

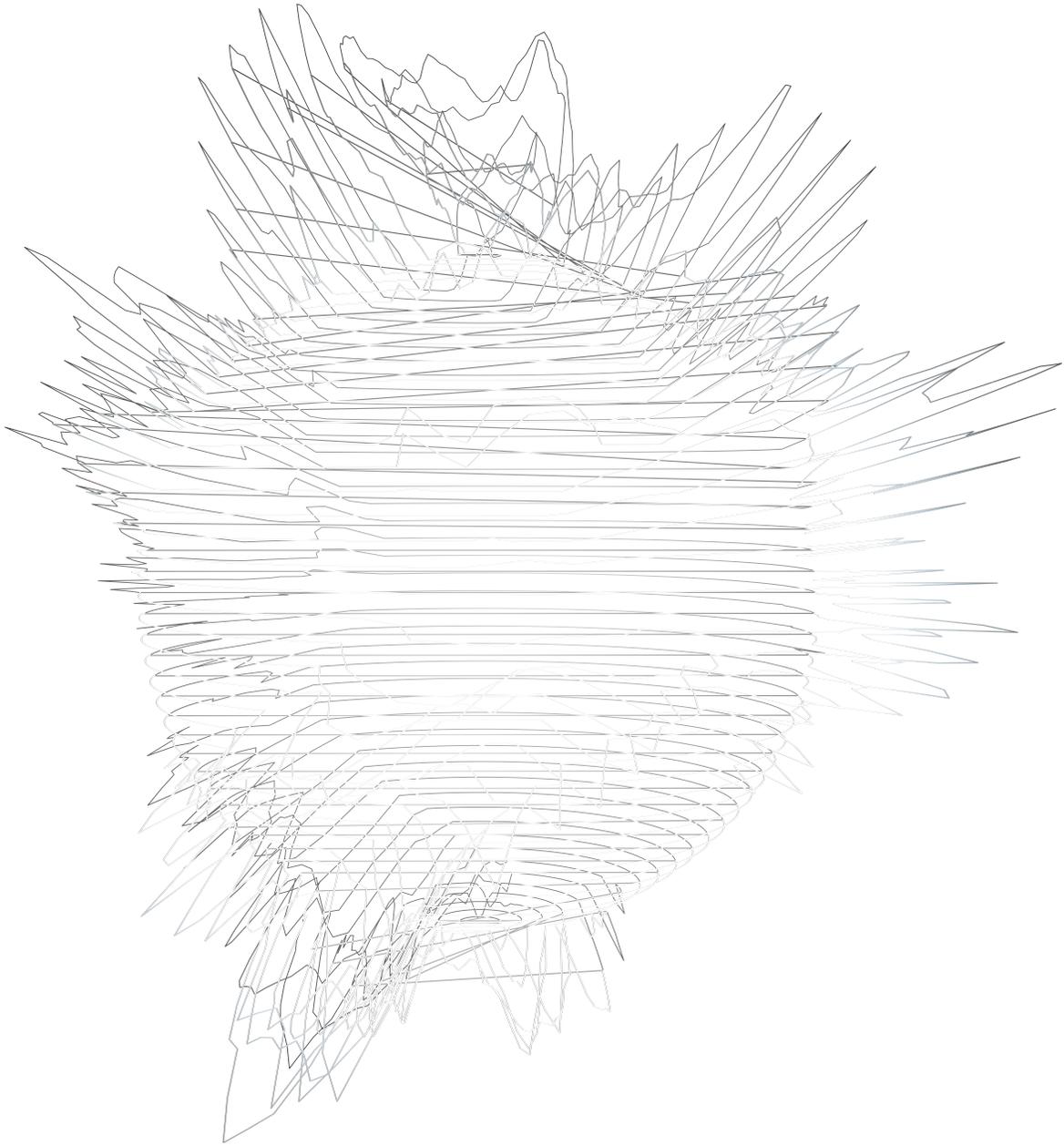


# UNLEASHING INNOVATION & GROWTH

A PROGRESSIVE ALTERNATIVE  
TO POPULISM

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TO POPULISM

Editor, Will Marshall



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This blueprint for renewing America's economic dynamism is the work of many hands. It synthesizes the research, analysis and policy ideas of a network of pro-growth progressives that includes PPI analysts and Senior Fellows, leading scholars from academia and other research institutes, and independent policy entrepreneurs.

Our vision for innovation-driven growth leans heavily on the insights of PPI's chief economic strategist Michael Mandel. It also features creative contributions from PPI analysts David Osborne (education), Ed Gerwin (trade), Dane Stangler, Derrick Freeman (energy), and Michelle Di Ionno (regulation), as well as Senior Fellows Paul Weinstein, Diana Carew, Jason Gold and Anne Kim.

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# Introduction

As Americans choose a new president in 2016, populist anger dominates the campaign. To hear Donald Trump or Senator Bernie Sanders tell it, America is either a global doormat or a sham democracy controlled by the “one percent.” These dark narratives are caricatures, but they do stem from a real dilemma: America is stuck in a slow-growth trap that holds down wages and living standards. How to break this long spell of economic stagnation is the central question in this election.

Today’s populists peddle nostalgia for our country’s past industrial glory but offer few practical ideas for building a new American prosperity in today’s global knowledge economy. Progressives owe U.S. voters a hopeful alternative to populist outrage and the false panaceas of nativism, protectionism, and democratic socialism. What America needs is a forward-looking plan to unleash innovation, stimulate productive investment, groom the world’s most talented workers, and put our economy back on a high-growth path. It’s time to banish fear and pessimism and trust instead in the liberal and individualist values and enterprising culture that have always made America great.

## The Roots of Economic Anxiety

More than six years into “recovery,” Americans still have a strikingly gloomy view of the economy—72 percent believe we’re still in recession.<sup>1</sup> While joblessness has fallen to pre-recession levels and job openings are at an all-time high, most workers have seen only meager wage gains over the past 15 years and millions have dropped out of job markets altogether.

More fundamentally, however, the U.S. economy has been stuck in low gear since the turn of the century. It has failed to produce rising incomes for average Americans;

1 Robert P. Jones, Daniel Cox, Betsy Cooper, and Rachel Lienesch, “Anxiety, Nostalgia, and Mistrust: Findings from the 2015 American Values Survey,” Public Religion Research Institute, November 17, 2015, <http://publicreligion.org/site/wp-content/uploads/2015/11/PRRI-AVS-2015.pdf>.

in fact, the median wage is lower today than when Bill Clinton left office.<sup>2</sup> This “great stagnation” is the defining economic crisis of our time.

Recall that in 2000, Americans were coming off of many years of robust growth and rising incomes. If those trends had held, the median household could have reasonably expected to collect \$861,000 over the next fourteen years (measured in 2014 dollars). But instead, real incomes dropped. Over that period, the median household take was just \$769,000, an 11 percent decline.<sup>3</sup>

It’s also become harder for aspiring entrepreneurs to start their own business. Since the early 2000s, the rate of new business formation has plummeted by roughly 20 percent.<sup>4</sup> More businesses are dying than being born—a serious problem since new enterprises not only create jobs, but also whole new industries and occupations. As the economist Robert Litan observes:

*“...[T]he most transformative leaps forward tend to come not from established firms but from entrepreneurs with little to lose. Indeed, start-ups commercialized most of the seminal technologies*

*of the past several centuries, including the car, the airplane, the telegraph, the telephone, the computer and the Internet search engine.”<sup>5</sup>*

Another measure of America’s economic slowdown is gross domestic product (GDP) growth. Since 2000, it’s averaged less than two percent a year. Even more telling is productivity growth, which fell to an average of 1.2 percent a year over the last ten years, compared to 2.2 percent in the decade ending in 2000.<sup>6</sup> When labor productivity falls, wages inevitably follow. Indeed, real compensation plunged from 1.5 percent growth in the decade ending in 2000 to only 0.6 percent growth over the last ten years. The Progressive Policy Institute (PPI) estimates that virtually all of that drop is due to slumping productivity growth.<sup>7</sup>

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**"Today’s populists peddle nostalgia for our country’s past industrial glory but offer few practical ideas for building a new American prosperity in today’s global knowledge economy."**

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2 U.S. Census Bureau, “Income and Poverty in the United States: 2014,” by Carmen DeNavas-Walt and Bernadette D. Proctor, P60-252, September 2015, <https://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-252.pdf>.

3 PPI calculations based on Census Bureau data.

4 Ian Hathaway and Robert E. Litan, “Declining Business Dynamism in the United States: A Look at States and Metros,” The Brookings Institution, May 2014, [http://www.brookings.edu/~media/research/files/papers/2014/05/declining%20business%20dynamism%20litan/declining\\_business\\_dynamism\\_hathaway\\_litan.pdf](http://www.brookings.edu/~media/research/files/papers/2014/05/declining%20business%20dynamism%20litan/declining_business_dynamism_hathaway_litan.pdf).

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5 Robert Litan, “Start-Up Slowdown: How the US Can Regain Its Entrepreneurial Edge,” *Foreign Affairs*, January/February 2015, <https://www.foreignaffairs.com/articles/americas/2014-12-15/start-slowdown>.

6 Michael Mandel, “Productivity Growth Continues to Plunge: Why a Growth Policy is Necessary,” The Progressive Policy Institute, May 6, 2015, <http://www.progressivepolicy.org/issues/economy/productivity-growth-continues-to-plunge-why-a-growth-policy-is-necessary/>.

7 Ibid

Meanwhile, the U.S. middle class has steadily lost ground. A 2015 Pew Research Center study tells the story: In 1970, middle class families accounted for 62 percent of all personal income, while upper-income households received 29 percent. By 2014, the share going to the top earners had risen to 59 percent, while the share the middle-income received fell to 43 percent.<sup>8</sup>

As the middle shrinks, both wealth and poverty have become more concentrated. In fact, the income gap between the richest and poorest Americans has never been wider since such measurements began in the 1960s. This yawning class divide contradicts the Democratic Party's core tenet of "Equal opportunity for all, special privilege to none." It leads people here and abroad to wonder whether liberal democracy can still deliver mass prosperity and social mobility.

To address this crisis of confidence, progressives need a credible plan for revitalizing our private economy, not just redistributing existing wealth in the name of fairness. What's more, the reflexive hostility toward U.S. business and "capitalism" in vogue

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**"The U.S. economy is in the midst of a top-to-bottom digital transformation. Like other great economic shifts, that transformation is painful for many."**

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8 "The American Middle Class is Losing Ground: No longer the majority and falling behind financially," Pew Research Center, December 2015, [http://www.pewsocialtrends.org/files/2015/12/2015-12-09\\_middle-class\\_FINAL-report.pdf](http://www.pewsocialtrends.org/files/2015/12/2015-12-09_middle-class_FINAL-report.pdf).

among populists won't help working Americans, who can only get ahead if the companies they work for compete effectively and make profits.

## Getting the Diagnosis Right

Winning the economic argument will be essential to victory in the 2016 elections and it starts by getting the diagnosis right. Both slow growth and growing inequality are symptoms of a deeper problem — ebbing economic dynamism. As Nobel Prize-winning economist Edmund Phelps has documented, the U.S. economy's capacity for broad-based innovation and wealth creation has been eroding since the 1970s.<sup>9</sup>

The U.S. economy is in the midst of a top-to-bottom digital transformation. Like other great economic shifts, that transformation is painful for many. New technologies, devices, and work processes make some jobs obsolete or harm particular industries. Globalization has created incentives to move U.S. manufacturing jobs to countries with cheaper labor. The costs and dislocations of these changes hit some Americans harder than others, and these families deserve society's special attention and support.

At the same time, we cannot be blind to the opportunities created by economic progress. The very changes that displace some U.S. workers are creating not just new jobs but whole new industries, such as the explosive

9 Edmund Phelps, *Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change* (Princeton: Princeton University Press, March 22, 2015).

app development sector, mobile broadband, big data analytics, cloud-based robotics, biomedicine, advanced materials, shale energy, and the emerging “sharing economy.”

Rather than trying to block disruptive change, progressives should harness it for the benefit of average families, not just elites. This starts with policies for stimulating productive investment, innovation and entrepreneurship, because we can't share wealth we're not creating. It requires a new commitment to unleashing the collective ingenuity of the American people, both by raising skills and lowering tax and regulatory barriers to individual initiative and creativity. And it means experimenting with creative ways to rebuild middle class wealth and enable more Americans to exit poverty.

## A Progressive Alternative

Candidates in 2016 face a choice: Will they run on a rancorous message of economic grievance and victimhood, or on a hopeful vision for inclusive innovation and growth?

A vengeful populism is a dead end for progressives, substantively and politically. It does not channel voter frustrations in a constructive direction. Rather than grapple with complex economic realities, it serves up conspiracy theories that cast working Americans as pitiful victims of stock villains like Wall Street, giant corporations, China, or illegal aliens. And populists on both sides traffic in sound-bite solutions – wall off Mexico, deport immigrants, break up the banks, tax the bil-



*Will Marshall, PPI President*

lionaires, kill trade agreements, give everyone free college and health care—that have little to do with fixing our economy's real problems.

Progressives should reject magical thinking and present voters with a radically pragmatic blueprint for getting our economy moving again. The stakes are enormous. Without rising productivity and stronger growth, our country won't be able to generate the income necessary to finance critical public investments, sustain the world's most capable military, and meet the mounting health and retirement costs of an aging society. Nor will we be able to whittle down our bloated national debt, leaving us without a fiscal reserve to tap in future recessions or economic emergencies.

Unlike the rabidly anti-government right, progressives understand that government plays an essential role in assuring a vibrant market economy. Public investments—in education, scientific research, infrastructure, health, law enforcement and environmental protection—are fundamental to equal oppor-

tunity and prosperity. Markets don't function properly if governments don't referee competition, enforce contracts, defend civil liberties, and keep powerful actors honest. And growth creates the fiscal room for public efforts to assure that everyone has a decent shot at realizing their version of the American dream.

Pro-growth progressives favor reasonable increases in the minimum wage, and paid sick and family leave, as well as policies that help the working poor escape poverty, and enable middle class families to acquire homes and financial assets. We also support a progressive tax code that requires the super rich to contribute more to the common pot. Absent more innovation and growth, however, a narrow fixation on distributive justice degenerates into a zero sum scramble for slices of the public weal, misdirecting resources that could be used to enlarge the nation's productive base.

The United States doesn't need to import "democratic socialism" or the Nordic model from Europe; America is a liberal democracy, not a social democracy. Americans historically have viewed government's legitimate role as promoting equal opportunity, not trying to engineer equal outcomes. A progressive government's job is not to direct the private economy or shield people from market competition—from which mass prosperity arises—but to equip them to manage economic change.

Greater economic security and equality are important goals. But it is ceaseless innovation and productivity growth that raises living standards and makes progressive social policies sustainable. Without them, progressive politics will grow static and reactionary, rather than dynamic and hopeful.

Finally, populists do Americans no favor by claiming the economic game is hopelessly rigged against them, that the leaders they elect are incompetents, or that our democracy is rancid with corruption. None of these claims is true, and such demagoguery undermines public confidence in America's boundless capacity for self-renewal. Populist anger fosters an "us versus them" mentality that, by reinforcing political tribalism and social mistrust, can only make it harder to build consensus around economic initiatives that benefit all Americans.

Genuine political leadership inspires people to hope for and work toward a better future. Progressives owe voters an optimistic account of how to bring the U.S. economy back to full strength, and make sure that renewed growth benefits everyone, not just the people at the top. That's why Delaware Governor Jack Markell, a leading spokesman for America's pro-growth progressives, counsels Democrats to emphasize "the synergy, rather than the contradiction, between economic growth and economic justice."

*The bottom line is that private enterprise creates the primary condition for reducing poverty and want: economic growth. Governments don't create jobs; however, government has an ability and responsibility to create a nurturing environment*

*where business leaders and entrepreneurs want to locate and expand. What that means is that government has an active role in creating an economic environment that creates middle class success and prosperity.<sup>10</sup>*

Progressive candidates in 2016 should offer U.S. voters an alternative to populism that fuses head and heart, growth and equity, in a new vision for shared prosperity in the connected world of the 21st century. In that spirit, we offer the following specific ideas for reviving economic growth that works for all Americans.

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<sup>10</sup> Jack Markell, "Americans Need Jobs, Not Populism," The Atlantic, May 3, 2015, <http://www.theatlantic.com/politics/archive/2015/05/americans-need-jobs-not-populism/391661/>.

**PART 1****Unleash Innovation****Spread innovation across the economy****PART 1, PAGE 3**

Historically, technological innovation is the main force driving job and productivity growth as well as rising living standards. Unfortunately, innovation today is narrowly concentrated in the “tech-info” or digital sector of the U.S. economy. Progressives should adopt a new “Innovation Platform” aimed at stimulating public and private investment in new ideas and enterprises, and at diffusing innovation across the entire economy.

**Improve the regulatory climate for innovation****PART 1, PAGE 6**

To lift long-term growth levels, progressives must tackle the mounting costs of regulatory accumulation, the constant layering of new rules atop old ones. Washington needs a mechanism to prune the regulatory thicket—an independent panel, modeled on the successful military base closing commission, charged with eliminating or modifying outdated, duplicative, or conflicting regulations. Policymakers also should make systemic changes to regulatory agencies to make promoting investment, innovation, and new enterprises part of their core mission. Other essential steps include reining in occupational licensing requirements that screen out many low-income entrepreneurs, lifting outdated restrictions on lending to small business, and giving businesses incentives to offer more flexible work, including paid leave.

**Innovate our way to clean growth****PART 1, PAGE 10**

America urgently needs a more innovative energy strategy that simultaneously advances two vital national interests: powering economic growth and assuring a healthy environment. Such a strategy should recognize that, for the foreseeable future, the United States and the world will have to tap all fuels—renewable, nuclear, and fossil—to meet growing energy demand and sustain global economic growth. At the same time, our strategy should include setting a price on carbon—with a nationwide carbon tax—to curb greenhouse gas emissions while also driving investment into clean and efficient energy.

**Democratize trade****PART 1, PAGE 15**

America’s long-standing free trade consensus is under assault from the right and left. Progressives can’t logically be for economic innovation and growth and against trade. Selling more of America’s highly competitive exports to a growing global middle class is one sure way to make our economy grow faster. So is promoting the free flow of data across global borders. We should support innovative trade agreements that lift labor, environmental and human rights standards in developing countries, and enable more Americans to benefit from trade. In particular, we should seize new opportunities for U.S. small businesses and entrepreneurs to use low-cost digital platforms to tap into global demand.

**PART 2****Align Fiscal Policy with Innovation and Growth**

## Embrace pro-growth tax reform.

**PART 2, PAGE 2**

From an economic investment, job creation, and productivity standpoint, our tax system taxes income, labor, and savings too much, and consumption too little. Progressives therefore should advocate a dramatic shift from income to consumption taxes to stimulate investment in productive economic activities, close loopholes that benefit special interests, and dramatically simplify taxes for most Americans.

## Modernize public works

**PART 2, PAGE 4**

America's old and neglected infrastructure has become a serious constraint on business investment and growth. Progressives need a modern approach to public works that accurately measures the true economic impact of infrastructure spending, opens infrastructure markets to private capital, defines a strategic role for Washington through a national infrastructure bank, and impose firm deadlines on the project approval process.

**PART 3****Groom the World's Most Talented Workers**

## Reinvent public school

**PART 3, PAGE 2**

Our K-12 system is still organized around the needs of an industrial economy rather than the emerging knowledge economy of the 21st century. Progressives should champion new models of school governance than enable more school autonomy and innovation, more customized learning, rigorous standards, and genuine accountability for results.

A more promising approach is “career pathways” in which workers combine classroom training and work experience through a sequence of jobs, within or across firms in an industry, and a sequence of credentials that signal their growing skill levels.

## Cut college costs for everyone

**PART 3, PAGE 6**

The costs of postsecondary education are higher in the United States than anywhere else in the world. To rein in costs and decrease debt, colleges should be encouraged to offer three-year degrees rather than the traditional four-year program and focus on competency, rather than credit-hours.

## Create pathways into middle class jobs

**PART 3, PAGE 4**

America faces an enormous skills deficit. Too many U.S. workers lack the education and skills they need to get well-paying jobs that can't be automated out of existence. Traditional “workforce development” policy is failing low and middle income Americans.

## PART 4

# Build Middle Class Wealth

Narrow the wealth gap with universal pensions **PART 4, PAGE 1**

The federal government’s pension policies are supposed to help all workers build a retirement nest egg to complement Social Security. In practice, however, tax-favored savings programs like 401Ks and IRAs mainly benefit the top half of U.S. households. To narrow today’s huge disparities of wealth, progressives should champion “universal pension” accounts that would enable all workers to save for retirement, navigate the maze of tax-favored retirement plans, and take their pensions with them when changing jobs.

## PART 5

# Fight Poverty with Empowerment

Empower people with smart phones **PART 5, PAGE 1**

Government safety net programs help tens of millions of Americans lift themselves from poverty, but they also force poor citizens to run a gauntlet of separate, stove-piped bureaucracies. The process is demeaning, costly, time-consuming, and demoralizing. Modern technology points to a better way: enable low-income Americans to use smartphones to get information about programs for which they qualify and apply for benefits online. Each applicant should have an online HOPE account to manage his or her interactions with social agencies and civic or charitable

Help families save for homeownership **PART 4, PAGE 3**

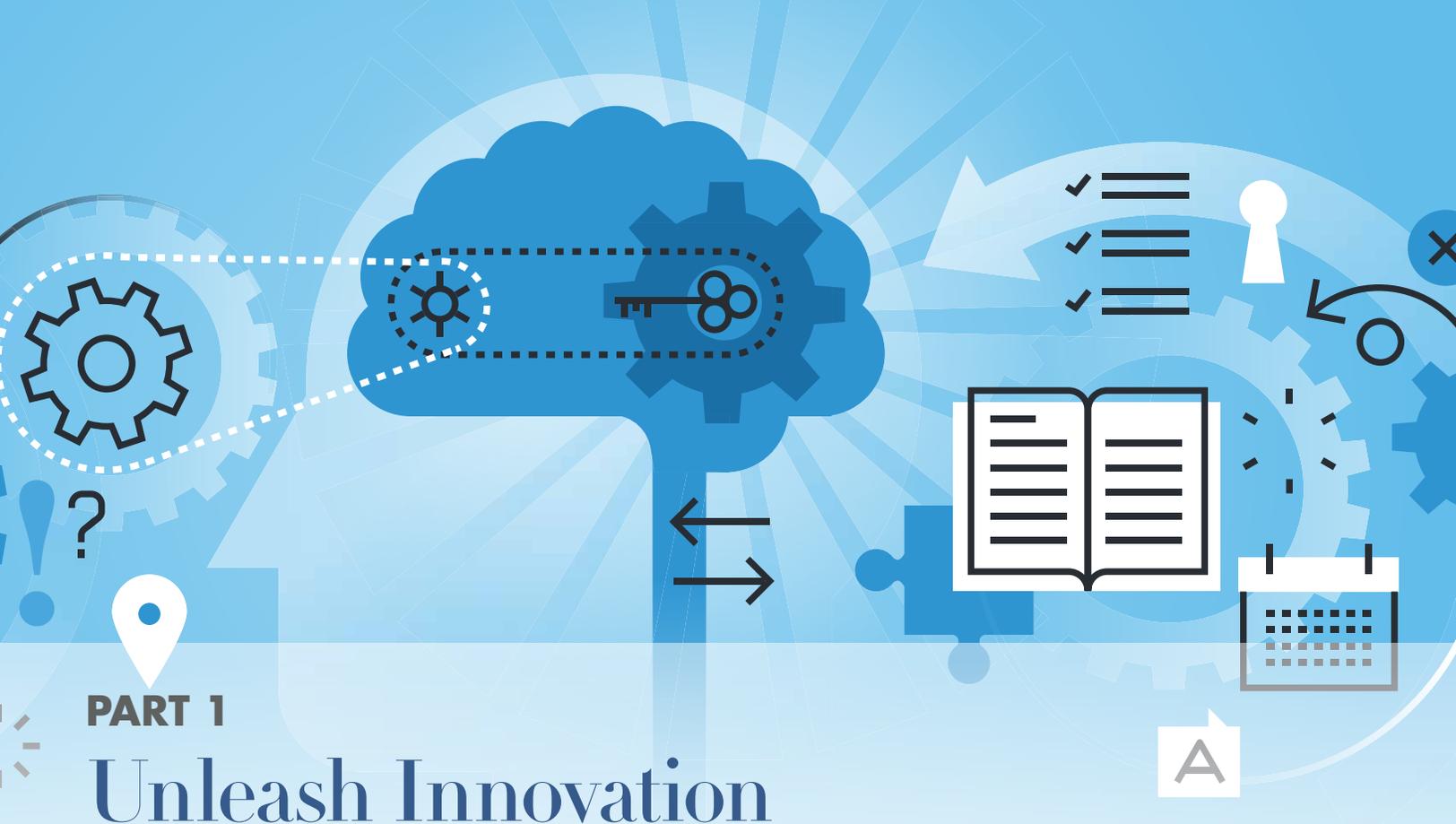
Any serious plan for reviving middle class prosperity must tackle the twin problems of declining home ownership and soaring housing costs for both owners and renters. The creation of a new, tax-preferred mechanism for down payment savings — a “HomeK” — could help lower obstacles to homeownership (like tight credit and down payment requirements) for first-time homebuyers and promote more savings.

groups. Armed with smart phones that enable them to cut through bureaucratic barriers, disadvantaged citizens would become their own case managers.

Expand housing choices for low-income Americans **PART 5, PAGE 6**

In many U.S. metro regions, rents are higher than the carrying costs of owning a home. In these places, it would be smart policy to convert some federal rent subsidies into incentives for homeownership. This would relieve the burden on low-income families of high housing costs and reduce the waiting list for subsidized housing, without raising taxes or adding to the federal deficit.





## PART 1

# Unleash Innovation

There is tremendous debate among economists about why the United States and other developed countries are experiencing slow productivity growth, and what can be done about it.<sup>1</sup>

The answer appears to lie in lagging business investment and uneven innovation across the economy. While liberal economists habitually focus on weak demand, we believe the bigger challenge lies on the investment side. America is experiencing a prolonged drought in business investment. Real non-residential private investment is 21 percent below long-term pre-recession trends. Real state and local government investment is 30 percent below long-term pre-recession trends.<sup>2</sup>

Jason Furman, Chairman of the White House Council of Economic Advisers, attributes about half of the slowdown in U.S. productivity growth to lagging business investment since the end of the economic crisis.<sup>3</sup> A major OECD study on productivity in advanced economies cites “a slowing of the pace at which innovations spread throughout the economy: a breakdown of the diffusion machine.”<sup>4</sup>

Technological innovation is the main force historically driving both rising living standards and job growth. Think of industries like cars, airlines, electric utilities, software,

1 See, for example, John Fernald and Bing Wang, “The Recent Rise and Fall of Rapid Productivity Growth,” Federal Reserve Bank of San Francisco Economic Letter, February 2015.

2 PPI calculations based on BEA data.

3 Jason Furman, “Business Investment in the United States: Facts, Explanations, Puzzles, and Policies,” presentation at the Progressive Policy Institute, September 20, 2015, [https://www.whitehouse.gov/sites/default/files/page/files/20150930\\_business\\_investment\\_in\\_the\\_united\\_states.pdf](https://www.whitehouse.gov/sites/default/files/page/files/20150930_business_investment_in_the_united_states.pdf).

4 OECD, “The Future of Productivity,” July 2015, <http://www.oecd.org/eo/growth/OECD-2015-The-future-of-productivity-book.pdf>.

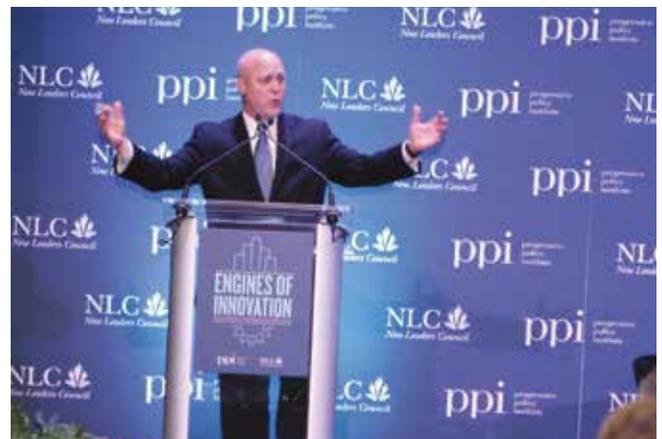
pharmaceuticals, television, and so forth—all those jobs sprung from innovations that created new demand and new sources of growth.

The basic rule is that innovative industries create jobs, even as they disrupt existing market arrangements.<sup>5</sup> Consider these examples:

- The App Economy, a sector that didn't even exist prior to the introduction of the iPhone in 2007, now accounts for 1.66 million direct, indirect, and spillover jobs in the United States.<sup>6</sup>
- Tech jobs grew by 6.7 percent in the first two months of 2016, more than double the 2.7 percent job gains for all college educated workers.<sup>7</sup>
- From 2009-2014, tech occupations added 730,000 college-educated workers, almost as many as healthcare occupations.<sup>8</sup>

- Start-ups that are less than one year old have created an average of 1.5 million jobs annually per year for the last three decades, while older business tend to jointly drop nearly as many jobs as they add each year.<sup>9</sup>

Political leaders pay lip service to innovation, but too often ally themselves with entrenched interests threatened by economic change. From the standpoint of our nation's overall economic health, we need more innovation, not less. That's why progressives should wholeheartedly adopt a new "Innovation Platform"<sup>10</sup> that focuses like a laser on stimulating more innovation and spreading it more broadly across the U.S. economy. Here are some key planks of the Innovation Platform:



Mayor Mitch Landrieu speaking at PPI's Engines of Innovation Event in New Orleans

5 Michelle Di Iorio and Michael Mandel, "The 2015 PPI Tech/Info Job Ranking," Progressive Policy Institute, December 10, 2015, <http://www.progressivepolicy.org/issues/economy/the-2015-ppi-techinfo-job-ranking/>.

6 Michael Mandel, "App Economy Jobs in the United States," Progressive Policy Institute, January 6, 2016, <http://www.progressivepolicy.org/slider/app-economy-jobs-part-1/>.

7 Michael Mandel, "Tech job growth continues to accelerate!" The Progressive Policy Institute, March 6, 2015, <http://www.progressivepolicy.org/uncategorized/tech-job-growth-continues-accelerate/>.

8 Michael Mandel and Diana Carew, "Tech Opportunity for Minorities and Women: A Good News, Bad News Story," The Progressive Policy Institute, April 2015, <http://www.progressivepolicy.org/issues/economy/tech-opportunity-for-minorities-and-women-a-good-news-bad-news-story/>

9 Jason Wiens and Chris Jackson, "The Importance of Young Firms for Economic Growth," Kauffman Foundation, September 13, 2015, <http://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/the-importance-of-young-firms-for-economic-growth>.

10 Larry Downes, "The Business Implications of the EU-U.S. 'Privacy Shield,'" Harvard Business Review, <https://hbr.org/2016/02/the-business-implications-of-the-eu-u-s-privacy-shield>.

# Spread Innovation

## Digitize the physical economy

Economists are grappling with a mystery: Why isn't exponential growth in Internet use providing a bigger boost to growth, productivity, and living standards?<sup>11</sup>

We believe today's slow productivity growth is linked to the failure of "physical" industries such as manufacturing, health care, and construction to make good use of digital technologies, compared to "digital" industries such as professional services, finance, and entertainment. The McKinsey Global Institute, for example, estimates that the United States has only reached 18 percent of its potential for digitization.<sup>12</sup> A recent PPI study by Michael Mandel estimates that the physical industries, which make up roughly 80 percent of the private sector, account for only 35 percent of private tech-info investment, and only 40 percent of the telecom usage.<sup>13</sup>

To realize the promise of the Internet of Things, physical industries will need to make much greater use of wireless "machine-to-machine" data in order to link sen-

sors and remote equipment able to manipulate physical objects. Demand for wireless data could rise by a factor of 30-40 between 2015 and 2030.<sup>14</sup>

According to PPI calculations, the result could be an acceleration of productivity growth in the physical industries that adds roughly \$2.7 trillion (in 2015 dollars) to U.S. GDP by 2030.<sup>15</sup> This translates into an 11 percent increase in economic output, which is equivalent to boosting the average annual growth rate by 0.7 percentage points.

This outcome, however, presupposes a regulatory environment that supports the necessary expansion of capacity of mobile broadband networks over the next 15 years.

As the physical industries become digitized, expanding wireless capacity will be critical. How can policymakers and regulators best encourage private sector investment in mobile data networks? What's needed is a two-prong approach. First, more spectrum must be freed up. The Federal Communications Commission's (FCC) coming incentive auction of broadcast spectrum will help, but it's far from enough. In the short run, policymakers must get government agencies to release or share precious spectrum. In the medium run, the FCC must open up as much high frequency millimeter wave as possible.

11 For a pessimistic view, see Robert Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War*, and Princeton University Press, 2016.

12 James Manyika, Sree Ramaswamy, Somesh Khanna, Hugo Sarrazin, Gary Pinkus, Guru Sethupathy, and Andrew Yaffe, "Digital America: A tale of the haves and have-mores," McKinsey Global Institute, December 2015, <http://www.mckinsey.com/industries/high-tech/our-insights/digital-america-a-tale-of-the-haves-and-have-mores>

13 Michael Mandel, "Long-term U.S. Productivity Growth and Mobile Broadband: The Road Ahead," *The Progressive Policy Institute*, March 2016.

14 *Ibid.*

15 *Ibid.*

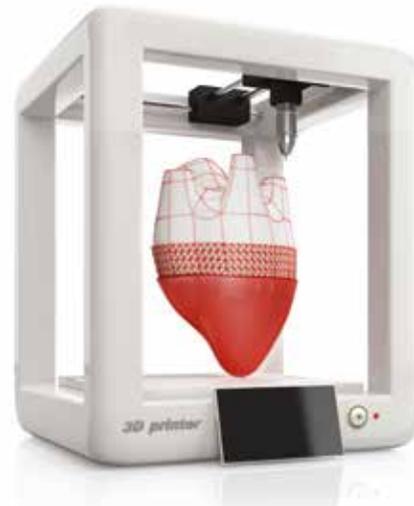
Equally important, the new networks will likely require millions of cell sites in the United States to provide sufficient capacity. Building and maintaining those many cell sites will, in turn, require massive investments by mobile providers.

Progressive should impress upon regulators the need to steer clear of imposing rules on mobile operators that have the effect of reducing the return on investment. If that happens, mobile will not reach its potential to galvanize U.S. productivity growth by digitizing the physical economy.

## Nurture additive manufacturing and new materials

Additive manufacturing—3D printing and other techniques that use digital blueprints to construct physical objects more efficiently—is the wave of the future for U.S. manufacturing. It enables a shift from energy- and resource-intensive mass production to customized manufacturing that uses fewer resources and is far more environmentally sustainable.

Additive manufacturing is at the leading edge of a breathtaking array of industries and sectors. For example, 3D bioprinters will eventually be able to “print” human organs using living cells as conventional printers use ink. But there’s a hitch: Fully half the job growth in additive manufacturing today is confined to a handful of states, notably California, New York, and Massachusetts. It’s another high-tech advance that threatens to leave America’s old industrial centers behind.




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What’s needed is a concerted national push to seed additive manufacturing start-ups in the states hit hardest by deindustrialization, such as Ohio, Indiana, Illinois and West Virginia. For example, Congress should triple the number of Advanced Manufacturing Centers (there are now seven) around the country and concentrate new ones in these regions. Created by President Obama, this program funds public-private centers to translate applied research into viable commercial products. In addition, a recent report from the GAO suggests that the bureaucracy

that developed to regulate old-style large manufacturing may make it harder for small additive manufacturers to gain traction.<sup>16</sup> We need to clear the way for new businesses.

In the past, the invention of new materials such as artificial fibers created millions of jobs. That's why America needs to be the global leader in developing and commercializing new materials that will lower the cost of construction, make infrastructure and housing more affordable and energy efficient, and, not so incidentally, create new jobs in a wide range of industries. The Materials Genome Initiative already has the goal to "deliver the next generation of materials into products in half the time at a fraction of the cost."<sup>17</sup> This initiative should be expanded and given top priority.

## Cut health care costs through labor-saving innovation

Rising labor costs — not expensive new technologies or escalating drug prices — are the main driver of higher health care costs, now and into the future. According to data from the Bureau of Economic Analysis and PPI estimates, total labor compensation at hospitals, doctors' offices, ambulatory care facilities and nursing homes rose by roughly \$270 billion from 2007 to 2015. This includes compensation for doctors and dentists who own their own practices. That's far greater

16 GAO, "3D Printing: Opportunities, Challenges, and Policy Implications of Additive Manufacturing," June 24, 2015, <http://www.gao.gov/assets/680/670960.pdf>

17 Executive Office of the President, "Materials Genome Initiative: Strategic Plan," National Science and Technology Council, December 4, 2014, [https://www.whitehouse.gov/sites/default/files/microsites/ostp/NSTC/mgi\\_strategic\\_plan\\_-\\_dec\\_2014.pdf](https://www.whitehouse.gov/sites/default/files/microsites/ostp/NSTC/mgi_strategic_plan_-_dec_2014.pdf).

than the roughly \$60 billion increase in the retail cost of prescription drugs, which gets a lot more attention. The cost of labor amounts to more than 40 percent of the increase in the total cost of personal health-care spending during that period, while the cost of prescription-drugs amounts to only 10 percent of the increase.<sup>18</sup>

If policymakers want to make a dent in long-term health-care costs, they need to make two important strategic decisions. First, they need to encourage the development of medicines that are labor-saving over the long-run, which requires the cooperation of regulators at the Food and Drug Administration and the Center for Medicare Services with private drug researchers and manufacturers.

Second, many of the new medicines coming on the market are effectively long-term investments, both financially and in terms of health. Hepatitis C, for example, is a slow-acting infection, so spending on treatment today will pay off big 10 or 20 years from now, when far fewer patients will require liver transplants. Similarly, a preventative medicine for Alzheimer's disease, taken during middle age, would dramatically reduce the amount of labor otherwise necessary to care for a projected 14 million Alzheimer's patients by 2050.<sup>19</sup>

Our current method of paying for health care fails to account for the benefits of such long-term investments. Not surprisingly, employers who still foot most of the bill for

18 Michael Mandel, "The Folly of Targeting Big Pharma," *The Wall Street Journal*, December 11, 2015, <http://www.progressivepolicy.org/issues/economy/wsj-the-folly-of-targeting-big-pharma/>.

19 Ibid.

health insurance balk at paying today for medicines whose financial savings may not accrue for many years, or even after retirement. So policymakers will have to work out a way of subsidizing the private purchase of costly medicines that have long-run health and economic benefits.

## Improve the regulatory climate for innovation

From companies large and small, to low-income entrepreneurs trying to go into business for themselves, Americans are having difficulty innovating in a rules-bound world. To lift long-term growth levels, U.S. policymakers must make systemic changes in the “operating code” of regulatory institutions that encourage more investment and innovation.

U.S. regulatory policy today is mostly a matter of political reaction and addition. Usually something bad happens—such as the financial markets’ near meltdown in 2008—and Congress understandably responds by mandating new regulations to prevent a recurrence.

The buildup of rules over time, however, has become a significant drag on economic growth. That’s why there is growing interest across the political spectrum in tackling the problem of regulatory accumulation—the layering on, year after year, of new rules atop old ones.<sup>20</sup> The result is a thickening sedi-

20 Michael Mandel and Diana G. Carew, “Reviving Jobs and Innovation: A Progressive Approach to Improving Regulation,” Progressive Policy Institute, February 2011, <http://www.progressivepolicy.org/publications/policy-memo/reviving-jobs-and-innovation-a-progressive-approach-to-improving-regulation/>.

ment of law and regulation that weighs heavily on businesses, citizens, and public servants, creating what the writer Philip Howard calls a “creeping crisis of complexity.”

The welter of rules raises costs of entry to entrepreneurs, and creates rising opportunity costs as business managers devote increasing amounts of their time and attention to complying with rules rather than creating new products or boosting productivity.

Republicans are always looking for ways to tie regulators’ hands, but the idea that government can simply stop issuing regulations is a libertarian pipedream. Besides, the heart of the problem is not that government keeps creating new rules, but that it almost never rescinds old ones.

Traditional tools of regulatory reform—such as “retrospective review” and cost-benefit analysis—have merely nibbled at the edges of regulatory accumulation.

The federal government lacks effective mechanisms for dealing with the accumulation of regulations over time, or for updating regulatory assumptions that get overtaken by technological change. The answer to outdated, conflicting, or costly rules isn’t necessarily deregulation, as conservatives invariably insist, but the constant updating, streamlining, and improving of our regulatory system.



Senator Angus King (I-ME) speaking at PPI's Regulatory Improvement Event on Capitol Hill.

Traditional tools of regulatory reform—such as “retrospective review” and cost-benefit analysis—have merely nibbled at the edges of regulatory accumulation. We need a new approach. PPI’s proposal for a Regulatory Improvement Commission (RIC) has attracted bipartisan support in Congress. Based on the military base closing commission, the RIC would meet periodically to review and draw up a list of rules for elimination or modification.<sup>21</sup> The package would be sent to Congress for an up-or-down vote, and then onto the President for signing.

The RIC fills a vacuum in Washington for a politically viable regulatory improvement mechanism that can inspire confidence across our partisan and ideological divides.

21 Michael Mandel and Diana G. Carew, “Regulatory Improvement Commission: A Politically-Viable Approach to U.S. Regulatory Reform,” Progressive Policy Institute, May 2013, [http://www.progressivepolicy.org/wp-content/uploads/2013/05/05.2013-Mandel-Carew\\_Regulatory-Improvement-Commission\\_A-Politically-Viable-Approach-to-US-Regulatory-Reform.pdf](http://www.progressivepolicy.org/wp-content/uploads/2013/05/05.2013-Mandel-Carew_Regulatory-Improvement-Commission_A-Politically-Viable-Approach-to-US-Regulatory-Reform.pdf).

And it would create a court of appeal where anyone—business, consumers, labor, civic groups—could challenge existing rules and propose changes.

Confronting regulatory accumulation is one way for progressives to improve the environment for innovation and long-term growth. Another is to update laws and assumptions that guide important regulatory agencies like the FDA, the FCC and the FTC.

The FDA is one of the fastest growing agencies in the federal government. In 2000, the FDA employed 12 workers for every 1,000 in the pharmaceutical, biotech and medical equipment industries. By 2014 the FDA employed 18 workers for every 1,000 workers in those sectors. Meanwhile, private and public investment in biosciences research and development has totaled about \$1 trillion over the past decade, according to PPI estimates. That’s more than federal, state, and local governments have spent on highways and streets over the same period.<sup>22</sup>

Unfortunately, this full-scale national commitment to biosciences R&D has not yet produced the full-scale payoff that we expected, in disease cures, lower healthcare costs, or the creation of new job-creating industries. For example, the FDA has yet to approve any gene therapy for sale in the United States.

Partly the issue is that innovating in biosciences is hard. At the same time, the regulatory hurdles from the FDA and the CMS make it harder for companies to get approval for innovative treatment and devices. The

22 Michael Mandel, “Hacking the Regulatory State: The FDA,” The Progressive Fix, Progressive Policy Institute, December 2, 2014, <http://www.progressivepolicy.org/issues/economy/productivity-growth-continues-to-plunge-why-a-growth-policy-is-necessary/>.

regulators demand both that new drugs and devices be better than anything else on the market, while requiring lower prices. The combination is difficult to meet.

Accelerating commercial innovation in biosciences requires “recoding” the criteria by which the FDA approves new drugs and devices. Existing rules systematically screen out disruptive innovations. Without weakening safety requirements, new rules should encourage economic efficacy as well as clinical efficacy.

In addition, here are three ways that regulatory improvement can promote entrepreneurship, investment in new businesses, and a more flexible workplace:

## Rein in occupational licensing requirements, which have grown sharply over the years

According to the White House, more than one-quarter of workers now require a license to do their jobs. States are the main culprit here; the share of workers licensed by states has risen fivefold since the 1950s.<sup>23</sup>

Obviously licensing is essential for many professions, such as doctors and architects. It’s less clear why states feel the need to license florists. Notes the White House report,

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23 U.S. Department of the Treasury Office of Economic Policy, the Council of Economic Advisers, and the Department of Labor, Occupational Licensing: A Framework for Policymakers, July 2015, [https://www.whitehouse.gov/sites/default/files/docs/licensing\\_report\\_final\\_nonembargo.pdf](https://www.whitehouse.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf).

“Licensing requirements vary substantially by State, creating barriers to workers moving across state lines and inefficiencies for businesses and the economy as a whole.”<sup>24</sup>

Progressives in state government ought to lead efforts to reduce the barriers licensing poses to entry into markets and entrepreneurship. They should advocate for reducing the number of unnecessary or overly restrictive licenses and promote mobility by encouraging their states to recognize licenses from other states.<sup>25</sup>

## Lift regulatory barriers to small business investment

Big banks have a tough time making profits on small loans because transaction costs are roughly the same whether the loan is for \$10,000 or \$10 million. So when the financial crisis caused many lenders to cut back, it was Main Street businesses that were hit the hardest. Between 2008 and 2015, banks of all sizes decreased their holdings of small business loans by 16 percent, while their loans to large companies rose 37 percent.<sup>26</sup>

How do we ensure that small businesses get the resources they need to grow? One promising source of funding is the nation’s 7,000 credit unions. They are a natural match

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24 Ibid.

25 Diane Stangler, “Occupational Licensing: How A New Guild Mentality Thwarts Innovation,” The Progressive Fix, Progressive Policy Institute, April 2, 2012, <http://www.progressivepolicy.org/publications/policy-memo/occupational-licensing-how-a-new-guild-mentality-thwarts-innovation-2/>.

26 Ruth Simon, “Big Banks Cut Back on Loans to Small Business,” The Wall Street Journal, November 2015, <http://www.wsj.com/articles/big-banks-cut-back-on-small-business-1448586637>.

for small and new business lending because they are rooted in local communities and actually know their customers—who are also their members. And in fact, credit unions increased their business lending by 42 percent after the financial crisis.<sup>27</sup>

They could do more, but are hampered by outdated federal regulation. Commercial lending by credit unions is capped at 12.25 percent of their assets, even though they have lower loan delinquency rates than banks. This makes no sense, and progressives should support legislation in Congress that would lift the cap to 27.5 percent “if the credit union meets specified safety and soundness criteria”<sup>28</sup> The Credit Union National Association predicts that lifting the lending cap would generate a first-year capital infusion of \$13 billion, which would translate into approximately 140,000 new jobs. And this simple regulatory improvement wouldn’t cost U.S. taxpayers anything.

## Promote flexible work and paid leave

Nearly half of all two-parent households had both parents working full-time in 2015, up from less than a third in 1970.<sup>29</sup> And children are not their only responsibility; as

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27 Schenk, Mike. 2011. “Commercial Banks and Credit Unions: Facts, Fallacies, and Recent Trends.” CUNA, [http://ads.cuna.org/download/com-banks\\_cus.pdf](http://ads.cuna.org/download/com-banks_cus.pdf).

28 S. 2028 Small Business Lending Enhancement Act of 2015; H.R. 1188 Credit Union Small Business Jobs Creation Act

29 Pew Research Center, “Raising Kids and Running a Household: How Working Parents Share the Load, November 4, 2015, [http://www.pewsocialtrends.org/files/2015/11/2015-11-04\\_working-parents\\_FINAL.pdf](http://www.pewsocialtrends.org/files/2015/11/2015-11-04_working-parents_FINAL.pdf).

life expectancy has increased, today’s parents increasingly are caring for their own aging parents as well. About half the people providing unpaid eldercare have full-time jobs.<sup>30</sup>

To balance the demands of work and family, PPI has long supported flexible work arrangements, including paid parental and medical leave. The benefits to employees of being able to work at home—from saving on commuting time and being able to more easily meet family demands to improvements in mental health and lowered blood pressure—have been well documented.<sup>31</sup> For employers, the benefits of flexible work include increased productivity, improved employee health, and lower rates of absenteeism and turnover.<sup>32</sup> Absenteeism due to family caregiving demands costs U.S. businesses \$3 billion annually<sup>33</sup>—so substantially reducing this rate through flexible work options would be tremendously valuable for companies and the overall economy.

While progressives support paid leave, we also need to think more creatively about flexible work arrangements that benefit both workers and employers. One idea that we have found particularly compelling is a federal-level opt-in program proposed by a major

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30 The Council of Economic Advisors, “Work-Life Balance and the Economics of Workplace Flexibility,” June 2014, [https://www.whitehouse.gov/sites/default/files/docs/updated\\_workplace\\_flex\\_report\\_final\\_0.pdf](https://www.whitehouse.gov/sites/default/files/docs/updated_workplace_flex_report_final_0.pdf).

31 Kerry Joyce et al., “Flexible Working Conditions and Their Effects on Employee Health and Wellbeing, Cochrane Database of Systematic Reviews, February 17, <http://onlinelibrary.wiley.com/doi/10.1002/14651858.CD008009.pub2/abstract;jsessionid=C86A62DAA6A8BA945EEE58DC69658993.f01t04>.

32 The Council of Economic Advisors, “Work-Life Balance and the Economics of Workplace Flexibility,” June 2014, [https://www.whitehouse.gov/sites/default/files/docs/updated\\_workplace\\_flex\\_report\\_final\\_0.pdf](https://www.whitehouse.gov/sites/default/files/docs/updated_workplace_flex_report_final_0.pdf).

33 Catalyst, “Quick Take: Working Parents,” April 16, 2015, <http://www.catalyst.org/knowledge/working-parents>.

While progressives support paid leave, we also need to think more creatively about flexible work arrangements that benefit both workers and employers.

business association.<sup>34</sup> It would preempt state and local paid leave laws for companies that offer their workers both more flexibility and paid leave. This voluntary approach would shift the costs of paid leave from taxpayers or workers themselves to companies. In return, companies will avoid one-size-fits-all mandates that make it difficult to manage employee relations most productively. This option should be especially attractive to multi-state businesses, which otherwise will have to navigate a maze of different regulatory regimes.

This proposal would not relieve any company of the responsibility to offer paid leave; companies that don't offer their own plans would continue to be subject to state mandates. Nor would it preempt unpaid leave laws. On the contrary, it would complement the federal Family and Medical Leave Act (FMLA), which provides job-protected unpaid leave for the approximately 60 percent of employees covered.<sup>35</sup> In tandem, the voluntary approach and the FMLA could give

workers more flexibility while reducing regulatory burdens on employers. They would help our country increase work participation rates and boost worker productivity.

## Innovate our way to clean growth

America urgently needs a more innovative energy strategy that simultaneously advances two vital national interests: powering economic growth and assuring a healthy environment.

What we have, instead, is a stalemate, as left and right push irreconcilable energy visions that ignore inconvenient truths. Conservatives simply wish away solid scientific evidence that greenhouse gases are damaging the earth's climate, perhaps irreversibly. Such denial is the flat-earthism of the 21st century. On the other side, green purists exaggerate the hazards of shale oil and gas production as well as nuclear power, imagining that we can quickly leapfrog our fossil-fuel-powered economy to an immaculate future of renewable energy, at little economic cost. (The U.S. Energy Information Agency estimates that renewable fuels will meet only 18 percent of demand by 2040.<sup>36</sup>)

Progressives must break this impasse by charting a realistic course for America's transition to a low-carbon future. To command broader political support, such a strategy should recognize that, for the foreseeable future, the United States and the world will

34 Proposal being floated by SHRM, <http://www.shrm.org>

35 The Council of Economic Advisors, "Work-Life Balance and the Economics of Workplace Flexibility," June 2014, [https://www.whitehouse.gov/sites/default/files/docs/updated\\_workplace\\_flex\\_report\\_final\\_0.pdf](https://www.whitehouse.gov/sites/default/files/docs/updated_workplace_flex_report_final_0.pdf).

36 U.S. Energy Information Administration, Annual Energy Outlook 2015, April 14, 2015, [https://www.eia.gov/forecasts/aeo/section\\_prices.cfm](https://www.eia.gov/forecasts/aeo/section_prices.cfm).

have to tap all fuels—fossil, nuclear, and renewable—to meet growing energy demand and sustain global economic growth. At the same time, our strategy should include setting a price on carbon to curb greenhouse gas emissions while also driving investment into clean and efficient energy.

By sensibly weighing and managing environmental risks, we can fulfill the commitments U.S. leaders made at last year’s Paris climate summit without adverse economic impact. Key steps include enhancing the efficiency of buildings, appliances, and cars; modernizing our energy-leaking electrical grid; a carbon tax or cap and trade system to shift our energy mix away from the most carbon-intensive fuels; and, developing cost-effective ways to capture and store carbon.

Energy innovation, in short, is the key to reconciling the imperatives of economic growth and environmental stewardship. Yet public investment in energy innovation through the Department of Energy (DOE) is underwhelming—around \$5 billion.<sup>37</sup> The American Energy Innovation Council reports that “the United States spends less on energy research, development and deployment (RD&D) than it does on potato and tortilla chips.”<sup>38</sup>

Exciting new technologies are nonetheless within our reach—clean vehicles (including heavy duty trucks) powered by natural gas, better batteries, and biofuels; next-genera-

37 “Restoring American Energy Innovation Leadership: Report Card, Challenges, and Opportunities,” American Energy Innovation Council, February 2015, <http://americanenergyinnovation.org/wp-content/uploads/2015/02/AEIC-Restoring-American-Energy-Innovation-Leadership-2015.pdf>.

38 Ibid.

tion nuclear reactors that are smaller, safer and cheaper to build; a “smart” grid that enables real-time pricing and accommodates wind and solar power; and, additive manufacturing, which is much less resource- and energy-intensive than traditional industrial processes.

Thanks to breakthroughs in exploration and drilling techniques, America is reaping the benefits of a shale boom that has turned old assumptions about energy scarcity on their head. The United States has become the world’s biggest natural gas producer, and our oil production has skyrocketed since 2006. Massive private investment in shale energy has generated tens of thousands of middle class jobs (though plunging oil prices recently have led to cutbacks.)

Abundant supplies and lower fuel costs have given U.S. manufacturers a competitive boost, while also making America a more attractive place for foreign companies to set up production. Surging U.S. energy production also is reshaping the world’s geopolitical landscape, adding to America’s arsenal of “soft” power while undercutting the economic leverage of petro-states such as Russia, Iran, and Venezuela. U.S. net oil imports have been cut nearly in half, reducing our trade deficit and making our economy less vulnerable to supply disruptions and price shocks.

Allowing U.S. oil and gas to flow into world markets will enable our friends and allies to diversify their energy portfolio and reduce their dependence on unstable or unfriendly suppliers. Japan, for example, imports about 83 percent of its oil from the Middle East. European leaders, leery of the continent’s

heavy reliance on Russian gas and oil, are calling on Washington to ease restrictions on U.S. energy exports, and to add an energy chapter to the Transatlantic Trade and Investment Partnership (TTIP) agreement.

In light of the economic and security benefits, Democrats can only lose credibility with the public by parroting green activists who exaggerate the dangers of fracking or demand that America’s shale windfall be kept “in the ground.” As long as fossil fuels contribute a significant (if gradually declining) share of the energy Americans use, it’s better to tap our own resources than to grow more dependent on imports.

At this point, moreover, the United States is reaping major environmental gains from the shale boom as electric utilities switch from burning coal to natural gas, which emits less carbon. According to the U.S. Energy Information Administration, fuel switching was the most important factor in a 15 percent drop in carbon emissions between 2005-2014.<sup>39</sup>

Navigating by the beacon of science rather than ideology, progressives ought to embrace a pragmatic strategy of innovating our way to clean growth, including these steps:

## Enact a nationwide carbon tax

A long-term carbon pricing policy is the real catalyst for America’s transition to a low-carbon economy. A tax on carbon emissions would act as a powerful market signal,

39 U.S. Energy Information Agency, “U.S. Energy-Related Carbon Dioxide Emissions, 2014,” November 23, 2015, <https://www.eia.gov/environment/emissions/carbon/>.

driving investment into low or no carbon clean tech, wind and solar energy development, and next generation nuclear power. As mentioned, to avoid the most catastrophic impacts of global warming, the International Energy Agency (IEA) warns that government needs to triple clean energy investment spending.<sup>40</sup>

A carbon tax would raise substantial revenue—over \$100 billion annually in one proposal—which could be recycled back into the economy through corporate and personal tax reform, increased federal research and development on clean tech, and measures to help coal miners and other workers hit hardest by the transition.<sup>41</sup>

A comprehensive carbon tax should eventually replace the existing patchwork of federal policies aimed at promoting efficiency and low-carbon alternatives—fuel economy standards, tax credits for renewables like wind and solar; biofuel mandates; and, perhaps President Obama’s Clean Power Plan. That plan, while better than nothing, only covers the power sector and won’t get the United States anywhere near meeting its commitments made in Paris. A carbon tax would cover all greenhouse gas emissions—30 percent are generated in the transportation sector—and would do so without top-down mandates and heavy-handed

40 <http://www.iea.org/newsroomandevents/pressreleases/2015/may/clean-energy-innovation-essential-to-meeting-climate-goals.html>

41 Sebastian Rausch and John Reilly, “Carbon Tax Revenue and the Budget Deficit: A Win-Win-Win Solution?,” MIT Joint Program on the Science and Policy of Global Change No. 228, August 2012, [http://globalchange.mit.edu/files/document/MITJPSGC\\_Rpt228.pdf](http://globalchange.mit.edu/files/document/MITJPSGC_Rpt228.pdf).

regulation. Would Republicans rethink their opposition to a carbon tax in exchange for getting rid of a slew of energy regulations they despise? We should find out.

## Speed development of “next generation” nuclear energy

Nuclear power is by far America’s biggest single source of low-carbon energy. It is difficult to see how the United States will fulfill its pledge in Paris to cut greenhouse gas emissions 26-28 percent by 2030 without adding nuclear capacity. Unfortunately, the trend is in the opposite direction, as utilities announce plans to close existing plants for economic reasons. Rumored for shuttering, for example, is California’s last nuclear plant at Diablo Canyon. Diablo supplies eight percent of the state’s power, twice as much as all of California’s solar panels.

A nationwide carbon tax would make carbon-free nuclear energy more competitive and thus help keep existing plants operating. Our country needs clean “baseload” power to serve as a bridge to renewables, because the sun doesn’t shine at night and the wind doesn’t always blow.

U.S. leaders also should act to speed the development of a new generation of nuclear reactors. Often motivated by climate concerns, U.S. entrepreneurs, including Bill Gates, have teamed up with nuclear scientists to test designs that are smaller, safer and less costly to build and operate than traditional light-water reactors.<sup>42</sup> Some can also run on



spent fuel, which would reduce both proliferation risks and the amount of toxic waste we need to store. By reducing the costs and risks of nuclear generation, such innovations can help the United States and other countries meet growing demand for energy while also cutting carbon emissions.

Yet Washington has not done its part to support and accelerate these promising nuclear breakthroughs. Despite years of effort, the Nuclear Regulatory Commission (NRC) has yet to acquire the expertise to establish a clear regulatory path for approving and licensing new designs. The United States also lacks sufficient national testing facilities where new technologies can be tested, refined and prototyped. As a result, Gates’ TerraPower venture has had to form partnerships with the Russian and Chinese governments for testing and development of its sodium-cooled fast reactor.<sup>43</sup>

Congress should act to prevent the United States—which invented civilian nuclear power after World War II—from ceding the industry’s future to our economic competi-

42 Forthcoming nuclear energy report by PPI’s Derrick Freeman, <http://www.progressivepolicy.org/author/dfreeman/>.

43 Dan Yurman, “TerraPower announces new CEO,” Neutron Bytes, July 19, 2015, <http://neutronbytes.com/2015/07/18/terrapower-announces-new-ceo/>.

tors. It should take up bipartisan legislation that would enable the DOE to expand its testing labs, and direct the NRC to acquire the expertise it needs to review and license next generation technologies.

Representatives Randy Weber (R-Texas) and Eddie Bernice Johnson (D-Texas) have introduced a House bill that directs the DOE to establish a research facility where private partners could test next generation reactors.<sup>44</sup> A similar bill was introduced in the Senate by Senator Mike Crapo and two of the Senate's leading climate warriors, Senators Sheldon Whitehouse (D-RI) and Cory Booker (D-NJ).<sup>45</sup> As of March 2016, both bills have passed their respective bodies and are now included in the comprehensive energy bill<sup>46</sup> working its way through the Senate.

In addition to sites where entrepreneurs can demonstrate proof of concept, swifter NRC review and licensing is imperative. One idea is to adopt a test-then-license approach akin to the approval process for new drugs from the FDA. The current NRC certification process is “all or nothing,” without interim levels of approval or acceptance. That makes it a crashout for investors. In contrast, the FDA has distinct mileposts, starting with pre-clinical trials, Phase I, II, and III trials, and finally a new drug application.

Change at the NRC won't happen by itself. U.S. lawmakers need to give NRC clear mandates and the resources to carry them out. In the 2015 omnibus spending bill, Con-

44 H.R. 4084, 114th Congress (2015-2016).

45 S. 2461, 114th Congress (2015-2016).

46 Energy Policy Modernization Act of 2015, S. 2012, 114th Congress (2015-2016).

gress failed to include additional funding for advanced reactor design certification and licensing. Progressives should work to rectify this mistake.

## Jump start the smart grid

America's outdated electrical grid poses a serious obstacle to energy innovation. Designed to transmit fossil fuel powered energy 24/7 in one direction, the grid can't accommodate increasing amounts of wind and solar energy that flow from houses and businesses and fluctuate with passing clouds.

A January 2016 Bloomberg New Energy Finance report on clean energy investment found that the U.S. poured \$56 billion into renewable energy projects.<sup>47</sup> We need a smart, interactive grid to bring that “distributed energy” online to power our homes and businesses. With smart inverters, meters, digitized appliances and broadband connectivity, a smart grid also would allow consumers to manage their energy use more efficiently. Backstopped by new energy storage technologies, the smart grid would be more reliable, secure, and resilient against natural or man-made disasters. Modernizing the grid, in fact, is arguably America's biggest and most important infrastructure challenge, one roughly estimated to cost \$338-476 billion.<sup>48</sup>

47 Bloomberg New Energy Finance, “Clean Energy Defies Fossil Fuel Price Crash to Attract Record \$329bn Global Investment in 2015,” Bloomberg, January 14, 2016, <http://about.bnef.com/press-releases/clean-energy-defies-fossil-fuel-price-crash-to-attract-record-329bn-global-investment-in-2015>

48 Paul Weinstein, “Give Our Kids a Break: How Three-Year Degrees Can Cut the Cost of College,” Progressive Policy Institute, September 17, 2014, <http://www.progressivepolicy.org/issues/economy/give-kids-break-three-year-degrees-can-cut-cost-college/>.

While state regulators, utilities, and energy entrepreneurs are the key drivers of upgrading the grid, government can do more to encourage private investment and accelerate progress. For example, progressives should support a bill by Sen. Martin Heinrich that would ease the siting of essential transmission infrastructure by restoring the Federal Energy Regulatory Commission’s authority to rule on some transmission line proposals blocked by state regulators.<sup>49</sup> The United States will need thousands of miles of new transmission lines to bring new wind and solar energy power to market, and states will need more low-carbon energy to comply with the Clean Power Plan, if it survives legal challenges.

Both the states and the federal government have jurisdiction over parts of the grid. This makes it difficult to develop common standards that would allow a smart, interoperable grid to work everywhere. For example, standards will enable utilities and smart meters to “talk” to one another and distributed generators to put their energy on the grid. They also will determine how electric vehicles plug into and communicate with the grid, how consumers’ can more efficiently manage their domestic energy use, and more. In the near term, state Public Utility Commissions will play a central role in setting interoperability standards, but they will need federal guidance to ensure that the smart grid works everywhere.

49 S. 1017, 114th Congress (2015-2016).

## Lift outdated bans on U.S. natural gas exports

Last year, in a rare victory for common sense in Washington, Congress repealed a 1975 law banning U.S. oil exports.<sup>50</sup> It should follow suit quickly by giving the green light to natural gas exports. Thanks to the shale revolution, the United States has reemerged on the world stage as an energy superpower. While plummeting oil and gas prices has slowed domestic production for now, it’s bound to resume at some point when growth picks up in Europe and Asia. There are also compelling strategic reasons to restoring free trade in energy. Our European allies and Japan have urged Washington to help them lessen their dependence on energy from Russia and Iran, respectively.

## Democratize trade

Progressives can’t logically be for economic innovation and growth and against trade. Boosting U.S. exports is a proven way to make our economy grow faster. Conversely, protecting domestic industries from trade impedes growth by dampening their incentives to innovate, boost productivity, and compete globally.

Many Americans, nonetheless, feel threatened by international change. The shift of manufacturing to East Asia and other countries with relatively cheap labor has cost many blue collar workers their jobs. Wash-

50 Matthew Daly, “Energy, environment provisions in year-end budget deal give both sides reasons to cheer,” U.S. News & World Report, December 17, 2015, <http://www.usnews.com/news/politics/articles/2015-12-17/budget-deal-bill-boosts-oil-exports-renewable-energy>.

ington clearly must do more (for example, see the section below: *Create new pathways into middle class jobs*) to help workers displaced by technological change and trade to acquire new skills and find new jobs and careers. But we do working Americans no favor by promising to preserve or bring back labor-intensive production jobs that can be done cheaper by machines or low-paid foreign workers, especially if other countries retaliate and close their markets. America's future lies in an open global knowledge economy that supports well-paying jobs in sectors where we enjoy comparative advantages—including digital innovation, sophisticated services, and additive and intelligent manufacturing enabled by the marriage of IT and the physical economy.

Since Franklin Roosevelt's day, Americans have understood that trade is integral to U.S. prosperity and security, and that protectionism is a recipe for economic stagnation. Now that free trade consensus, under assault from the right and left, seems to be unraveling.

Donald Trump, whose vaunted Ivy League education apparently did not acquaint him with the concept of comparative advantage, views trade as a zero-sum game that America has been losing. To Sen. Sanders and the populist left, trade is part of the conspiracy by "billionaires and Wall Street" to enrich themselves at U.S. workers' expense.



Democrats, historically America's free trade party, should be leery of aligning themselves with these voices of economic reaction. Around the country, a significant majority of the Democratic rank and file views trade and trade agreements as generally good for America.<sup>51</sup>

But the party's Washington establishment, under pressure from a well-funded phalanx of labor and other anti-trade allies, has failed to rally around President Obama's progressive trade agenda. It has always been an easy political argument to blame the Chinese, or the Japanese, or the Mexicans for our economic problems rather than address real, underlying issues. Protectionism, however, won't help America's working class; it will only raise their cost of living and slow economic growth.

As Obama recognizes, trade agreements that lower tariffs and raise labor standards enable U.S. companies and entrepreneurs to tap surging demand in key foreign markets. In past decades, America's middle class

51 "Americans Remain Upbeat About Foreign Trade," Gallup, February 26, 2016, [http://www.gallup.com/poll/189620/americans-remain-upbeat-foreign-trade.aspx?g\\_source=Economy&g\\_medium=newsfeed&g\\_campaign=tiles](http://www.gallup.com/poll/189620/americans-remain-upbeat-foreign-trade.aspx?g_source=Economy&g_medium=newsfeed&g_campaign=tiles).

fueled much of the demand that drove rapid growth across East Asia. Now an exploding middle class in Asia has the potential to return the favor. Over the next 15 years, Asian countries will add some two billion new middle class consumers to the global economy.<sup>52</sup>

What's more, with the growth of the Internet and services such as eBay, Amazon, PayPal, UPS, and FedEx, a small American firm or entrepreneur with a great product or service has the potential to sell globally as easily as a larger competitor. The rise of digital platforms points toward a striking opportunity to democratize trade's benefits, extending them beyond big multinational corporations to innumerable small enterprises and sellers throughout the United States.<sup>53</sup>

As a practical matter, U.S. companies and entrepreneurs will continue looking for opportunities to export and develop global supply chains for their products. Americans aren't going to stop trading; the only question is whether Washington will continue to

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"TPP also advances key U.S. foreign policy goals in Asia. It would create a liberal free trade zone that would act as a powerful counterweight to the region's dominant economy, China."

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52 Ed Gerwin, "The Obama Trade Agenda: Five Things for Progressives to Like," The Progressive Policy Institute, February 2015, [http://www.progressivepolicy.org/wp-content/uploads/2015/02/2015.02-Gerwin\\_The-Obama-Free-Trade-Agenda.pdf](http://www.progressivepolicy.org/wp-content/uploads/2015/02/2015.02-Gerwin_The-Obama-Free-Trade-Agenda.pdf)

53 Ed Gerwin, "The Digital Opportunity: Democratizing Trade for the 99 Percent," The Progressive Policy Institute, May 5, 2015, <http://www.progressivepolicy.org/issues/economy/the-digital-opportunity-democratizing-trade-for-the-99-percent/>

lead in setting and enforcing fair and reciprocal rules for world trade, or whether we'll let competitors like China usher in a new era of mercantilism.

## Support trade agreements that open foreign markets and lift standards in developing countries

Obama's proposed Trans-Pacific Partnership (TPP) agreement includes 12 regional economies representing nearly 40 percent of global GDP. It would require U.S. trading partners not only to lower tariff and nontariff barriers to U.S. goods and services, but also to raise their labor, environmental and human rights standards.<sup>54</sup> Democratic critics of trade, who have been demanding exactly that for decades, should take "yes" for an answer from a liberal Democratic President.

TPP also advances key U.S. foreign policy goals in Asia. It would create a liberal free trade zone that would act as a powerful counterweight to the region's dominant economy, China. The White House also is negotiating the Transatlantic Trade and Investment Partnership (TTIP), which has potential to revive the long-neglected economic partnership with our European allies. Both regional pacts reflect America's enduring commitment to economic internationalism, which since World War II has created a framework of liberal rules that enable both advanced and developing countries to prosper. If the United

54 Ed Gerwin, "TPP and the Benefits of Freer Trade for Vietnam: Some Lessons from U.S. Free Trade Agreements," Progressive Policy Institute, September 2015, [http://www.progressivepolicy.org/wp-content/uploads/2015/09/2015.09-Gerwin\\_TPP-and-the-Benefits-of-Freer-Trade-for-Vietnam2.pdf](http://www.progressivepolicy.org/wp-content/uploads/2015/09/2015.09-Gerwin_TPP-and-the-Benefits-of-Freer-Trade-for-Vietnam2.pdf).

States were to abandon that role, the vacuum would likely be filled by the kind of economic nationalism practiced by China and “beggar thy neighbor” trade wars.

## Promote the free flow of data

Cross-border data flows are growing exponentially and making an enormous, if largely unmeasured, contribution to economic growth. Unlike a good or service, data can be used by many people at the same time. In this sense, it’s more like an investment than an export or import. Countries connected by the free flow of data will mutually reap the benefits of intangible investment. Yet this new kind of digital commerce faces mounting barriers as some foreign governments adopt or consider an array of restrictions on the Internet and digital commerce. A new Russian law, for example, requires technology platforms like Google to keep Russian users’ data within the country. Other countries are mulling “localization” requirements that would force technology companies to build local data centers. The European Union has adopted a strict data protection (privacy) law that many U.S. firms fear could undermine their data-driven business models.<sup>55</sup> Meanwhile, Russia and China are pushing to subject the Internet to international regulation.

Given the mutual economic advantages that arise from digital innovation and cross-border data flows, progressives should resist the Balkanization of the Internet and digital protectionism. This is another argument in

55 Larry Downes, “The Business Implications of the EU-U.S. ‘Privacy Shield,’” Harvard Business Review, <https://hbr.org/2016/02/the-business-implications-of-the-eu-u-s-privacy-shield>.

favor of TPP, which breaks new ground by extending to digital trade many of the same protections that trade in goods and services currently enjoy.

## Seize the opportunity to “democratize” trade

With some three billion people—almost half the world’s population—now connected to the Internet, global commerce increasingly depends on digital links. The Internet economy and global e-commerce are radically reshaping international trade by changing both how the world trades and who can trade.<sup>56</sup> Lower communications and transportation costs make it increasingly possible for American firms of all sizes—particularly smaller exporters—to sell to customers around the world. As one recent study puts it, because of e-commerce, “cross-border trade is no longer an activity exclusive to global corporate elites.” eBay, for example, reports that 97 percent of its commercial sellers are exporters, and that 81 percent of these micro-exporters sell to five or more foreign markets. Here again, TPP includes pioneering provisions to help small and medium-sized enterprises to export. It would significantly reduce high duties, regulatory barriers, and customs delays that place disproportionate burdens on smaller traders.

56 Ed Gerwin, “The Digital Opportunity: Democratizing Trade for the 99 Percent,” Progressive Policy Institute, May 5, 2015, <http://www.progressivepolicy.org/issues/economy/the-digital-opportunity-democratizing-trade-for-the-99-percent/>.



## PART 2

# Align Fiscal Policy with Innovation and Growth

U.S. fiscal policies—on both the tax and spending side—are badly aligned with the imperatives of economic investment, innovation, and growth. They tend to favor consumption over investment, misdirect resources and damage U.S. competitiveness. They are linked in the public's mind to growing tax burdens on already-squeezed families, congested roads and airports, and politically driven spending that benefits powerful claimants rather than the common interests of all Americans.

For example, Washington for decades has chronically underinvested in transportation and other modern infrastructure that can make our workers and companies more productive. Meanwhile, our mind-numbingly complicated federal tax code distorts invest-

ment decisions, gives special breaks to the politically connected and perversely encourages U.S. companies to invest and park profits abroad.

Defending the fiscal status quo, as too many Democrats are doing today, is a formula for slow growth and national decline. Progressives should insist on radical change, and advance bold ideas for pro-growth tax reform as well as a shift in federal spending from massive entitlement programs that support present consumption to investments that enlarge America's productive capacities.

## Pro-growth tax reform

America's antiquated federal tax system is the worst of all worlds. It is riddled with revenue-leaking loopholes and preferences that distort investment decisions, lock in economic inefficiency, and give wealthy households bigger tax breaks than low- and middle-income families. From the standpoint of economic investment, job creation, and productivity, our tax system taxes income, labor and savings too much, and consumption too little. And, from a public finance perspective, federal tax policies aren't even accomplishing their basic mission of raising enough revenue to fund the government.

Adding insult to injury, the U.S. tax system also fails on another important dimension: simplicity. Decades of tinkering and tweaking has created an insanely complicated and inequitable tax system that Americans neither understand nor trust.

For all these reasons, pro-growth progressives should give top priority to modernizing the federal tax system. What we have in mind goes well beyond the "broaden the base, lower the rates" approach of the last major reform in 1986. To make the tax system a catalyst for enterprise and growth, more fundamental changes are required.

We propose a three-part plan for progressive tax reform:

## Shift the basis of federal taxation from income to consumption

We can promote both fairness and growth by adding a broad consumption or Value Added Tax while reducing or eliminating the income tax on poor and middle class Americans. Taxing consumption more and income less will boost economic growth by increasing the incentive to save, invest and work. What's more, high-income individuals and corporations cannot evade a value-added tax, which is built into everything that they buy. There are lots of crucial details to be worked out in designing a workable and progressive consumption tax, including whether medical care and other necessities are taxed. Ultimately, however, it's the best way to purge our existing system of inequities and inefficiencies, and to raise revenues in a manner most conducive to economic investment and growth.

A shift to consumption taxes would also strike a blow for simplicity. As CEA chief Furman notes, "This challenge stems from the fact that most of the complexity in the tax code derives from efforts to accurately measure an abstract concept of income, not from taking particular deductions or exclusions that cause taxable income to deviate from that abstraction."<sup>1</sup>

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1 Jason Furman, "Thirty Years Without Fundamental Reform: Policy, Politics, and the Federal Tax Code," presentation at the New York State BAR Association Tax Section, January 26, 2016, [https://www.whitehouse.gov/sites/default/files/page/files/20160126\\_thirty\\_years\\_without\\_fundamental\\_reform\\_policy\\_politics\\_federal\\_tax\\_code.pdf](https://www.whitehouse.gov/sites/default/files/page/files/20160126_thirty_years_without_fundamental_reform_policy_politics_federal_tax_code.pdf).

## Cut the top business tax rate to 15 percent

U.S. business taxes have become a major competitive liability for American companies. While other developed countries have lowered their business taxes to attract investment, our top corporate rate is still stuck at 35 percent (40 percent including state taxes)—the highest in the advanced world. In contrast, the United Kingdom’s top rate is 20 percent. What’s more, several European countries have instituted “patent boxes” or “innovation boxes,” which offer even lower rates for companies that do intellectual property development in those countries.<sup>2</sup>

These moves by other advanced countries are a huge problem because in today’s global markets, business operations can be easily moved to take advantage of low taxes. That creates a strong incentive for U.S.-based companies to shift workers abroad, or move their headquarters to other countries, or, worse yet, simply sell out to foreign competitors. And while U.S. lawmakers love to hold hearings to express outrage at these practices,<sup>3</sup> they have been derelict in their responsibility to bring business tax rates and policies in line with those of our global competitors.

Even as high domestic tax rates induce U.S. firms to invest overseas, America is one of the few countries that adheres to a “worldwide” system of taxation. The combined effect is to ensure that foreign earnings get taxed twice, once in the country where they operate, and again in the United States. One predictable result is that U.S. companies don’t bring all of their profits home to America. They have parked roughly \$2 trillion in “unrepatriated profits” abroad. Furman calls it a “stupid territorial” system, adding, “...while collecting little revenue, we still manage to impose substantial distortions by creating an incentive to undertake complex and inefficient tax reduction and capital structure strategies to keep earnings located overseas.”

Bringing U.S. business tax rates in line with the rest of the world will eliminate the code’s perverse incentive to move investment and production offshore.<sup>4</sup> In fact, a globally competitive rate will entice more foreign investment to the United States. Populists, who often seem to have a moral objection to profits, will no doubt object to cutting business tax burdens. But reducing our reliance on corporate income taxes reflects an incapable reality of today’s global economy: As companies move money and intangible assets easily around the world, it is becoming more difficult for any country to tax their income.

2 Michael Mandel and Michelle Di Iorio, “Should the United States Adopt an Innovation Box?: The Post-BEPS Landscape,” The Progressive Policy Institute, “October 9, 2015, <http://www.progressivepolicy.org/issues/economy/should-the-united-states-adopt-an-innovation-box-the-post-beps-landscape/>.

3 Will Marshall, “Don’t blame Apple; blame the tax code,” CNN, May 23, 2013, <http://www.cnn.com/2013/05/23/opinion/marshall-apple-taxes/index.html>.

4 Michael J. Graetz, Statement at a Hearing of the House Ways and Means Committee on Tax Reform and Consumption-Based Tax Systems, July 26, 2011, [http://waysandmeans.house.gov/UploadedFiles/Graetz\\_Testimony.pdf](http://waysandmeans.house.gov/UploadedFiles/Graetz_Testimony.pdf).



## Lower taxes on innovation and labor

The revenue raised by taxing consumption of most goods and services, supplemented by a nationwide carbon tax, will enable policy-makers to lower tax burdens on activities we want to encourage, namely entrepreneurship and work. For example, one of the nation’s leading proponents of moving to a VAT, Michael Graetz of Columbia University, calls for exempting small enterprises from the tax.<sup>5</sup>

Progressives also should keep pressing to expand the Earned Income Tax Credit (EITC) for childless workers and noncustodial parents. Unfortunately, some Democrats have echoed Senator Sanders’ call to raise payroll taxes. In fact, this is the very last tax progressives should consider increasing. That’s because the payroll tax is a direct tax on labor; raising it will discourage employers from hiring, especially low-skill workers.

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5 Ibid.

These three steps would transform America’s archaic tax system into one better suited to the digital, globalized economy of the 21st century. It would be both simpler and fairer, and more favorable to productive investment, growth and U.S. competitiveness.

## Modernize Public Works

Barack Obama is thinking big as his presidency enters the final stretch. The centerpiece of his final budget is a \$300 billion plan for a “clean transportation system” — the biggest federal infrastructure push since President Eisenhower launched the interstate highway system. Here at last is a fix that’s equal to the magnitude of America’s immobility crisis. In polarized Washington, however, it’s going nowhere.

Obama called for a \$10-per-barrel oil tax to pay for his ambitious plan. There’s no way a Republican-dominated Congress will vote for a new energy tax, even with oil prices down to around \$30 a barrel. House Speaker Paul Ryan dismissed the plan as “an election-year distraction.” Nor can the White House expect many Democratic candidates to rally around what is essentially a middle-class tax hike.

Obama knows all this, but he is determined to ensure that two issues on which he’s made frustratingly little headway — clean energy and infrastructure investment — stay high on the nation’s political agenda.

It's hard to imagine a more urgent national priority than modernizing America's decrepit transportation and water systems and updating our energy-wasting electrical grid.

But unless a bridge collapses or a train derailed, the media doesn't pay much attention, either. Let's face it: Infrastructure bores political reporters,<sup>6</sup> who would rather cover Hillary Clinton's emails or Donald Trump's insults. Part of the problem may be the word itself, a clunky, Latinate mouthful only an engineer could love. Our own preference is "public works," which evokes the great dam, rail, and highway projects that opened vast swaths of our country to economic development

The deterioration of our country's economic infrastructure has long been glaringly obvious, but U.S. political leaders have failed to coalesce behind policies for reversing it. A big reason is that Congress is controlled by a new breed of Republicans who regard all federal spending with kneejerk hostility. Conservative lawmakers seem to have lost the ability to distinguish between investments that generate tangible economic returns to society and spending that fuels present consumption.

It's hard to imagine a more urgent national priority than modernizing America's decrepit transportation and water systems and updating our energy-wasting electrical grid.

Saddled with run-down and insufficient infrastructure, Americans are losing time, mobility, energy, productivity, and competitiveness.<sup>7</sup>

Beyond these costs of neglect and deferred maintenance, however, lies a political problem: The breakdown of consensus behind vigorous national leadership on public works.

During the Cold War, a Republican President and Democratic Congress joined hands to launch the interstate highway system. That project has long been completed, yet there's been no systematic attempt to rethink the federal government's role in building public works. Sticking with business as usual seems the easier course, since it doesn't threaten to interrupt the flow of resources from Washington to the states.

6 John Oliver, "Last Week Tonight with John Oliver: Infrastructure," HBO Video Clip, YouTube, <https://www.youtube.com/watch?v=Wpzvaqypav8>.

7 A 2014 U.S. Treasury Department report catalogues such losses: The costs of underinvestment in infrastructure are massive. Drivers in the United States annually spend 5.5 billion hours in traffic resulting in costs of \$120 billion in fuel and lost time. U.S. businesses pay \$27 billion in additional freight costs because of the poor conditions of roads and other surface transportation infrastructure. The electric grid's low resilience leads to weather-related outages that cost the U.S. economy between \$18 billion and \$33 billion each year, on average. Due to continuing deterioration of water systems throughout the United States, each year there are approximately 240,000 water main breaks resulting in property damage and expensive service interruptions and repairs.

Thus, GOP congressional leaders congratulated themselves mightily after passing a modest, \$305 billion, five-year highway bill extension in December. Hailed as a return to “regular order,” this utterly conventional bill at best perpetuates a status quo that has relegated the United States to twelfth place in international rankings of infrastructure quality.<sup>8</sup>

The challenge goes well beyond pouring more money into repair and maintenance of existing public facilities. These are chiefly state and local responsibilities, and have traditionally been funded by municipal debt. Washington should focus instead on innovative ways to provide and pay for the new, technologically sophisticated infrastructure Americans need to compete in a global, knowledge economy—a wish list that includes high-speed intercity rail; metro transit and rapid bus lines; intelligent highways; satellite navigation for airline routes; a smart power grid that can accommodate wind and solar power; and updated drinking and wastewater systems, among others. Making this vision for infrastructure a reality will require a radical rethinking of Washington’s role in building public works.

Some of our biggest infrastructure challenges are mainly private responsibilities. For instance, utilities will have to take the lead in building a smart, two-way power grid that encourages more efficient electricity use, accommodates rising volumes of solar and wind power, and is more resilient against natural and man-made disasters. We also

8 World Economic Forum, “Global Competitiveness Report 2014-2015: United States GDP per Capita,” <http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#indexId=GCI&economy=USA>.

need to sustain robust private investment in broadband to support innovations like driverless cars and the coming “Internet of Things,” and to move America from 4G to 5G wireless networks. Critical upgrades to eliminate chokepoints in the nation’s 145,000-mile freight rail network also will be funded mainly by private companies.

Yet government can facilitate private initiative by lowering regulatory barriers to investment and, in the case of mobile broadband, by freeing spectrum. National investments in energy R&D, especially for storing power generated by intermittent sources like wind and solar, can hasten grid modernization. But as a general rule, it makes little sense for governments to divert revenues from public goods undersupplied by markets—like roads and bridges, drinking and wastewater systems, or modern school buildings—to infrastructure that private companies can profitably build and maintain.<sup>9</sup> Governments do have a legitimate interest in making sure all citizens have access to the grid and the Internet, but it can best achieve such goals by creating incentives for private actors to deliver universal service.

Whether we’re talking about public or private infrastructure, Washington’s most important job isn’t to build anything. It’s to think strategically about our economic needs, set national priorities, and create strong incentives for states, local governments, and private investors to collaborate in doing the work. The federal role should be to catalyze

9 Michael Mandel and Diana G. Carew, “Innovation in a Rules-Bound World: How Regulatory Improvement Can Spur Growth,” Progressive Policy Institute, December 10, 2015, <http://www.progressivepolicy.org/issues/economy/innovation-in-a-rules-bound-world-how-regulatory-improvement-can-spur-growth/>.

investment in high-value public works on a scale sufficient to spur more indigenous innovation and put America back on a high-growth trajectory.

Specifically, here are four ways to bring national infrastructure policy into the 21st century:

## Congress should use dynamic scoring to assess the true fiscal impact of spending on public works

Conventional budgeting in Washington fails to capture the impact of infrastructure spending on the overall size of the U.S. economy. It ignores spillover effects—for example, when spending by workers hired to build a new road or transit system creates local demand that leads to additional job creation—as well as long-term gains in productivity as more and better infrastructure enables us to more efficiently move ideas, people, and products.

Reviewing a slew of post-recession studies, PPI found irrefutable evidence that infrastructure spending has a large, positive “multiplier” effect on the economy. Every dollar spent on transportation infrastructure, for example, generated an increase in economic growth between \$1.5 and \$2.<sup>10</sup>

10 Robert P. Jones, Daniel Cox, Betsy Cooper, and Rachel Lienesch, “Anxiety, Nostalgia, and Mistrust: Findings from the 2015 American Values Survey,” Public Religion Research Institute, November 17, 2015, <http://publicreligion.org/site/wp-content/uploads/2015/11/PRRI-AVS-2015.pdf>.

Another recent study by PPI chief economic strategist Michael Mandel and Douglas Holtz-Eakin, former head of the Congressional Budget Office (CBO), estimated conservatively that every dollar of additional infrastructure spending adds 80 cents to national output (assuming there is slack in the economy, as there is today).<sup>11</sup> Spillover gains from new projects could offset as much as a third of the projects’ costs.

The authors urge CBO to score infrastructure spending “dynamically,” taking these growth and productivity effects into account when calculating its overall impact on the nation’s finances. In effect, dynamic scoring of infrastructure would be a step toward a federal capital budget that separates investments in future growth from consumption spending.

The distinction is crucial, even if it eludes today’s virulently anti-government conservatives. As any business knows, when credit is cheap it makes sense to borrow to expand production and use some of the increased revenue it generates to repay your loans. Conversely, some liberals need to be reminded of what any family knows: Borrowing to consume more than you earn is a fool’s errand that will land you in bankruptcy.

With real interest rates near zero, Washington should borrow now to enlarge the nation’s future productive capacities. Here U.S. progressives can draw inspiration from

11 Douglas Holtz-Eakin and Michael Mandel, “Dynamic Scoring and Infrastructure Spending,” McGraw Hill Financial Global Institute, July 6, 2015, <http://www.progressivepolicy.org/wp-content/uploads/2015/07/201507-MHFIGI-Dynamic-Scoring-AAF-PPI-Final.pdf>.

Canada's Liberal Party leader, Justin Trudeau, who last year won a sweeping victory pledging, among other things, to borrow to pay for a big bump in infrastructure investment.

## Open America's infrastructure market to private capital

A new approach to public works, however, cannot rely exclusively on public spending, whether it's funded by taxes or borrowing. Closing the nation's enormous infrastructure investment gap—estimated at about \$150 billion a year—also will require creative ways to tap private capital.<sup>12</sup>

It's already happening on a modest scale. Public-private partnerships (PPPs) are beginning to crop up around the country, building toll roads in Virginia and Texas and a tunnel in Miami, renovating the Gary, Indiana airport, and contributing to Denver's commuter and light rail FasTracks project alongside state and federal funding.

For some progressives, PPP is a loaded term that connotes privatization. Jonathan Trutt, executive director of the West Coast Infrastructure Exchange (WCX), speaks instead of "performance-based infrastructure" procurement.<sup>13</sup> This approach "keeps assets in public ownership and consolidates responsibility for the key phases of a project's full lifecycle—design, construction, and maintenance—into a performance-based contract

12 Susan Lund, James Manyika, Scott Nyquist, Lenny Mendonca, and Sreenivas Ramaswamy, "Game changers: Five opportunities for US growth and renewal," McKinsey Global Institute, July 2013, [http://www.mckinsey.com/insights/americas/us\\_game\\_changers](http://www.mckinsey.com/insights/americas/us_game_changers).

13 West Coast Infrastructure Exchange, "WCX's Performance-Based Infrastructure Project Screening Criteria," <http://westcoastx.com/about/pbi-project-screening-criteria.html>.

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"Conservative lawmakers seem to have lost the ability to distinguish between investments that generate tangible economic returns to society and spending that fuels present consumption."

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with a private partner," a WCX document explains. In this way, public authorities retain the "political risk" of assuring that projects serve the public interest, even as they share economic risks with private investors.<sup>14</sup>

To attract private capital, a partnership must produce a dedicated stream of revenue, either from user fees—say, from water bills or bridge tolls—or from government. The latter could take the form of "availability" payments, or contracts for operating and maintaining infrastructure assets. "The private sector, union pensions and public employee retirement funds are all strongly interested in partnering with state and local government to finance public infrastructure," says Trutt.<sup>15</sup>

Such collaborations can save taxpayers money. The Miami tunnel, for example, wound up costing 50 percent less than the state had originally projected. Crucially, how-

14 Diana Carew, "How Public-Private Partnerships Can Get America Moving Again," The Progressive Policy Institute, May 2014, [http://www.progressivepolicy.org/wp-content/uploads/2014/05/2014.05-Carew\\_How-Public-Private-Partnerships-Can-Get-America-Moving-Again.pdf](http://www.progressivepolicy.org/wp-content/uploads/2014/05/2014.05-Carew_How-Public-Private-Partnerships-Can-Get-America-Moving-Again.pdf).

15 Will Marshall, "A New Kind of Public Works," Democracy Journal, February 11, 2016, <http://democracyjournal.org/arguments/a-new-kind-of-public-works/>.

ever, PPPs do more than leverage private dollars; they inject greater market discipline into both the selection and management of new projects. According to the Treasury report:

*PPP contracts allow governments to introduce private sector capital, management and technical expertise into the project. When a PPP transfers economic risks to the private sector that it can manage more cost effectively, it creates value for taxpayers by lowering long-term project costs, improving the quality of services, or both.<sup>16</sup>*

In reality, though, private investment in public works remains minuscule. For example, it accounted for only about \$200 million of the \$81 billion spent on highway and street construction in 2013. Most PPPs have been concentrated in a handful of states, and 17 states don't permit them at all.<sup>17</sup>

There are some modest steps Congress could take immediately to open infrastructure markets to private capital. One is to support a White House proposal to allow state and local governments to issue more tax-exempt "private activity bonds" on behalf of private developers of all kinds of infrastructure projects. To encourage more foreign investors, including pension and sovereign wealth funds, lawmakers should also reform an existing law that slaps a 35 percent tax on their U.S. capital gains.

16 U.S. Department of the Treasury, Office of Economic Policy, *Expanding our Nation's Infrastructure through Innovative Financing*, September 2014, <https://www.treasury.gov/press-center/press-releases/Documents/Expanding%20our%20Nation%27s%20Infrastructure%20through%20Innovative%20Financing.pdf>.

17 Diana Carew, "How Public-Private Partnerships Can Get America Moving Again," *The Progressive Policy Institute*, May 2014, [http://www.progressivepolicy.org/wp-content/uploads/2014/05/2014.05-Carew\\_How-Public-Private-Partnerships-Can-Get-America-Moving-Again.pdf](http://www.progressivepolicy.org/wp-content/uploads/2014/05/2014.05-Carew_How-Public-Private-Partnerships-Can-Get-America-Moving-Again.pdf).

What Washington really needs, though, is a new institution that shifts the federal government's role toward priority-setting and innovative financing for public works. This could be a new National Infrastructure Bank or a financing facility like the \$50 billion American Infrastructure Fund proposed by Colorado Senator Michael Bennet and Maryland Representative John Delaney, both Democrats.<sup>18</sup>

In either case, what's envisioned is a self-financing, government-owned corporation that concentrates project finance expertise; uses loans and credit enhancements to leverage state, local, and private investment; and insulates project selection from the pork-barrel and logrolling culture of Capitol Hill. The Bennet-Delaney proposal requires that 25 percent of the Fund's lending go to public-private partnerships.

## Get serious about devolution

It's easy to despair over the breakdown in problem solving in Washington, but the picture gets brighter as you look around the country. Some states are raising taxes to finance infrastructure improvements, and creative metro leaders are forging new regional and public-private partnerships to repair and modernize infrastructure. In Chicago, for example, Mayor Rahm Emanuel set up a local infrastructure bank and has orchestrated major projects on rebuilding dilapidated subway stations, replacing leaking water pipes, connecting schools to broadband, and using loans to build a new Riverwalk.

18 Partnership to Build America Act of 2015, H.R. 413, 114th Congress (2015-2016).

Editorial writers love to excoriate politicians for lacking the guts to raise the federal gas tax, but it must be said that here members of Congress are faithfully reflecting their constituents' antipathy to further hikes. The question pundits ought to be asking is whether the federal highway program still serves a compelling national purpose

Inspired by innovative financing models in Canada, California, Oregon, and Washington have formed the West Coast Infrastructure Exchange, the first regional center for project finance expertise in the United States.<sup>19</sup> The Exchange intends to pool public resources and bundle small projects to create more attractive investment opportunities for private partners. Its aim is to catalyze \$1 trillion in performance-based infrastructure projects over the next three decades.

What's happening, in short, is that leadership on tackling America's infrastructure crisis seems to be passing from Washington to the states and, even more, to the nation's big metro centers. This development could be seen as a heartening display of the adaptive genius of U.S. federalism. Yet states

and localities still need a competent federal partner, both to set national priorities and to buttress their limited fiscal capacities and finance expertise.

Congress has refused to raise the federal gas tax or even adjust it to inflation—it's still stuck where it was in 1993, at 18.4 cents a gallon. That, along with dwindling revenues as people drive less and buy more fuel-efficient cars, has led to chronic shortfalls in the \$50 billion Highway Trust Fund. The gas tax brings in only around \$34 billion each year, forcing Congress to resort to budgetary gimmicks to plug the resulting gap.<sup>20</sup>

Editorial writers love to excoriate politicians for lacking the guts to raise the federal gas tax, but it must be said that here members of Congress are faithfully reflecting their constituents' antipathy to further hikes. The question pundits ought to be asking is whether the federal highway program still serves a compelling national purpose. The Trust Fund was created in 1956 to build the interstate highways. That mission was accomplished long ago, yet Washington continues to collect gas tax revenues from the states, which it then sends back in the form of formula grants with lots of strings attached. These grants increasingly fund a multiplicity

19 Diana Carew, "How Public-Private Partnerships Can Get America Moving Again," The Progressive Policy Institute, May 2014, [http://www.progressivepolicy.org/wp-content/uploads/2014/05/2014.05-Carew\\_How-Public-Private-Partnerships-Can-Get-America-Moving-Again.pdf](http://www.progressivepolicy.org/wp-content/uploads/2014/05/2014.05-Carew_How-Public-Private-Partnerships-Can-Get-America-Moving-Again.pdf).

20 Veronique de Rugy, "Let States Build Their Own Highways," Reason.com, November 2015, <https://reason.com/archives/2015/10/06/let-states-build-their-own-hig>.

of programs, from highways to transit to bike paths. In fact, the federal highway program has become a morass of complexity and bureaucratic micro-prescription.<sup>21</sup>

It's past time for progressives to acknowledge that the federal gas tax and the Trust Fund are anachronisms. Repealing the federal tax would give the states and cities more fiscal space to raise the revenues they need to maintain and improve their transport systems. It would also free them from federal mandates and give them a stronger incentive to spend wisely, since they will be spending their own money.

The gas tax also is the wrong vehicle for achieving nation's climate goals. A nationwide carbon tax or cap and trade system would have much bigger impact on carbon emissions. Plus, devolving the tax wouldn't kill it. Many states might keep tax at current levels to meet requirements of Clean Power Plan and raise more revenue for infrastructure.

Most importantly, fiscal devolution would liberate Washington to take a more strategic and less programmatic approach toward public works. Acting through a well-capitalized bank or financing facility rather than formula grants, the federal government would identify

21 A Rand Corporation study summed up its flaws: Although programs proliferated to create balanced attention to many competing interests, the current mix of programs constitutes "stovepipes" that stymie innovation and prevent rational, integrated, comprehensive planning. That is, although a region may need a mix of maintenance, public transit, and highway investments, these federal programs are funded separately using different formulas, and decision-making is dominated by cleverly navigating the funding structures rather than adhering to logical regional or metropolitan plans. The proliferation of programs and the stovepiping make it difficult to fashion investments that clearly meet any federal transportation goals, let alone increasing national economic performance. Howard J. Shatz et al., "Highway Infrastructure and the Economy: Implications for Federal Policy," RAND Corporation, 2011, <http://www.rand.org/pubs/monographs/MG1049.html>



fy projects of truly national significance and broker innovative partnerships to build and manage them. And by depoliticizing project selection, such an institution could help restore public confidence in Washington's ability to use taxpayers' money to promote the nation's interests rather than special interests.

## Speed regulatory review of public works projects

Even as the nation's needs grow more acute, it takes longer and longer to win government approval to build new infrastructure. Getting permits can take a decade or longer. Delays in starting construction add significantly to a project's cost, by about five percent a year, according to the U.S. Transportation Department. Nor are all the costs of delay economic.<sup>22</sup>

22 U.S. Department of Transportation, "Estimated Time Required to Complete the NEPA Process," <https://www.environment.fhwa.dot.gov/stirling/nepatime.asp>.

Lengthy approvals expose Americans to the safety hazards of unsafe bridges and roads, as well as leaks and flooding from ancient pipes and obsolete wastewater systems. Ironically, protracted environmental reviews harm the environment by slowing down the replacement of technologically primitive and inefficient infrastructure. “Transmission lines in America waste 6 percent of the electricity they transmit—the equivalent of 200 average-size coal-burning power plants,” says Philip Howard in a Common Good report.<sup>23</sup>

Why is infrastructure so entangled in red tape? A major problem is multiple and overlapping jurisdictions, as projects must get permits from a welter of agencies at different layers of government. In addition, environmental reviews in this country routinely get mired in litigation. And public hearings and meetings grind on endlessly as regulators attempt to hear from and accommodate every conceivable interest or “stakeholder” that might be affected by a project.

In a well-functioning democracy, however, not every interested party can be or should be mollified; at some point the will of the majority should prevail. The fact is that there’s a vacuum of political authority at the top. In our balkanized bureaucracies, no agency or official has the power to settle disagreements among agencies, telescope the regulatory gauntlet or otherwise make the ultimate decision to move projects forward.

To streamline approvals, Common Good proposes that environmental reviews be limited to two years. Other advanced countries—notably Germany and Canada—likewise compress reviews without compromising environmental protection records that are at least as good as ours. Reducing approval time from eight to two years would reduce the costs of power projects by 30 percent, while also reaping efficiency and environmental gains, according to the report.

It also recommends that one agency have overriding authority to issue permits, and that a top EPA or White House official be put in charge of determining the proper scope of environmental review for any given project.

These sensible changes would enable the United States to dramatically pick up the pace of building modern, technologically advanced infrastructure. Approving public works projects with all deliberate speed would save costs and yield environmental benefits, while also helping America catch up with overseas competitors who have been investing heavily in infrastructure while ours has decayed.

Less tangible, but perhaps as important, would be the psychological lift we’d get from fixing a deeply flawed regulatory process. It would help dispel the “can’t do” pall that hangs over Washington today, and boost public confidence in the federal government’s ability to take purposeful action against urgent national problems. And, as a practical matter, taxpayers will be more likely to support more spending on public works if they believe they’ll derive concrete benefits from them soon, not far off in the hazy future.

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 23 Philip K. Howard, “Two Years Not Ten Years: Redesigning Infrastructure Approvals,” Common Good, September 2015, [http://common-good.3cdn.net/c613b4cfda258a5fcb\\_e8m6b5t3x.pdf](http://common-good.3cdn.net/c613b4cfda258a5fcb_e8m6b5t3x.pdf).



### PART 3

# Groom the World's Most Talented Workers

**P**opulists seem nostalgic for America's old industrial order, gazing back fondly on strong unions, generous company pensions, and a middle class dominated by factory workers. In contrast, progressives look ahead and wrestle with the new challenge of preparing Americans to thrive in a rapidly changing knowledge economy.

A generation of slow growth has left many Americans worried that they won't be able to leave their children better prospects than they inherited from their parents. A relentless focus on learning is the key to restoring the opportunity compact between generations.

U.S. workers need higher cognitive and problem-solving skills to compete for the best jobs the knowledge economy has to offer. Unfortunately, the nation's education and training systems are not geared to produce the world's most talented workforce.

Our K-12 schools, for example, fail too many disadvantaged students, aggravating economic inequality. U.S. colleges and universities are the best in the world, but skyrocketing tuition costs are pushing them beyond the reach of average families and saddling students with crushing debts. And in between, we lack well-defined "career pathways" that combine classroom training and work experience to help workers who don't want or need four-year college degrees to get middle-income jobs.

## Reinvent Public School

Americans traditionally have viewed universal public education as the surest route to equality of opportunity. In two ways, however, our K-12 school system is falling short of this ideal.

First, the uneven quality of our public schools condemns millions of disadvantaged children to an inferior education. Second, our K-12 system is still organized to fit the needs of an industrial economy, rather than the emerging knowledge economy of the 21st century.

Progressives must tackle both of these problems simultaneously. Any serious plan for combating economic inequality must give high priority to narrowing the achievement gap in our public schools. Quality pre-K education for disadvantaged kids will help, but it cannot substitute for the systemic improvement of our elementary and secondary schools, especially those that serve poor and minority communities.

Unfortunately, this critical challenge has barely registered in the presidential campaign. Republicans, in slavish obedience to the ideology of local control, seem more upset by the prospect of “federal meddling” in public schools than by their endemic failure to give low-income students a quality education. Too many Democrats tolerate failure for another reasons, namely fear of alienating teachers’ unions. No one, it seems, is prepared to stand up for poor children trapped in poor schools.

Progressives should champion a new model of school governance than enables more school autonomy and innovation, more customized learning, rigorous standards and genuine accountability for results.

As progressives, we find the silence of the Democratic candidates particularly disappointing, because it does not square with their professed concern for reducing inequality. It may also reflect an erroneous belief that America’s public schools merely reflect inequality. In fact, new research suggests that U.S. schools are making inequality worse.<sup>1</sup>

Our challenge goes well beyond raising the quality of underperforming schools organized along lines more than a century old. Progressives should champion a new model of school governance than enables more school autonomy and innovation, more customized learning, rigorous standards, and genuine accountability for results.<sup>2</sup>

The ideologically-charged debate over whether charter schools perform better or worse than traditional schools has detracted attention from the most valuable lesson of

1 William H. Schmidt, and Nathan A. Burroughs, “How American Schools are Making Inequality Worse,” *The Conversation*, 26 October 2015; and, William H. Schmidt, Nathan A. Burroughs, Pablo Zoido, and Richard T. Houang, “The Role of Schooling in Perpetuating Educational Inequality: An International Perspective,” *Educational Researcher*, 30 September 2015.

2 David Osborne and Will Marshall, *Memo to Presidential Candidates: To Reduce Inequality, Reinvent Public Schools*, March 2016. Progressive Policy Institute.




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"...the uneven quality of our public schools condemns millions of disadvantaged children to an inferior education. Our K-12 system is still organized to fit the needs of an industrial economy, rather than the emerging knowledge economy of the 21st century."

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the charter experience: governance matters. A new and better way to organize public education is rapidly evolving—a method that has come to be known as the portfolio strategy.

This approach has delivered dramatic results in portfolio cities with strong charter program authorizers, where more than a third of students attend charters or schools treated much like charters. New Orleans, with 92.4 percent in charters, is the fastest improving district in America. Test scores, school performance scores, graduation and dropout rates, ACT scores, college-going rates, and independent studies all tell the

same story: the Recovery School District in New Orleans, which is now all charters, has tripled school effectiveness in eight years.<sup>3</sup> If current trends continue, New Orleans will soon become the first major city to outperform its state.

Washington, D.C., with 45 percent of public school students in charters, is the fastest improving city or state among those tested by the National Assessment of Educational Progress (New Orleans was not tested).<sup>4</sup> In Denver, 38 percent of students attend charters or in-district “innovation schools” that are treated much like charters. Before Denver launched its portfolio strategy in 2007, it had the lowest academic gains among the state’s 20 largest districts; in recent years it has had the highest. Meanwhile its dropout rate has fallen from 11.1 percent to 4.5 percent.<sup>5</sup>

Progressive leaders in the states should lead the charge for laws enabling the creation of more portfolio districts. The key is not labeling every school a charter but treating every school as successful charters are treated—with clear goals, operational autonomy, and real accountability—whether it is a charter school, a contract school, or a district school.

3 David Osborne, “How New Orleans Made Charter Schools Work,” *Washington Monthly*, August 31, 2015, <http://www.progressivepolicy.org/issues/education/washington-monthly-how-new-orleans-made-charter-schools-work/>.

4 David Osborne, “A Tale of Two Systems: Education Reform in Washington D.C.,” *The Progressive Policy Institute*, September 15, 2015, <http://www.progressivepolicy.org/slider/tale-of-two-systems-education-reform-in-washington-d-c/>.

5 Nelson Garcia, “DPS celebrates continuing gains in graduation rate,” *9news.com*, January 22, 2015, <http://legacy.9news.com/story/news/education/2015/01/22/dps-celebrates-gains-graduation-rate/22163635/>.

While public education is mainly a state responsibility, Washington has shown it can play a constructive role in spurring school innovation and accountability. President Clinton launched the first federal program to support charter schools. President Obama's creative Race to the Top initiative uses incentives rather than mandates by allowing states to compete for federal money, in part by lifting caps and expanding the use of charter schools.

Building on these efforts, progressives in Washington should expand the scope and funding of the \$333 million federal Charter School Program, which provides money to start promising charters and replicate successful models. The program's mission should be broadened to include support for efforts in traditional school districts to create more autonomous and accountable schools that serve diverse student needs.

## Create new pathways into middle class jobs

The hollowing-out of middle class jobs is no myth. Since 1979, says MIT economist David Autor, jobs that require either high or low levels of education have grown more rapidly than middle-skill jobs, reducing the latter's share of total employment.<sup>6</sup> The same pattern of "job polarization" is evident across Europe, which points towards technological changes that are common to advanced economies rather than corporate conspiracies to

6 David H. Autor, "Why Are There Still So Many Jobs? The History and Future of Workplace Automation," *Journal of Economic Perspectives* 29.3, 2015, <http://economics.mit.edu/files/10865>.

weaken labor unions or offshore jobs. Autor attributes the erosion of middle-skill jobs chiefly to automation, as computers displace people working on "routine tasks."

Low-skill jobs—typically in service occupations that involve helping, caring for or assisting others—are less vulnerable to automation. But the growth in such jobs has not been matched by wage growth. On the contrary, wages in service occupations have tumbled: personal care aides faced a decline of 6.6 percent in real median wages between 2009-2014; the wages of security guards and protective service workers dropped by 6.3 percent; and landscaping and grounds keeping workers' wages declined 7.0 percent during this time period.<sup>7</sup> Less educated workers have been hit the hardest by diminishing wages. Full-time workers with less than a college degree earn lower real wages today than they did in 1994, having endured average wage decreases of 6 percent between 2001-2013.<sup>8</sup>

Meanwhile, Americans with at least a college degree saw their real average wages rise 9 percent above 1994 levels. The growing wage disparity is not a new problem. In 1979, someone with a college degree earned about 35 percent more than a worker with a high school degree. The wage gap has grown steadily over the last three-plus decades,

7 National Employment Law Project, "Occupational Wage Declines Since the Great Recession: Low Wage Occupations See Largest Real Wage Declines," September 2015, <http://www.nelp.org/content/uploads/Occupational-Wage-Declines-Since-the-Great-Recession.pdf>

8 Fernando Rios-Avila, "A Decade of Declining Wages: From Bad to Worse," Levy Economics Institute of Bard College, March 2015, <http://www.levyinstitute.org/publications/a-decade-of-declining-wages-from-bad-to-worse>.

Traditional “workforce development” policy is failing low and middle income Americans. We lack effective institutions for helping people acquire the skills required for middle-income jobs.

reaching 80 percent in 2013. And workers with a post-graduate degree earn 30 percent higher wages than those with four-year college degrees, up from 11 percent in 1979.<sup>9</sup>

All of this underscores a simple truth: America faces an enormous skills deficit. Too many U.S. workers lack the education and skills they need to get middle-income jobs that can’t be automated out of existence. Social mobility today requires workers to acquire the kinds of social skills valued in the knowledge economy: flexibility, creativity, problem-solving and collaboration. They also need the technical ability to use computers and IT to boost their productivity.

The erosion of middle-income jobs highlights a gaping hole in America’s education and training systems. Most job training in the United States now occurs in community and for-profit colleges, as well as the lower tier of four-year colleges. We send many young people to college, even among the disadvantaged, but completion rates are very low and

earnings are uneven for graduates. The public colleges that the poor attend lack not only resources but also incentives to respond to the job market.

Traditional “workforce development” policy is failing low and middle income Americans. We lack effective institutions for helping people acquire the skills required for middle-income jobs. Community colleges are geared mostly to funneling students into four-year academic programs, and suffer high non-completion rates. For-profit schools are expensive and often lack strong ties to employers.

A more promising system is a career pathways approach in which workers combine classroom training and work experience through a sequence of jobs, within or across firms in an industry, and a sequence of credentials that signal their growing skill levels.<sup>10</sup> For instance, unskilled nursing aides can first get Certified Nursing Assistant certificates, and ultimately go on to get certificates or associate degrees that enable them to become a licensed practical nurse. High-quality examples of career and technical education (CTE) include Career Academies, apprenticeships, Linked Learning and High Schools that Work. But given our current near-exclusive focus on academic achievement and higher education, the CTE schooling models have not received the kind of public support they deserve.

9 Rob Valletta, “Higher Education, Wages, and Polarization” Federal Reserve Bank of San Francisco, January 12, 2015, <http://www.frbsf.org/economic-research/publications/economic-letter/2015/january/wages-education-college-labor-earnings-income/>

10 Harry J. Holzer, “Creating New Pathways into Middle Class Jobs,” The Progressive Policy Institute, May 2015, [http://www.progressivepolicy.org/wp-content/uploads/2015/05/2015.05-Holzer\\_Creating-New-Pathways-into-Middle-Class-Jobs.pdf](http://www.progressivepolicy.org/wp-content/uploads/2015/05/2015.05-Holzer_Creating-New-Pathways-into-Middle-Class-Jobs.pdf)

Efforts to create career pathways need to be scaled up, while employers need greater incentives to create middle-paying jobs. We recommend that progressives embrace a three-part strategy for equipping U.S. workers with new tools for economic mobility and success:<sup>11</sup>

## “Race to the Top” higher-ed

A “Race to the Top” program in post-secondary education, based on the Obama administration’s successful competitive grant program for K-12 reform. Under this approach, the federal government would help states provide more resources to their community (and perhaps four-year) colleges, but also require them to provide incentives and accountability for the colleges based on their student completion rates and earnings of graduates.

## Career pathway investment for career and technical education

More federal investment in high-quality career and technical education (combining classroom training and work experience) along with work-based learning models like apprenticeship. For example, we should set a goal of creating one million new apprenticeships at a cost of roughly \$1 billion. Technical assistance and other efforts to promote high-quality technical education and apprenticeships should be incorporated

11 Recommendations are drawn from the ideas and analysis of PPI Contributor, Harry J. Holzer, based his 2015 PPI policy brief: “Creating New Pathways into Middle Class Jobs”. See the policy brief here: [http://www.progressivepolicy.org/wp-content/uploads/2015/05/2015.05-Holzer\\_Creating-New-Pathways-into-Middle-Class-Jobs.pdf](http://www.progressivepolicy.org/wp-content/uploads/2015/05/2015.05-Holzer_Creating-New-Pathways-into-Middle-Class-Jobs.pdf). Harry Holzer is a professor of public policy at Georgetown University.

into a new and expanded version of the Carl Perkins Act, which provides about \$1 billion in funding for secondary and postsecondary career education.

## Tax Incentives to create “Career Pathway” jobs

Stronger incentives for employers to create more good jobs. These could take the form of tax credits for incumbent workers training (or apprenticeships) that lead to higher pay for less educated workers, and tax credit or grants to employers who undertake to pay middle-skill workers more. Additionally, such firms could get preferences in public procurement contracts.

## Cut college costs for everyone

The American higher education system is the finest in the world. Our colleges and universities are unmatched, and we have more highly rated schools than all of our competitors.

But there’s a catch: The costs of postsecondary education are higher in the United States than anywhere else in the world. And they are climbing beyond the reach of average American families who usually don’t qualify for either public or private aid.

Tuition and fees at higher education institutions have ballooned 129 percent since 1981. Median family income has grown only 11 percent over the same period. Annual

college costs have nearly doubled as a percentage of family income. No wonder student loan debt has skyrocketed, tripling since 2004 to \$1.1 trillion.<sup>12</sup>

As student debt levels rise to record highs, the ability of college graduates to pay off their loans is declining. Recent college graduates experienced a serious decline in average annual real earnings as a result of the Great Recession. From 2000-2014, young college graduates with no advanced degrees experienced a drop in average annual real earnings of about 13 percent.<sup>13</sup>

These dire trends portend a future of blighted and unequal opportunities for young Americans. In the knowledge economy, acquiring the kind of high-level cognitive and problem-solving skills required by non-routine jobs is more critical than ever to financial success. Median annual earnings for young workers with college degrees are \$17,500 greater than for those with high school diplomas.<sup>14</sup>

What's more, changing skill requirements for well-paying jobs and fierce labor market competition have impelled more college graduates to seek post-graduate education in masters, doctoral, and certificate programs. Since 2000, the number of full-time students enrolled in post-graduate study has risen by

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12 Paul Weinstein, "Give Our Kids a Break: How Three-Year Degrees Can Cut the Cost of College," The Progressive Policy Institute, September 17, 2014, <http://www.progressivepolicy.org/issues/economy/give-kids-break-three-year-degrees-can-cut-cost-college/>.

13 PPI calculations based on Census Bureau data.

14 Danielle Kurtzleben, "Study: Income Gap Between Young College and High School Grads Widens," U.S. News & World Report, February 11, 2014, <http://www.usnews.com/news/articles/2014/02/11/study-income-gap-between-young-college-and-high-school-grads-widens>.

more than 50 percent.<sup>15</sup> Clearly, college is increasingly a stepping-stone to post-graduate study or more specialized training, not the end of the educational road for young Americans.

Both Hillary Clinton and Bernie Sanders are touting proposals aimed at cutting college costs. Sanders is promising "free" tuition to all students, which of course isn't free at all but merely shifts the costs of attending college from students and their families to all U.S. taxpayers—including those who never attend college. Clinton's proposal for ensuring that students can graduate "debt free" is both more realistic and equitable. But neither goes to the root of the student debt problem—the soaring cost of college itself.

How can progressives make college more affordable without creating costly new subsidies or entitlements? And how can we begin to reshape our post-secondary education system to reflect the reality that college graduates increasingly are going on to post-graduate and professional schools? Here's a creative idea that tackles both challenges: Encourage U.S. colleges to offer three-year degrees based on achieving competency rather than paying for credit hours.<sup>16</sup>

Although common in Europe, only a handful of U.S. colleges offer a three-year degree. Yet allowing students to get their degrees in three years instead of four would yield the following benefits:

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15 Digest of Education Statistics 2014, <https://nces.ed.gov/programs/digest/>

16 Paul Weinstein, "Give Our Kids a Break: How Three-Year Degrees Can Cut the Cost of College," Progressive Policy Institute, September 17, 2014, <http://www.progressivepolicy.org/issues/economy/give-kids-break-three-year-degrees-can-cut-cost-college/>.

- *A 25 percent cut in tuition and fees.* Students finishing college would see total savings on average of \$8,893 for those attending four-year public schools (in-state) and a \$30,094 reduction for those at private institutions.
- *Lower student loan costs.* According to PPI's calculations, compressing college to three years would mean substantial reductions in student loan interest charges. Nearly 70 percent of bachelor degree holders have taken out student loans, and the debt burden averages out to \$29,400.
- *Constant revenues for higher performing schools.* Eliminating the fourth year of college would expand annual class capacity. Thus, colleges could increase the number of students in each incoming class by 33 percent. While experiencing transition costs over the initial three years, many schools, particularly those in the top two-thirds of college rankings, would eventually be made whole financially under the three-year degree.

What are the potential downsides to three-year college? Some skeptics argue that three years isn't long enough for some students to mature and fully reach their potential in college. Others have qualms that the compressed sojourn in college will force cuts in certain types of courses (especially in liberal arts) and lessen the quality of degrees.

It seems unlikely, however that young Americans are less capable than their European counterparts of maturing and making the most of their three years in college. Nor does fewer years in college necessarily mean less learning. There are many ways to redesign the curriculum.



How schools move to the three-year model would be left up to them and their regional and state accreditors. Some schools could require students to attend two summer semesters. Others might opt for a trimester system that begins in August and ends in June. Another approach would be to have courses meet more regularly and adjust the credit hours. Future students would receive roughly the same amount of classroom time, but over a shorter period and at a lower cost than today's collegians.

To ensure that schools don't simply raise tuition prices to four-year levels while providing just three years of college, participating schools would have to agree not to raise tuition and fees (including housing) beyond what they charge for three years at today's prices.

Federal and state governments should work to make the three-year degree the norm rather than the exception in higher education. For example, Washington could speed the transition by tying federal student aid to those who attend schools with the three-year option.

In general, progressives should press higher education to move away from credit hours as a measure of progress and towards competency-focused degree granting.

Colleges and universities today adhere to rigid conventions, based on the Carnegie unit, or credit hour, which limit how and when students can enroll and when they can receive financial aid. By allowing higher-education institutions the flexibility to provide a degree that is based on a student's knowledge and skills, instead of seat time, competency-based education can increase access and affordability to higher education and speed up completion, while decreasing the amount of money students owe the day they graduate.

It can also increase access to higher education to non-traditional students who may have a full-time job, a family, or other commitments that make it difficult to achieve a postsecondary degree with a conventional schedule. Representative Jared Polis (D-CO) introduced a competency-based education bill in the 113th Congress.<sup>17</sup> Although it passed the House 414-0, the Senate did not take it up.

Progressives are rightly concerned about crushing student debt burdens. The right solution, however, is to attack the problem at its roots: escalating college costs. We should encourage publicly supported colleges to experiment with three-year degrees

and competency-based learning, along with other reforms that make college costs more transparent and more closely tied to student outcomes.

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"Federal and state governments should work to make the three-year degree the norm rather than the exception in higher education. For example, Washington could speed the transition by tying federal student aid to those who attend schools with the three-year option."

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 17 "Salmon-Polis Bill on Competency-Based Education Passes the House of Representatives," Office of Congressman Salmon, July 24, 2014, <https://salmon.house.gov/media-center/press-releases/salmon-polis-bill-on-competency-based-education-passes-the-house-of>.





## PART 4

# Build Middle Class Wealth

Helping all Americans improve their skills is critical to boosting wages and narrowing today's income gaps. But an expanding middle class is also built on ownership of property and financial assets. In the 20th century, a middle class families' most valuable asset was its house. That remains true. But increasingly, families also need to build financial assets as a cushion against life's emergencies, and to ensure a decent standard of living in retirement. Since inequality of wealth in America is actually a bigger problem than income disparities, progressives ought to push for new ways to help all Americans build their personal assets.

The Great Recession and financial crisis took a heavy toll on two key elements of middle class wealth—retirement savings and home ownership. To this day, millions of homeowners remain underwater. Too many working and middle class families are one

lost job or fiscal emergency away from financial ruin. This fear of downward mobility—of falling out of the middle class—accounts for the deep sense of frustration and betrayal on which populists feed.

## Narrow the wealth gap with universal pensions

The federal government's pension policies are supposed to help all workers build a retirement nest egg to complement Social Security. In practice, however, tax-favored savings programs like 401Ks and IRAs mainly benefit the top half of U.S. households. And many families that have personal pensions nonetheless fail to save enough for a secure retirement. The perverse, if unintended, result of federal pension policy is thus to aggravate America's growing wealth gap.

The concentration of wealth at the top of the U.S. economic pyramid has surged over the past four decades. Disparities of wealth, in fact, are larger than disparities of income by a factor of 10. Consider this stunning fact: In 2013, the wealthiest 160,000 U.S. households (all with net assets over \$20 million) held as much wealth as the poorest 145 million households.<sup>1</sup>

A variety of factors have influenced the growth of wealth inequality, including lower savings rates, home ownership, estate and inheritance taxes, and family breakdown in poor and working class communities. Since 1982, for example, the personal savings rate has plummeted from nearly 11.5 percent to 5.1 percent in 2015.<sup>2</sup>

If the federal government wants to reverse that worrisome trend, it should empower all Americans to save, not just families that are relatively well-off. What's more, a rapidly aging society like ours needs all workers to put aside money to assure retirement security without placing unbearable strains on Social Security.

Recent reforms, such as auto-enroll 401(k)s, have fallen short because they are designed to build on the existing pension system when what we really need is across-the-board modernization. Too many Americans still don't have an IRA or 401(k) and don't save enough for retirement if they do.<sup>3</sup>

1 Chris Matthews, "Wealth inequality in America: It's worse than you think," *Fortune*, October 31, 2014, <http://fortune.com/2014/10/31/in-equality-wealth-income-us/>.

2 PPI calculations based on BEA data.

3 U.S. Government Accountability Office, "Retirement Security: Most Households Approaching Retirement Have Low Savings," May 2015, <http://www.gao.gov/assets/680/670153.pdf>

The Great Recession and financial crisis took a heavy toll on two key elements of middle class wealth—retirement savings and home ownership. To this day, millions of homeowners remain underwater.

Moving your 401(k) when you switch jobs still requires too much paperwork. And the pension system is still overly complex, forcing many individuals to manage and pay fees for more than one retirement account. That is why we are proposing an updated version of our Universal Pension system.<sup>4</sup>

The Universal Pension (UP) would replace the existing plethora of individual retirement accounts (traditional and Roth IRA's, simplified employee pensions for the self-employed, SIMPLE plans for small businesses, etc.) with the same new type of account for every worker.

Many of the rules governing the UP would be familiar: Contributions would be tax-deferred, there would be penalties for early withdrawals, and you'd have to start taking money out when you reach age 71.5.

Specifically, the UP would:

- Combine 16 different IRA type accounts into one universal IRA account (individuals could choose between a traditional or Roth-like tax IRA.)

4 Paul Weinstein Jr., "From Tax Cuts to Tax Reform," in *Memos to the New President*, January, 2009, Progressive Policy Institute.

- Enable Americans of all income levels to participate. Participation would be voluntary.
- Offer every worker a \$500 tax rebate to encourage them to open an account. The accounts would be managed by private firms, not the federal government. Low-income workers without tax liability would be eligible for an expanded refundable credit to open an account.
- Ensure portability. 401(k) balances would automatically transfer into the Universal IRA when workers change jobs.
- Reduce paperwork burdens and financial fees on both employers and employees. Businesses could opt to use the UP instead of setting up a 401(k) plan.

Social Security remains a crucial bulwark of retirement security in America. But it is not enough, and in fact was never intended to provide all the income workers need for a decent retirement. Personal savings and work-based pensions are also essential. Federal pension policy, while well-intended, provides greater incentives to better-off families than to low-income and working families. Progressives should take urgent action to rectify this problem—making access to job-based pensions truly universal. This fix will also help us boost personal savings rates and narrow America’s troubling disparities of wealth.

## Saving for homeownership with a HomeK account

Housing and its related industries—construction, mortgage, home improvement, etc.—account for a huge chunk (nearly 19 percent) of the U.S. economy. Any serious plan for reviving middle class prosperity must tackle the twin problems of declining home ownership in America and soaring housing costs for both owners and renters. In addition to impeding growth, rising property prices also are a major contributor to inequality in America. Middle class families are being priced out of housing markets in major metro areas such as San Francisco and New York.

The structural problems of our housing market were a major driver of the great recession. The market must be rebuilt on more solid foundations that don’t expose Americans to the same systemic risks and abuses. That will help bring confidence back to millions of citizens who feel burned by their personal housing investments.

Yet at a time when our country needs to experiment with new approaches, U.S. housing policy seems frozen. Washington’s inability to resolve the fate of Fannie Mae and Freddie Mac, taken into conservatorship in 2008, symbolizes both a dearth of creative thinking and a lack of political will to restore healthy housing markets.

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"Any serious plan for reviving middle class prosperity must tackle the twin problems of declining home ownership in America and soaring housing costs for both owners and renters."

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The creation of a new, tax-preferred mechanism for down payment savings—a “HomeK”—could help lower obstacles to homeownership (like tight credit and down payment requirements) for first-time homebuyers and promote more savings.<sup>5</sup>

Under a HomeK plan, an individual could set aside up to 50 percent of their existing retirement account contributions (401(k), IRA, SEP) into a housing-specific sub-account to be disbursed as a one-time down payment on a first home. This disbursement would either be tax-free or tax-reduced depending on the individual’s income.

To prevent abuses, the plan would require that the corresponding loan does not exceed local Federal Housing Authority (FHA) limits and include a principle residency requirement. In addition, the plan would include a one-year vesting period and two-year moratorium on loan increases.

A HomeK would boost first-time housing demand, encourage greater participation in retirement savings, encourage responsible homeownership, and eliminate or drastically reduce current penalties for withdrawals from retirement savings.

And in a variation on the HomeK theme, Representative Sean Patrick Maloney (D-NY) introduced a bill late in 2015 to increase from \$10,000 to \$25,000 the maximum amount that a first-time homebuyer can withdraw, without penalty, from a qualified retirement plan to buy a house.<sup>6</sup> Both approaches would help reverse the decline in homeownership and stimulate the economy—with zero risk of inflating another housing bubble.

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5 Jason Gold and Anne Kim, “HomeK Accounts: A Down Payment on Homeownership and Retirement,” The Progressive Policy Institute, October 2011, [http://progressivepolicy.org/wp-content/uploads/2011/10/10.2011-Gold-Kim\\_HomeK\\_Accounts-A\\_Down\\_Payment\\_on\\_Homeownership\\_and\\_Retirement.pdf](http://progressivepolicy.org/wp-content/uploads/2011/10/10.2011-Gold-Kim_HomeK_Accounts-A_Down_Payment_on_Homeownership_and_Retirement.pdf).

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6 First Time Homeowner Savings Plan Act; Sponsors: Rep Maloney, Sean Patrick [NY-18]; Introduced: 11/19/2015



## PART 5

# Fight Poverty with Empowerment

Like all economic calamities, the great Recession fell hardest upon the underemployed, the poor, and the less well educated. Often, these Americans are badly served by private financial institutions and traditional social welfare bureaucracies. Rather than manifesting concern for them by providing “more of the same,” progressives should be more creative about modernizing social service delivery and helping low-income Americans build assets. One way is to use smart phones and mobile broadband to give people more control over the public resources intended to move them toward self-sufficiency. Another is to repurpose public subsidies to encourage stabilizing investments like home-ownership.

## Empower people with smart phones

For low-income Americans, accessing the services intended to help them recover from the recession has been difficult. Social services are stove-piped, inefficient, and hard to access. This breeds public frustration with the government and is common fodder for those who would attack the social safety net for political reasons. Technology, especially smart phone technology, can help us solve these problems.

Smart phones, broadband and mobile apps have fundamentally revamped the lives of most Americans, mostly for the better. Now it's time to use these technologies to modernize government's delivery of social services and boost the long-term self-sufficiency of our poorest citizens.

While it's true that government safety net programs help tens of millions of Americans avoid hunger and homelessness and escape poverty, it's also true that government anti-poverty aid is generally a major hassle to obtain and keep. Many low-income people are unaware of all the government supports for which they are eligible. Those who are aware are forced to run a gauntlet of separate, stove-piped programs administered by federal, state and local social service bureaucracies. The process is demeaning, costly, time-consuming and demoralizing.

Consider what low-income families have to do to get help. They must go to one government office to apply for SNAP (formerly food stamps), a different office to apply for housing assistance, a clinic to obtain care for mothers with infants, and a plethora of other offices to apply for other kinds of aid. They usually need to bring piles of paperwork to each office, usually with slightly different combinations of documents. These offices are rarely conveniently located and usually feature long lines. They don't often have weekend or night hours, so that applicants who work will likely lose wages since they seldom qualify for paid leave.

For low-income Americans, accessing the services intended to help them recover from the recession has been difficult. Social services are stove-piped, inefficient, and hard to access.

Most low-wage workers have to file tax returns with the IRS, often paying a private tax preparer handsomely to get EITC refunds. Although the United States has hundreds of thousands of non-profit groups providing social services, it is very difficult for struggling people to determine which of these organizations provide services they need, whether the organization is conveniently located, and which services they are eligible for. And since many government and nonprofit programs require frequent re-applications and re-certifications, a low-income person often has to jump through all these hoops every few months. Being poor in America can itself be a full-time job.

## Putting HOPE in the palm of your hand<sup>1</sup>

We need to use modern technology to cut through bureaucratic barriers, consolidate benefit streams, enable people living in poverty easy access to the information they need,

<sup>1</sup> The analysis and ideas in this sector are drawn from parts of Joel Berg's forthcoming book, *America We Need to Talk: A Self Help Book for the Nation*, scheduled to be published by Seven Stories Press in the fall of 2016. Joel Berg is Executive Director of the New York City Coalition Against Hunger.

and apply online for social supports. One powerful way to do this is for our federal, state, and local governments to create online HOPE (Health, Opportunity, and Personal Empowerment) accounts and action plans.<sup>2</sup>

Here’s how HOPE would work: The federal government would create HOPE accounts and action plans that combine mobile apps and broadband, streamlined case management, and seamless access to multiple federal, state, city, and nonprofit programs. Workers also could voluntarily choose to have their paychecks deposited directly into the accounts. Families could also use the accounts to increase their savings, which would be matched by government and private sources, incorporating both Individual Development Accounts and Kids Accounts (lifetime savings accounts created for every child at birth). Job training and placement services would be modernized to connect real people with real jobs, and such services would be easily accessed through the accounts online. All these efforts would work together in an integrated fashion to give people in poverty the tools they need to take charge of their futures and to implement long-term plans to climb into—and stay in—the middle class. If the federal government fails to do so, states or localities could step up to the plate with a similar program.

HOPE accounts would enable families to use any smart phone, tablet, or desktop computer to learn about the public and philanthropic programs for which they are eligi-

<sup>2</sup> The analysis and ideas in this section are drawn from parts of Joel Berg’s forthcoming book, *America We Need to Talk: A Self Help Book for the Nation*, scheduled to be published by Seven Stories Press in the fall of 2016. Berg is Executive Director of the New York City Coalition Against Hunger.

ble—including aid to improve health, nutrition, job training and placement, housing, income, etc.—and then apply for all of these programs at once from the convenience of their device. If supporting documents need to be submitted with the application, then families could take pictures of those documents and submit the pictures with the application. Families that don’t own a smart phone, tablet, or computer could be provided one, along with a subsidized Wi-Fi/Internet access plan, and people uncomfortable with technology could go to a library, government office, or nonprofit agency to be walked through the system. For elderly and disabled shut-ins who can’t access the technology, government or nonprofit employees and/or AmeriCorps national service participants could make home visits to help.

The accounts would also enable working families to file for federal EITC refunds, and, in states and localities with their own supplemental EITC payments, to simultaneously file for those as well. Since the accounts will already have all the financial information needed to file for those payments, families could easily file any federal, state, or local tax forms, saving the time and money they would otherwise have to spend on third-party tax filing services.

While HOPE accounts are a new idea, the concept builds upon existing programs, such as the Individual Development Account program, and incorporates technological improvements in social services delivery that some forward-thinking states, cities, and counties are already embracing. For example, New York City uses updated technologies to allow families to apply online for multiple

government benefits. Even so, applicants must follow laborious procedures, on various timelines to access multiple programs for which they're eligible. New York also is working on a system to allow people to apply for SNAP and cash assistance by smart phone. Expanding on such innovations, HOPE accounts would enable families to rapidly apply for—and quickly learn if they are accepted into—all federal, state, and local government programs, as well as offer users information for wide variety of services provided by nonprofit groups. HOPE accounts would also include a calculator system to help families understand the financial impact of one program upon other programs.

All program benefit funds would go into the same system, with health care, food, housing, and other specific benefits accounted for separately from the cash. In contrast to conservative calls to fold social services into block grants and then cut overall spending, funding of social programs should be maintained (and in some cases increased) and people should continue to have a legal right to entitlements such as SNAP and Medicaid. Families also would be encouraged to put their own cash savings into the accounts, which could then be matched. Any cash in the account set aside for education, job training, starting a business, or buying a home would be non-taxable. Sure, that's a bit complicated, but still a heck of a lot easier for a family than figuring out all this out on their own. And if they still need help, some government and nonprofit social workers would still be available to guide them through the application and follow-up processes.

HOPE accounts would allow low-income families to easily access and monitor—in one central online account—the status, amounts, and recertification deadlines for all their benefits and savings. They could also use the accounts to pay all bills online, saving outrageous check cashing fees and enormous amounts of time.

## Promoting financial planning

HOPE accounts could also include a budgeting function to give families real-time cash flow data and long-term financial planning support, including helping them to calculate how much they would lose in interest on credit cards versus how much they would gain in interest by saving more. The accounts would offer a calendar and scheduling function, helping families to keep track of all work, family, and school obligations, as well as any social service filing or appointment dates.<sup>3</sup>

Instead of a vast army of government and nonprofit caseworkers in charge of micro-managing the lives of low-income people, low-income adults would become, in effect, their own case managers. With this newfound power, people will be able spread their wings and take flight.

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 3 Careful security and privacy protections would need to be put in place, so that only the family, and not the government, nonprofit, or banking partners, would be able to see the or track private appointment information.

Obviously, these new apps and online social service accounts will be challenging to build and even more challenging to integrate with each other, especially given the antiquated state of government computer systems. So our political leaders should challenge the nation's top tech leaders and companies to work together with government to make this a reality.

## Action plans for social mobility

Helping struggling families save time and money is a good start, but it's not enough. Low-income families still need clear aspirations for the future. They should have the opportunity to partner with government and nonprofit organizations to develop HOPE action plans that will specify how all parties will work together to help the families earn, learn, and save to achieve true upward mobility.

How might an HOPE action plan work in real life? They would be the antithesis of conservative plans, such as the one proposed by House Speaker Paul Ryan, which would force families to sign contracts to take actions that would waste their time and sap their dignity while giving them no additional resources to solve their problems. Instead, HOPE action plans would be voluntary and would empower participating families to better organize their time and focus their activities on productive endeavors while providing them extra resources to do so. Some plans could be short-term, over just a year or two, aimed

at helping families achieve very basic goals, such as avoiding homelessness and hunger. But they could be long-term as well, with far more ambitious goals for upward mobility.

For example, a prototypical single mother of two young children could voluntarily enter into a 10-year plan jointly with her city government's social service agency and with a local United Way. The plan would include yearly benchmarks of how the mother would use increased resources provided by the plan to boost her jobs skills, increase her earnings, improve the housing situation for her family, obtain more nutritious food, and begin to put money aside to help her children pay for college. Once the specific goals are set, the specific actions each entity would be required to take in order for the mother to meet her goals—as well as the money and other resources that will need to be allocated for these actions from the family, the government, and the nonprofit partners—would all be spelled out in the plan. Yes, the mother would need to work hard and sacrifice by saving more, but knowing that government and charities also had a stake and belief in her success, and knowing that she would ultimately advance herself and her family, she'd be glad to do it. Hope is a powerful motivator.

Unlike the mandatory, one-sided contracts proposed by conservatives, which only hold low-income people accountable, HOPE action plans would make all parties involved—government agencies, nonprofit groups, and low-income participants—equally accountable. This new civic compact of mutual re-

sponsibility would be a boon to both people in poverty and middle-class taxpayers, restoring each side’s faith in the other’s willingness to take responsibility for social progress.

Together with new efforts to help low-income people build personal assets, the HOPE program can transform national anti-poverty policy by incorporating both a liberal focus on economic mobility and investments in proven programs and a conservative focus on personal responsibility and reduced bureaucracy. Most critically, HOPE would enable struggling families to simultaneously obtain both economic resources and a long-term vision for prosperity and happiness. This proposal would help low-income Americans dream big dreams again, and access the resources and tools necessary to make those dreams a reality.

Moreover, HOPE would empower families by giving them the necessary tools to take charge of their own futures—allowing them to obtain concrete tools to “pull themselves up by the bootstraps.” By promoting personal responsibility and a more efficient government, as well as increased economic opportunity and easier ways to get government aid, HOPE advances both conservative and liberal priorities. By superseding today’s stultified ideological debate, HOPE would prompt progressive change grounded in America’s mainstream values of equal opportunity, mutual responsibility, and supportive communities.



## Expand Housing Choices for Low-Income Americans

Housing is the largest single expense for most families, especially those at the edge of poverty. Federally-funded affordable housing vouchers are a common but an expensive tool for states and municipalities looking to increase access for low income families. However, in places where rent is high, rental

## Home Ownership Vouchers in Practice

To compare the relative costs of rent and homeownership vouchers, let's look at Baltimore and do the math. The cost of existing rent vouchers in Baltimore is the recipient's rent (up to the Fair Market Rent) less 30 percent of recipient income. In 2015, Fair Market Rent (FMR) in Baltimore was \$1,232 for recipients that qualify for two-bedroom units and \$1,574 for those qualifying for three-bedroom units. The typical contributions of residents are about \$300 per month. Thus, the net government cost can be about \$932 per month, or \$1,232 (FMR) minus about \$300 (recipient contribution). If individuals rent units charging less than the FMR, then the government's cost is lower but likely no less than \$700 per month.

The median home value in Baltimore is \$109,700 and at the 25th percentile the value is \$80,000 or less. A census survey shows a significantly higher median (\$145,000) but a similar level (\$85,000) for homes at the 25th percentile. The average number of bedrooms, even for homes valued at \$100,000 or less, is 3.75. The monthly cost of paying principle and interest



on a 30-year mortgage at 4 percent on \$85,000 is \$406 per month. If the subsidized owner's income were about \$12,000, taxes would add about \$20 per month. With insurance of \$60 per month, the total would reach \$485. A homeownership voucher could also take account of maintenance by providing say, \$115 per month as an escrow for repairs. This brings the total carrying costs to \$600.

If the voucher recipient's income were \$1,000 per month, the recipient's monthly contribution would be \$300, leaving the government costs at about

\$300 per month, or less than one-third of the \$932 that a two-bedroom rental voucher can cost. In addition, the home would almost certainly be larger than two bedrooms. Thus, in Baltimore, homeownership vouchers could help families afford adequate housing at less than one-third of the cost of rent vouchers. In other words, for the same total outlay, the Baltimore housing authority could create at least two and possibly three homeownership vouchers for the same costs as one rent voucher.

The administrative costs for homeownership vouchers would increase because it's also important to help buyers through the mortgage application process and help them understand what home ownership entails. For example, the program also should include a neighborhood counsel whom residents could consult about repairs and other matters. On the whole, though, government savings would increase over time since the costs of each homeownership voucher is fixed while costs of rent vouchers rise with area rents. Further, a portion of the monthly carrying costs of owners will reduce the loan and generate equity for the homeowner. In the case at hand, about 30 percent of the first month's \$406 monthly payment is a

repayment of the loan and thus, assuming no change in home value, nearly \$1,500 in added wealth for the recipient.

For the United States as a whole, the gains from a shift to homeownership vouchers are less than they were in 2011-2014 when home prices were lower. Still, in most cities, the gap between the government costs of rental versus homeownership vouchers remains. Philadelphia is another good example of a city with a large gap between rent voucher levels, set at the FMR, and the carrying costs of homes. In 2016, the FMR for two and three bedroom units are \$1,210 and \$1,502, respectively. The home value at the 25th percentile is about \$90,000, implying a carrying cost of \$430 per month. Again, almost all the homes in this range are three bedrooms.

vouchers could be replaced with homeownership vouchers, helping close wealth gaps, increase community cohesion, and produce more local jobs.<sup>4</sup>

Housing expenses play a critical role in limiting the living standards of low-income families. Although the federal government spends nearly \$50 billion per year to subsidize the rents of about 4.5 million families, nearly eight million low-income families receive no subsidy, even though they spend more than half of their incomes on rent. And despite the collapse and only partial recovery of home prices, rent levels and rent burdens continue to increase.

Fortunately, there's a way to relieve the housing cost burdens on low-income families and reduce the waiting list for subsidized housing without raising taxes or adding to the federal deficit. The key is to recognize the reality that, in many U.S. metro regions, rents are higher than the carrying costs of owning a home. In these places, it would be smart policy to convert some federal rent subsidies into incentives for homeownership. The cost of "Housing Choice" vouchers could be cut in half or more by providing the subsidies through homeownership vouchers.

Homeownership vouchers would operate in ways similar to rent vouchers. The local housing authority sets a maximum monthly payment, related to the monthly carrying cost of a home at say, the 25th percentile of home values. The government outlay would be the lesser of the maximum payment or the actual

monthly payment, less the recipient's contribution of 30 percent of household income. Carrying costs include interest, taxes, insurance, and possibly principal.

This approach to low-income homeownership is very different from failed policies of the recent past. Unlike the buyers with subprime mortgages, the vouchered homeowners would see significantly reduced housing burdens. Because the mortgage would be paid whether or not the homeowner kept his or her job or received a salary increase, the risks would be low and interest rates could be low too. Mortgage bankers have expressed a willingness to accept this type of government loan guarantee as security in underwriting the mortgage.

Some housing authorities use vouchers to support homeownership, but in very small numbers. One city taking a close look at an expanded homeownership voucher initiative is Pittsburgh. "We have thousands of people who need affordable housing and we have tens of thousands of vacant lots and properties. We'd like to bridge that," Mayor Bill Peduto explained.<sup>5</sup>

Metro regions where homeownership vouchers make sense could also launch complementary initiatives to fund repairs and renovations. This would create good jobs and high quality training or apprenticeship opportunities in low-income neighborhoods. For example, the local housing authority could develop a team that would be available at modest cost to undertake repairs and some

4 This section updates a 2011 PPI policy report by Robert Lerman, Emeritus Professor of Economics at American University. See the original report here: <http://www.progressivepolicy.org/publications/policy-memo/homeownership-vouchers-a-plan-to-reinvigorate-the-economy-while-helping-low-income-families/>.

5 Spencer Wells, "Vouchers for Homeownership? Ask Pittsburgh's Mayor Peduto," *Nonprofit Quarterly*, January 12, 2016, <https://nonprofitquarterly.org/2016/01/12/vouchers-for-homeownership-ask-pittsburghs-mayor-peduto/>

renovations. Like Pittsburgh, many cities have a number of very low-priced homes that could be renovated and still keep carrying costs for recipients well within the level of the homeownership vouchers.

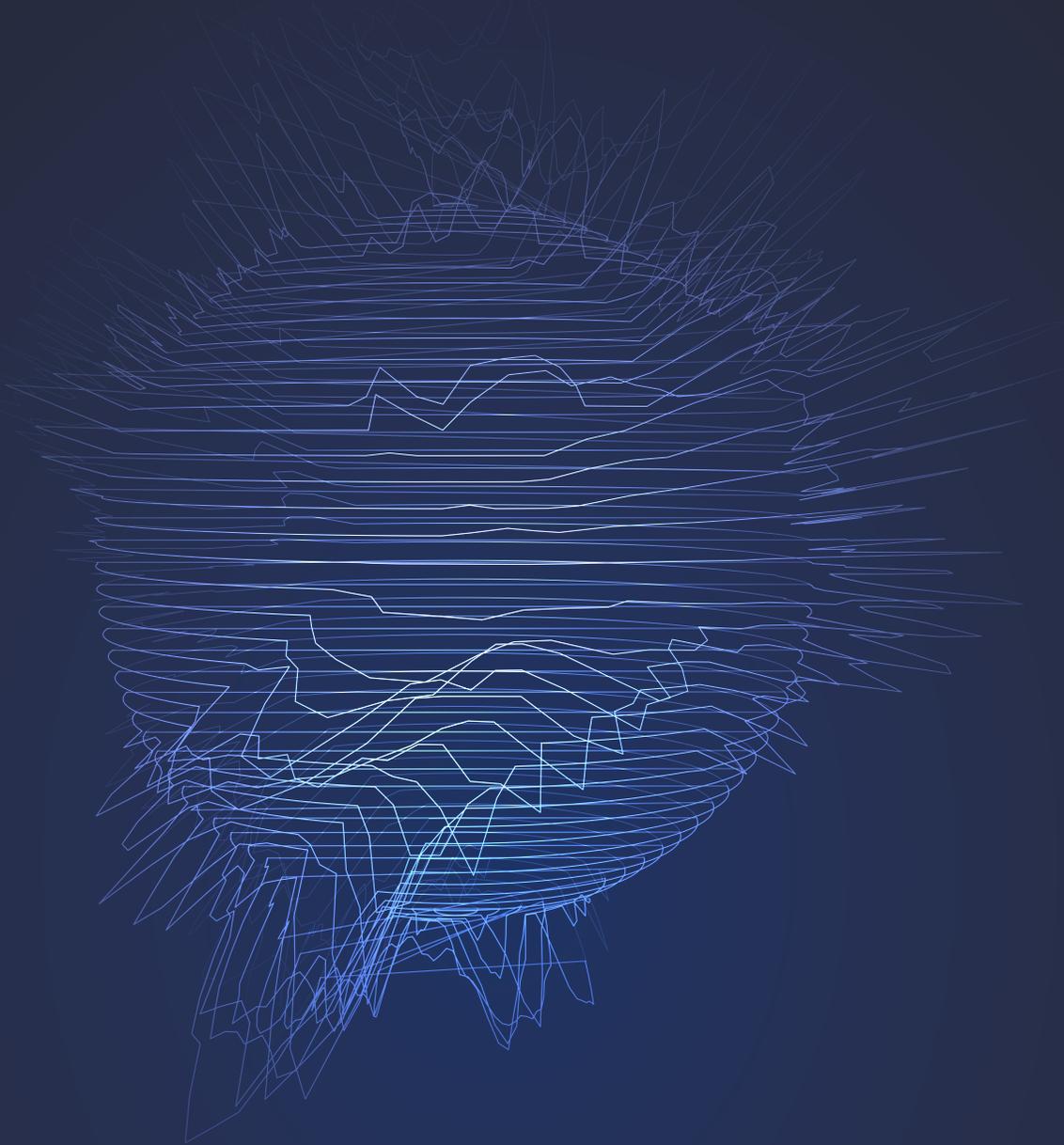
An intermediary, say a local business group or civic association, could oversee the contractors and/or subcontractors who are or can assign well-qualified craftsmen to conduct the training and insure high quality repairs and/or renovations. The craftsmen would work alongside and train the participating workers over a two year period in all the skills required for certification in at least two of four fields of residential construction – carpentry, electrical, plumbing, and HVAC. The skills learned on the job and in related classroom instruction are those required for a relevant credential from the National Center for Construction Education and Research (NCCER). Participants would follow the curriculum provided by NCCER for each credential.

Overall, the homeownership voucher initiative is a cost-effective strategy. Funds for vouchers would come from savings that accrue when shifting some existing voucher holders to homeownership vouchers. But if we wanted to expand the program and cover many more families, the federal government could reallocate dollars from the Low Income Housing Tax Credit (LIHTC). While the goal of the LIHTC – expanding the supply of low-income rental housing – is laudable, the credit is highly inefficient.

The homeownership voucher plan is a rare policy that offers needed help to for low-income families, encourages wealth-building, strengthens the economy, and does so without increased government spending. The economics of the program work well in a large number of cities in the United States, though not all cities. Linking the program to a construction team with residential apprenticeships would enhance opportunities for local workers and offer a low-cost approach to repairs and renovations for all homeowners, including those with vouchers.







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