.
 - Increase penalties for violations of federal wage and hour laws.
 - Increase penalties for failure to deduct and withhold employee income taxes in order to prevent misclassification of independent contractors.
 - Eliminate the statute of limitations that has limited DOL to two years to resolve wage complaints.
 - Allow workers to file private lawsuits while DOL is investigating a complaint.
- Extend labor protections to excluded workers.
 - Amend the Fair Labor Standards Act and other relevant workplace legislation to explicitly include domestic workers and farm workers.
 - Based on the POWER Act (H.R. 2169, S. 1195), authorize immigrant workers who have experienced serious labor violations and are cooperating with local, state, or federal worker protection agencies to address these violations to apply for U visas and receive temporary legal status with work authorization.

POLICY: STRENGTHEN THE RIGHT OF WORKING PEOPLE TO ORGANIZE

Rebuild labor rights so that Americans can band together to negotiate pay and benefits that enable them to enter the middle class.

POLICY RATIONALE

Unions were instrumental in creating the American middle class, and today they continue to empower millions of Americans to bargain for wages and benefits that are capable of sustaining a middle-class standard of living. Among workers in similar jobs, unionized employees are significantly more likely to earn middle-class wages;¹²⁰ and have sick, family, and vacation leave policies, health care, and retirement plans.¹²¹ Unions also improve wages and job quality even for those who are not members: in areas and industries with a high degree of union representation, unions can exert upward pressure on industry standards across-the-board.¹²²

In surveys, 53 percent of non-managerial, non-union workers say they would likely vote for a union in their workplace.¹²³ Yet only 11.9 percent of the nation's wage and salary workers were union members in 2010, and just 6.9 percent of private sector employees belonged to unions.¹²⁴ While a number of factors, including shifts in employment away from the traditionally unionized manufacturing sector, contributed to the decline in union membership, one significant element is employer obstruction of workplace rights.

Enacted in 1935, the National Labor Relations Act was aimed at encouraging the formation of unions and promoting collective bargaining. According to the NLRA, employees did not previously “possess full freedom of association or actual liberty of contract” because individual workers were at a disadvantage when attempting to negotiate working conditions with an employer that could organize as a corporation.¹²⁵ This imbalance of power in the workplace would push down wages and reduce workers' purchasing power, making recessions worse. To remedy the imbalance, the National Labor Relations Act gave employees the right to organize unions and bargain collectively.

Today, the system meant to defend the rights of employees to form unions no longer functions. Weak and slow-moving enforcement of labor rights allows employers to routinely violate the law, threatening and harassing employees who attempt to organize. Illegal threats, bribes, and even the firing of union organizers are commonplace.¹²⁶ Employees who dare to stand up for their right to join a union can face years of unemployment when they are illegally fired, while employers face virtually no penalty for denying their employees' basic legal

OPINION SNAPSHOT

- 78 percent of Americans say they support legislation that would make it easier for workers to bargain with their employers for better wages, benefits, and working conditions. 75 percent favor the specific mechanisms we outline in this report: allowing employees to collectively bargain once a majority of employees in a workplace sign authorization cards indicating that they want to form a union.⁶⁵

rights. By strengthening penalties and replacing the easily abused mechanism of National Labor Relations Board (NLRB) elections with a streamlined employee sign-up procedure, this policy, based on the Employee Free Choice Act considered by Congress in 2007, would restore Americans' ability to choose union representation. In every workplace where a majority of employees want union representation, they could join easily, and begin to negotiate the pay and benefits that would enable them to enter the middle class.

POLICY DESIGN

- Automatically recognize a union as the legitimate bargaining representative in a workplace when a majority of employees provide signed authorizations stating that they want to be represented by that union.
- To facilitate agreement on a first contract for employees after the union is recognized, enable either the union or management to refer any disputes about the contract to mediation if an accord has not been reached within 90 days after bargaining begins. If the mediator is unable to reach a deal within an additional 30 days, the dispute will go to binding arbitration.
- Increase penalties for violations of labor law: raise maximum fines to \$20,000 per violation for employers who have willfully or repeatedly violated employees' rights during an organizing campaign or first contract drive; triple the amount of back wages employees can receive if they are illegally fired or discriminated against for exercising their labor rights; require the courts to seek injunctions against employers, as well as unions, that violate labor laws.

HELPING AMERICANS BUILD ASSETS

Sacrificing today for a brighter future tomorrow has long been a key ingredient of middle-class success. Home equity and savings nest eggs provide a buffer against hard times, and increase household economic stability, helping to fuel middle-class optimism and self-improvement. Household assets have a particularly powerful effect on how well children will do in their own independent lives.¹²⁷

Yet in recent decades, financial deregulation and the aggressive marketing of toxic loans preyed on Americans' aspirations to build assets, fueling an unsustainable housing bubble that began to deflate in 2006. The bubble and the economic crash that followed decimated the wealth of American families, causing millions of homeowners to lose their single largest asset to foreclosure and tens of millions of others to see their homes' value drop dramatically. The crash hit those who had carefully saved and invested in their homes as well as speculators who gambled on a rising real estate market. Overall, the nation lost more than \$6.5 trillion in home equity since the housing market peaked in 2006.¹²⁸ At the same time, the value of retirement savings collapsed as the stock market plummeted, destabilizing hopes for a secure retirement. Not having enough money for retirement became Americans' biggest financial worry.¹²⁹

Dēmos has chronicled the trend for more than a decade: even as middle-class Americans saw their assets diminished, the dramatic and long-lasting rise in unemployment and underemployment contributed to Americans' difficulty paying back their debts. The challenge was compounded by the fact that household debt-to-income levels were at a record high when the recession hit: over the last decade as wages stagnated and lagged behind the cost of living, Americans had increasingly turned to borrowing – from credit card debt to loans against the value of their homes – to make ends meet and to try to get ahead.¹³⁰ As college tuition increased, students also took on increasing student loan debt. When new credit abruptly became less available as a result of the financial crisis, old debts were harder to pay off. To make matters still worse, the deregulation of consumer lending meant that many loans included deceptive and predatory terms. Americans were aggressively sold on high interest credit cards with hidden fees, abusive payday loans, misleadingly marketed adjustable rate mortgages, and high-interest subprime loans (even for homebuyers who could have qualified for a better rate). The combination of declining assets and unmanageable debts turned into a perfect storm for the U.S. economy, miring the nation in a prolonged economic downturn.

The prevalence of asset poverty is dramatic. In September 2011, one in three American adults said that if they lost their job they would only be able to pay their mortgage or rent payment for one month or less.¹³¹ A quar

ter of Americans report having no emergency savings at all, and would have to borrow or turn to family and friends if faced with an emergency car repair, medical bill, or job loss.¹³² Only 24 percent of Americans have six months or more emergency savings – the amount recommended by most financial planners. The status quo is equally grim when it comes to homeownership and retirement savings, the assets key to middle-class security. Nearly one in four homeowners owes more on their mortgage than their homes are currently worth. Fewer than half of Americans are projected to have sufficient income to adequately maintain living standards in retirement,¹³³ in fact, more than a quarter say they have less than \$1,000 in total retirement savings.¹³⁴

Racial disparities in asset poverty are staggering. For every dollar in assets that the typical white family owns, the typical Latino family has just twelve cents, and the typical African American family has only ten cents.¹³⁵ African Americans are twice as likely as whites to have zero or negative net worth.¹³⁶ While racial inequalities in income plague the nation, the wealth gap persists on a far greater scale – partly because wealth gets passed down from one generation to the next, so that historic inequities and injustices continue to impact current household assets. More recently, predatory lending schemes targeting communities of color compounded historic disparities in assets, leaving African Americans, Latinos, and other people of color at greater risk of foreclosure.¹³⁷ This is just part of the Great Recession’s disparate impact: from 2005 to 2009, while white households lost 16 percent of their inflation-adjusted median wealth, Latino households saw 66 percent disappear and African American households lost 53 percent, according to the Pew Research Center.¹³⁸

At the same time that millions of households cannot build the assets they need to secure a middle-class life, Americans at the top of the economic ladder have been accumulating more wealth than ever. In 2009, the top 1 percent of U.S. households controlled 42.7 percent of the nation’s net financial assets and had a net worth that was 225 times greater than that of the typical American household.¹³⁹

PUBLIC OPINION DATA

- 75 percent of Americans believe the disappearance of guaranteed pensions – in favor of 401(k)s – has made it harder to achieve the American Dream of a secure retirement. 83 percent say government should make it easier for employers to offer pensions, and 81 percent believe that Washington leaders need to give a higher priority to ensuring more Americans can have a secure retirement.¹⁴¹
- Despite the housing crash, more than half of Americans still affirm that owning a home is a very important part of the American Dream. 89 percent say that it is at least a somewhat important part.¹⁴²
- 62 percent of self-identified “middle class” adults favor the idea of allowing bankruptcy judges to change mortgage payments in order to prevent foreclosure.¹⁴³
- Almost two thirds of recent student borrowers report that they’ve had difficulty making monthly college loan payments: they postpone payments, become delinquent, or default within five years of leaving school.¹⁴⁴ In the abstract, Americans are almost evenly divided on the question of forgiving college loan debt¹⁴⁵ and support would likely rise if forgiveness were provided only within the stringent context of bankruptcy.
- 63 percent of American voters say they want more government oversight of lenders and other financial companies, 77 percent say government should make it harder for lenders to offer loans with risky or confusing features, such as low teaser rates.¹⁴⁶

This is the most elevated ratio ever recorded in the United States. Between 1989 and 2009, the wealthiest 1 percent of households increased their net worth 16.7 percent even as the typical American household, benefitting less from periods of economic growth but hit much harder by the recession, saw a 19.1 percent decline in wealth.¹⁴⁰

To help American families build or rebuild the assets key to middle-class security, provide a means out of debt for those who are hopelessly burdened, and ensure that future lending is fair and transparent, we propose four policies.

- **American Retirement Accounts** – Create voluntary annuitized pensions with a guaranteed minimum rate of return to increase Americans’ retirement security.
- **A Home Owners’ Loan Corporation for the 21st Century** – Establish a new public agency to acquire distressed mortgages from private lenders and directly refinance them under more affordable terms.
- **Fairness in Bankruptcy Act** – Allow bankruptcy judges to reduce the mortgage principal on a primary residence and to discharge student loan debt.
- **Borrower Security Act** – Ensure the nation’s lending industry provides credit to individuals on fair and responsible terms by creating a floating federal usury limit and capping loan penalty fees.

Together, these proposals give those seeking entry to the middle class an opportunity to accumulate savings and build security without becoming trapped by ruinous debt.

POLICY: AMERICAN RETIREMENT ACCOUNTS

Create voluntary annuitized pensions with a guaranteed minimum rate of return to increase Americans' retirement security.

POLICY RATIONALE

In 1935, with the passage of the Social Security Act, our national leaders made a promise to all citizens: after a lifetime of hard work, no older American would suffer from poverty in their old age. The passage of this landmark legislation was the embodiment of a deeply shared value: a dignified, economically secure retirement. Seventy-five years later, however, our nation has greatly changed and our ability to uphold this value is severely threatened.

Social Security was never intended to be the sole source of income for retirees. Rather, it was supposed to be a supplement to other steady forms of retirement income, primarily employer-provided “traditional pensions,” as well as individual savings. Throughout the last few decades, however, traditional pensions have been largely replaced by employer-based retirement savings plans, shifting the risk of retirement onto workers, forcing them to gamble their retirement savings in the stock market or on even riskier investments. In addition, workers have been suffering from increasing economic insecurity, resulting in a decrease in personal savings. Even Social Security, the bedrock of retirement for most workers, is under political attack by those ideologically opposed to the system.

The erosion of retirement savings will take a toll: a recent report by McKinsey & Company asserts that, if current patterns continue, the average working American household is facing a 37 percent shortfall in the income they need in retirement. This shortfall is larger both for lower-income households and for younger workers.¹⁴⁷ Forty-four percent of households have no retirement savings accounts at all.¹⁴⁸ As a result, less than half of Americans are projected to have sufficient income to adequately maintain living standards in retirement, even when Social Security is accounted for.¹⁴⁹ The economic crisis makes matters still worse: Americans are increasingly withdrawing money from their existing retirement accounts to meet immediate needs. Many older people are postponing retirement or trying to reenter the workforce at a time of high unemployment.¹⁵⁰

401(k)-style plans are an inadequate solution to the nation's mounting retirement crisis. First, they're expensive. The exorbitant fees charged by firms that manage 401(k) accounts can cost workers a quarter or more of their retirement savings. Over a lifetime, these fees can add up to more than \$155,000 in losses for the average household.¹⁵¹ Fees are levied on employers' matching contributions as well. Another serious problem is the way that 401(k)s place the burden of investment risk exclusively on individual workers. After working throughout their

OPINION SNAPSHOT

- 75 percent of Americans believe the disappearance of guaranteed pensions—in favor of 401(k)s—has made it harder to achieve the American Dream of a secure retirement.¹⁴¹
- 83 percent say government should make it easier for employers to offer pensions.¹⁴¹
- 81 percent believe that Washington leaders need to give a higher priority to ensuring more Americans can have a secure retirement.¹⁴¹

lives, older Americans relying on individual retirement plans could lose their savings in a market crash, invest so conservatively that they ensure themselves weak returns, or outlive the funds they have been able to save. Pension-style plans, meanwhile, ensure security by spreading these risks among many plan participants over a long time horizon – no individual puts their entire retirement in danger.

POLICY DESIGN

Our proposal for American Retirement Accounts, a modification of the Guaranteed Retirement Account plan proposed by Dēmos fellow Teresa Ghilarducci, would establish voluntary, portable accounts that workers and employers could contribute to. While employers would be required to set up the accounts, they would not be obligated to contribute. The government would defray administrative expenses. In addition, a \$600 annual government contribution would be given to everyone participating. Professional private sector managers would invest the ARA money at low fees, with the government guaranteeing an inflation-adjusted rate of return of at least 3 percent to ensure retirement security. When individuals retire, the value of their account assets would be distributed back in the form of an annuitized pension, similar to plans currently available to university professors, nonprofit employees, and public-sector workers.

The proposal is designed to provide retirement security by eliminating market risk (since the government's guaranteed minimum return would protect against market crashes), longevity risk (through the annuitization of benefits, ensuring fixed payments throughout an individual's life), and investment risk (through conservative investments in low-fee accounts).

Funding for the program could be raised by capping 401(k) tax deductions at \$5,000 annually. This tax subsidy disproportionately benefits people with high-incomes who already benefit the most from public policies and market incentives.

POLICY: A HOME OWNERS' LOAN CORPORATION FOR THE 21ST CENTURY

Establish a new public agency to acquire distressed mortgages from private lenders and directly refinance them under more affordable terms.

POLICY RATIONALE

Home ownership is commonly understood as the quintessential marker of having arrived in the middle class: a family's home is often the single largest asset that they own and has traditionally served as an important vehicle for wealth accumulation and economic security.

Today, however, middle class neighborhoods are under assault from foreclosure. Approximately 29 percent of all families owe more on their home than the property itself is worth. If this trend continues, an estimated 14 million homes – 1 out of every 4 in the United States – will face foreclosure before the housing crisis is resolved.¹⁵²

This large-scale upheaval will continue to devastate not only the families displaced from their homes but also the communities left behind in their wake – spikes in home vacancy lead not only to an increase in crime and social disorder¹⁵³ but also a decrease in nearby property values, eroding the tax base for local municipalities and threatening the solvency of the essential public services necessary for a middle class life.¹⁵⁴ In addition, the loss of housing wealth reduces consumer's ability to spend and retards the economic recovery.

Today more than ever, American households need the leg up they never received: the middle class cannot continue to survive, much less grow, so long as local communities continue to decay and household assets are allowed to deteriorate. An effective reform of U.S. housing policy must achieve two goals: allow families to refinance their mortgages under more affordable terms, and expand credit availability for those looking to purchase a home who cannot access a mortgage in today's excessively tight market.¹⁵⁵

Unfortunately, the current political debate over housing policy has remained confined to a false choice between two unacceptable options: we must either let the market adjust itself, or offer voluntary incentives to encourage private lenders to modify distressed mortgages.¹⁵⁶ The first of these options is unacceptable for the sheer devastation to American families and communities that it entails; the second has already proven far too timid of a response to address the depth of the problem before us. What is missing from this debate is the case for a strong public entity to directly defend the middle class's access to homeownership by restructuring mortgage debt.

Such a public entity would have historic precedent. Consider the example of the last serious housing crisis in the United States: at the beginning of the Great Depression, a widespread economic contraction led to falling

OPINION SNAPSHOT

- Despite the housing crash, more than half of Americans still affirm that owning a home is a very important part of the American Dream. 89 percent say that it is at least a somewhat important part.¹⁴²

home prices, increasing numbers of underwater mortgages, and a rapid evaporation of household wealth.¹⁵⁷ The Hoover administration responded to this with a level of timidity that resembles our current predicament: rather than supporting homeowners with direct public intervention, the Federal Home Loan Bank Act was established in 1932 to provide extra capital to banks to stimulate the private lending industry.¹⁵⁸ With the limitations of a voluntary program, however, private lenders hesitated to act on their own initiative, and the program had an almost insignificant impact on the ailing housing market.

Once Franklin Roosevelt took office, more aggressive action was taken to assist struggling home owners through the creation of the Home Owners' Loan Corporation – a public entity empowered to directly re-finance distressed mortgages and offer low-interest, affordable mortgages to families that had already lost their homes. From 1933 to 1936, the HOLC refinanced or directly originated over 1 million mortgages in the United States, approximately 1 out of every 5 outstanding mortgages in the country at the time.¹⁵⁹

The impact of this effort was enormous: the HOLC ensured that an entire generation of American homeowners did not slide into poverty while restoring their base of asset accumulation for the future. Moreover, by directly acquiring distressed mortgages from private lenders in exchange for government bonds, the HOLC provided a much stronger incentive for lenders to begin offering credit again to prospective homeowners, relative to the indirect incentives provided by the Hoover administration's Loan Bank.¹⁶⁰

By restoring the direct relationship between debtor and lender that has been lost through the use of collateralized debt obligations and other complex financial instruments, a 21st-century HOLC would be able to interact closely with borrowers and provide for the refinancing of their mortgages on a cooperative, case-by-case basis.

It is important, however, to note that the original HOLC focused exclusively on borrowers with comparatively strong credit backgrounds – while it refinanced around 1 million mortgages in total, it denied almost a million more. The beneficiaries of the original HOLC were homeowners who were only facing foreclosure because of the widespread economic contraction of the Depression, and a 21st-century HOLC would target the same kind of homeowners. Those with weaker credit backgrounds who are homeowners primarily by virtue of the subprime lending spree will require not only refinancing but also a significant principal reduction, which is why we have also called for bankruptcy judges to be allowed to reduce the mortgage principal on a primary residence (see our “Fairness in Bankruptcy Act”).

POLICY DESIGN

Our proposal for a modern-day Home Owners' Loan Corporation would closely resemble the “Home Owners' Loan Corporation for the 21st Century Act,” introduced as H.R. 5649 in the 110th Congress. It is important to note that, while it is more common to hear progressive voices calling for the creation of a modern-day HOLC, it was Republican Congressman Mark Kirk of Illinois that sponsored H.R. 5649 back in 2008.¹⁶¹

- A 21st Century HOLC would directly acquire distressed mortgages from private lenders in exchange for government-issued bonds. H.R. 5649 mandates that the face value of the bonds issued in exchange for mortgages should be limited to 90 percent of the fair market value of the real estate involved.
- Similar to H.R. 5649, our version of a 21st Century HOLC would address underwater mortgages by offering the difference between the amount outstanding on the mortgage and the value of the real estate itself as a credit to the homeowner, reducing the amount the

homeowner owes to the Corporation by that extent. It is important to note that the original HOLC did not offer this form of principal reduction, and instead restricted itself exclusively to refinancing; this limited scope is what allowed it to turn a small profit after several years. By offering principal reduction to underwater homeowners, our proposal for a 21st century HOLC would extend significant levels of subsidy (by some estimates, well over \$350 billion)¹⁶² in order to improve equity for American homeowners. While this would make our HOLC proposal no longer a profit-generating institution, widespread principal reduction is nevertheless essential to bringing a swift end to the steady deterioration of home values that are eroding the assets of middle class households.

- A modern-day HOLC would be empowered to grant extensions and other types of forbearance to borrowers, as needed to maintain residency in the home – this is particularly so for borrowers with subprime loans who were the victims of deception by their original lenders.

POLICY: FAIRNESS IN BANKRUPTCY ACT

Allow bankruptcy judges to reduce the mortgage principal on a primary residence and to discharge student loan debt.

POLICY RATIONALE

Household debt is burdening millions of families and stifling economic growth in the nation as a whole. In the first half of 2011, 11 million American households – more than one in five homeowners – owed more on their mortgages than their homes were worth.¹⁶³ Millions of families have already lost their homes to foreclosure. Meanwhile, the nation’s outstanding student loan debt is likely to top an unprecedented \$1 trillion this year, and student loan default rates are rising.¹⁶⁴ As Americans struggle to pay back debt, they have less to spend and invest, creating a drag on economic recovery. These staggering debt levels are compounded by bankruptcy rules that direct the flow of money toward banks and other mortgage lenders rather than American households.

The forces at play go far beyond personal responsibility and have battered even those who played by the rules. The nation’s \$8 trillion housing bubble was less a problem of borrowers who lived beyond their means than of mortgage brokers and lenders who made irresponsible and often predatory loans while lax government regulators looked the other way. Yet individual homeowners have been left to watch their single largest family asset plummet in value. Similarly, states have defaulted on their historic commitment to funding higher education, contributing to the growth of college tuition even as family incomes have stagnated.¹⁶⁵ For many students, borrowing is the only way to finance an education, even as high unemployment for recent graduates makes it difficult to pay loans back.¹⁶⁶ High interest rates for private student loans and questionable marketing practices by student lenders contribute to making student loan debt unsustainable.

Bankruptcy is the traditional last resort for Americans overwhelmed by debt they cannot pay. The ability to discharge debts in an orderly way was seen as such a critical part of the nation’s economy from its founding days that the U.S. Constitution explicitly grants Congress the power to establish national laws on bankruptcy.¹⁶⁷ Scholars have even linked America’s comparatively lenient personal bankruptcy laws to the nation’s entrepreneurial dynamism, arguing that ability to make a fresh start is essential to the willingness to take risks that may ultimately pay off.¹⁶⁸

OPINION SNAPSHOT

- 62 percent of self-identified “middle class” adults favor the idea of allowing bankruptcy judges to change mortgage payments in order to prevent foreclosure.¹⁴³
- Almost two thirds of recent student borrowers report that they’ve had difficulty making monthly college loan payments: they postpone payments, become delinquent, or default within five years of leaving school.¹⁴⁴ In the abstract, Americans are almost evenly divided on the question of forgiving college loan debt¹⁴⁵ and support would likely rise if forgiveness were provided only within the stringent context of bankruptcy.

But in 2005, Congress and the Bush Administration clamped down on bankruptcy filings, placing hurdles in the path of Americans trying to file and making it more difficult to discharge debts. In particular, the 2005 law made private student loan debt, like federal student loans, impossible to discharge in bankruptcy except under a difficult to meet hardship exemption. Today, bankruptcy allows for the discharge of credit card debt and auto loans but not student loan obligations. At the same time, the law permits judges to modify loans used for commercial real estate, vacation homes, and even yachts, but not a family's primary residence. Two of the largest investments Americans make in order to enter the middle class – in their homes and their educations – are thus excluded from the relief offered to other debtors.

By enabling bankruptcy judges to write down mortgages to the current value of the home, the Fairness in Bankruptcy Act would make it more affordable for Americans to stay in their homes, reducing foreclosures at no cost to taxpayers and powerfully stabilizing the housing market. Knowing that homeowners have the option to reduce their principal in bankruptcy would also give lenders a greater incentive to mortgage reductions long before a borrower even considers bankruptcy. Finally, by allowing Americans to discharge student loan debt in bankruptcy, the policy will give young Americans battered by the recession a chance at a fresh start.

POLICY DESIGN

The mortgage sections of the Fairness in Bankruptcy Act are based on the Helping Families Save Their Homes in Bankruptcy Act, the major provisions of which were considered in various forms since 2008. One version of the bill passed the House of Representatives in 2009 but failed in the Senate. It is currently before Congress again as H.R. 1587. The student loan sections of this policy build on the Fairness for Struggling Students Act (S. 1102) but go beyond this bill to include federal as well as private student loans.

- Permit bankruptcy courts to restructure the debt on home mortgages by setting interest rates and principal at commercially reasonable market rates and extending repayment periods.
- Limit mortgage restructuring to homeowners who cannot afford to make mortgage payments and are in danger of foreclosure.
- If a bankruptcy court reduced the mortgage's principal to the current fair market value of the property and the value later rose, a lender would be entitled to receive the net proceeds from a sale of the property.
- Allow federal and private student loans to be discharged in bankruptcy.

POLICY: BORROWER SECURITY ACT

Allow bankruptcy judges to reduce the mortgage principal on a primary residence and to discharge student loan debt.

POLICY RATIONALE

Personal debt can stand as an insurmountable obstacle to Americans wishing to build assets and secure a place in the middle class. In addition to the critical last resort of bankruptcy relief, Americans need fair rules to ensure that lenders – from credit card companies to mortgage lenders to vendors of payday loans – don't impose excessive interest rates, fees, and penalties that make it easier for American to get into serious debt and harder for them to get out.

Although usury laws are on the books in some states across the country, they are rendered useless by deregulation of the credit industry. Deregulation of the industry began in 1978 with *Marquette National Bank of Minneapolis vs. First Omaha Service Corp.* and continued with *Smiley vs. Citibank* in 1996. Taken together, the two Supreme Court rulings allowed national banks to charge credit card customers the highest interest rate permitted in the bank's home state, with fees defined as interest for the purposes of regulation. As a result, national banks physically moved their credit card operations to states, such as South Dakota and Delaware, that have no usury limits.

The consequences of deregulation have been pervasive usury among credit card companies, with devastating effects on the ability of Americans to accumulate and protect financial assets. And usurious interest rates are not unique to the credit card industry. The entire credit industry is engaging in usurious practices. The payday loan industry charges some of the highest interest rates of any type of creditor, and rates as high as 400 percent annual percentage rate are not uncommon. Through refund anticipation loans (RAL), the tax preparation industry is also engaging in usurious lending behavior.

Recent legislation has helped to rein in some of the worst abuses of the lending industry. The Credit CARD Act of 2009 successfully increased the transparency of rates and fees without pushing rates up.¹⁶⁹ The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established the Consumer Financial Protection Bureau (CFPB), an agency with tremendous potential for ensuring a fair marketplace for financial products.

OPINION SNAPSHOT

- 63 percent of American voters say they want more government oversight of lenders and other financial companies, 77 percent say government should make it harder for lenders to offer loans with risky or confusing features, such as low teaser rates.¹⁴⁶

POLICY DESIGN

- Enact a set of National Usury Limits that would be floating, indexed to a Federal Rate, and potentially tiered based on the credit product (e.g. student loans, short-term “payday” loans, credit cards). This step would enable lenders to continue using risk-based pricing, but put an end to routine credit card interest rates of 20 and 30% above prime or payday loans at 400%, all of which are unjustifiable by any measure.
- A credit card issuer may not impose any late fee or charge greater than \$15 on borrowers who fail to make a payment on or before the due date for payments.

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