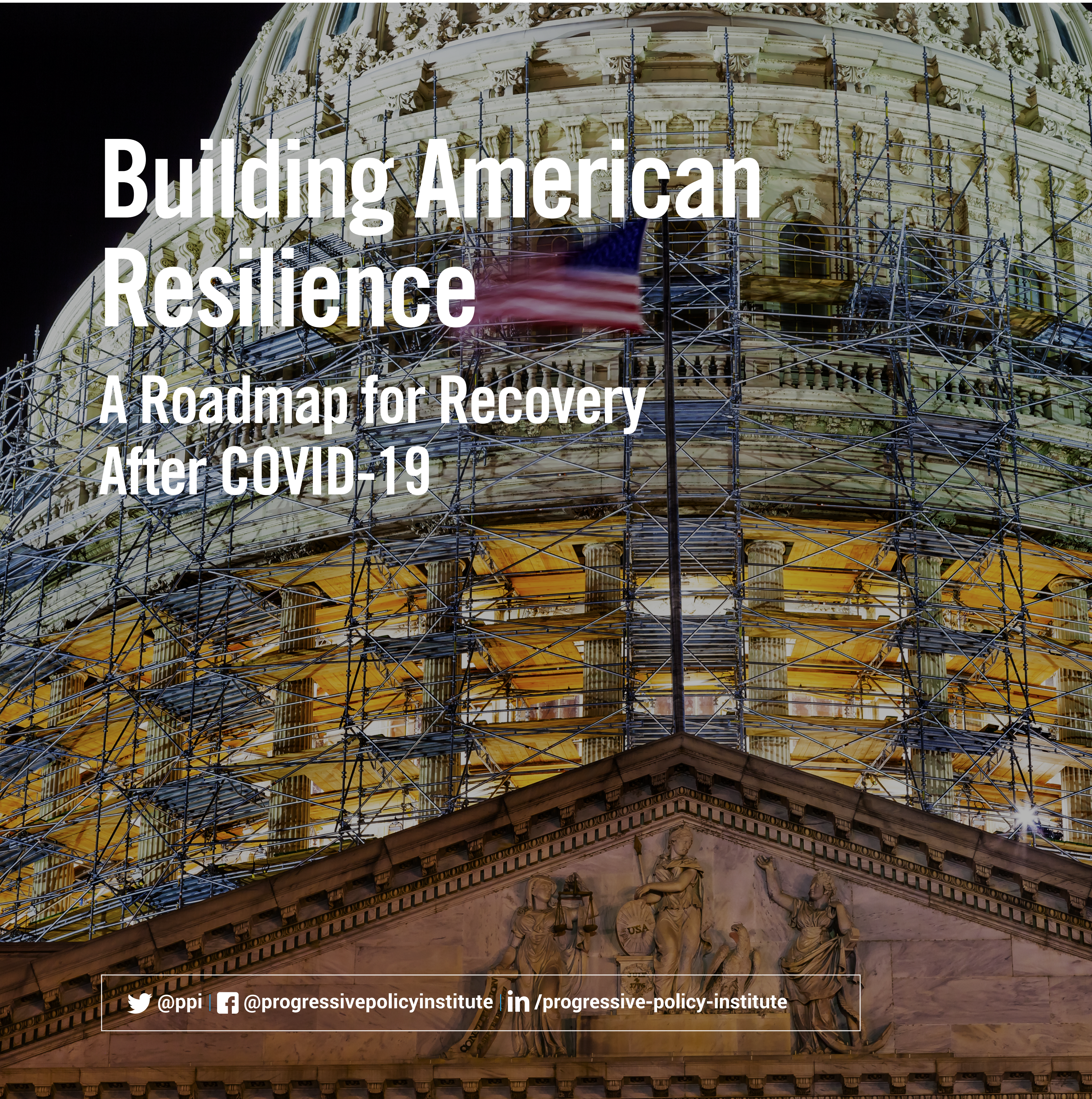
ppi radically pragmatic

Building American Resilience

A Roadmap for Recovery After COVID-19



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Introduction: Building American Resilience

Will Marshall
PPI Founder and President

For Americans and much of the world, 2020 has been an *annus horribilis.* Following its outbreak in China late last year, the coronavirus has spread quickly across the main international travel and trade routes. To contain the pandemic, nations have been forced to order mass quarantines, freezing economic activity and social life. It likely will take decades to calculate the full human, economic and psychic costs of this still-unfolding global calamity.

Few countries have been spared the ravages of Covid-19, but no country has been hit harder than the United States. At this writing, coronavirus has killed more than 156,000 Americans, and infected more than 4.6 million. And with the pandemic spreading rapidly across the South, West and Midwest – 39 states report sharp increases in infections – the end is nowhere in sight.

Stay-at-home orders and social distancing have put the world's biggest economy on life support. After shrinking by 5 percent in the first quarter of 2020, U.S. output plunged by nearly 10 percent in the second quarter. Since March, more than 42 million Americans have filed for unemployment and nearly 20 million are still out of work. As many as 40- percent of the virus-related layoffs could become permanent, according to a University of Chicago study.

Many small businesses have gone under, and millions more are treading water. "Data from credit-card processors suggest that roughly 30 percent of small businesses have shut down during the pandemic," reports The Atlantic. And many large companies in sectors hit directly by social distancing – travel and tourism, restaurants and hotels, and brick and mortar retail – have announced layoffs and permanent workforce reductions.

The federal government has borrowed and spent prodigiously to combat the virus, put money in peoples' pockets and keep the economy from cratering. Congress so far has passed three major relief bills and is wrestling over the scope of a fourth. Washington has spent $3 trillion and could be headed toward a staggering annual deficit of $5 trillion or more, the largest since World War II.

Amid this unprecedented public health and economic crisis, an old American dilemma – racial injustice – has reared its head. The unconscionable killing of George Floyd, Breonna Taylor and other black Americans by police has triggered widespread public outrage and protests.

THE CRISIS IN U.S. DEMOCRACY

Intensifying all three of these traumatic shocks is a catastrophic failure of national leadership. In past crises, leaders of extraordinary skill and character have arisen to steer our republic through the storm. Not this time. President Donald Trump has run the ship of state aground.

As the coronavirus first appeared, he sought refuge in denial and dissembling. When that did nothing to halt the spread of the virus, he passed the buck to governors and refused to mobilize the full powers of the federal government to supply tests, masks and ventilators, and to help the states set up rigorous contact tracing systems. Learning nothing from his early blunders, Trump has continued to dismiss the severity of the virus, tout phony cures, and demand premature openings of the economy and schools

Trump's incompetence cost our country precious weeks when the federal government should have been taking vigorous action to contain the pandemic. The delay was deadly: Had we started social distancing and locking down on March 1 rather than March 14, 54,000 fewer Americans would have died, according to disease modelers at Columbia University.

Elections really do matter. If the United States had elected leaders as capable as those in Germany, South Korea and Japan, many fewer Americans would be getting sick and dying today. And with contact tracing, masks and selective social distancing, we could keep more of our economy up and running.

As demonstrations against police brutality and racial discrimination flare up around the country, Trump again has displayed a perverse talent for inciting social rancor and pitting Americans against each other. He has smeared protesters as "domestic terrorists" and, over the protests of Mayors and Governors, dispatched unbadged federal security guards to put down the phantom threat of mass anarchy in the streets.

Finally, with a crucial national election approaching, Trump is trying to deny Americans the right to vote safely at home. He's falsely crying fraud to undermine public confidence in the legitimacy of our electoral system, even to the point of issuing a preposterous call to postpone the vote.

No wonder America's nerves are frayed. At this fateful moment of intersecting crises – threatening our health, prosperity and cultural cohesion – our country is saddled with a dishonest, incompetent and malicious demagogue who specializes in creating chaos rather than solving problems. Here and abroad, the impression is growing that America is becoming a failed state.

DON'T COUNT AMERICA OUT

But that's wrong. For all our dilemmas, America remains a resourceful and dynamic country capable of swift course corrections. Beneath our fractious politics lies a bedrock of shared belief in liberty, equality and democracy. We also draw strength from a diverse and inventive citizenry jealous of its freedoms. Time and again, this country has shown it can bounce back from adversity stronger than before. Now we have to reinvent ourselves again.

Fortunately, there is a national election this fall. The American people can fire a sham president and his cowed GOP lackeys and replace them with genuine leaders who can unite us and make our democracy work.

But new leaders also need a new vision. The United States has received a series of extraordinary shocks in this still-young century: the dot-com bust, 9/11, the great recession and financial meltdown of 2007-8, and now coronavirus, a hobbled economy and civil strife over endemic racism.

We've learned the hard way that our country needs stronger economic and social shock absorbers. Our challenge isn't just to recover from the present crisis, but to build a better, more equitable democracy that will be more resilient against future shocks no one can foresee.

Americans have made enormous sacrifices to save lives and keep our health system and economy from collapsing. Many have stood by helplessly as friends and relatives have died lonely deaths in isolation. The psychological toll also has been heavy: Research by The Society for Human Resource Management finds that one in four workers report feeling either hopeless or depressed. If U.S. leaders don't emerge from this painful period resolved to build a more just and resilient society, this suffering and sacrifice will have been in vain.

CONFRONTING ENTRENCHED INEQUITIES

The fight against Covid-19 has not been borne equally by all Americans. Health care and emergency workers and those in "essential" industries (such as meatpacking and grocery stores) have been exposed to higher risks of falling ill. The chief victims of Covid-19, by far, are older Americans. Thus far, 43 percent of deaths have been linked to nursing homes.

The pandemic also has taken a severe toll on low-income and minority communities, where many suffer from health problems associated with poverty and discrimination. African-Americans are dying from Covid-19 at a rate nearly twice as large as their share of the population. At this writing, blacks (13 percent of the U.S. population) account for 24 percent of all deaths.

The economic pain inflicted by the pandemic also has been unevenly distributed.

The lockdown, in fact, has exposed a new class divide in America. On one side are office workers, mostly college-educated, well-paid and digitally enabled, who have been able to keep working from home, and to have food and other goods delivered to them. On the other side are low-paid service, hospitality and retail workers, who can't work remotely. Young workers, immigrants and Hispanic workers have been hit hardest by Covid-19 job losses.

Minority-owned businesses, often smaller and more precarious, have been damaged disproportionately by the pandemic. The National Bureau of Economic Research reports that, between February and April, there was a

41 percent decrease in black business owners and a 31 percent decrease in Latinx business owners, compared to an overall decline of 22 percent.

The pandemic also has exposed serious weaknesses in our private economy. Because of offshoring and long supply chains, for example, U.S. factories were unable to supply masks, gowns, gloves and ventilators in a timely way to health care workers desperately battling the virus.

Key public sector systems, long starved of investment and entangled in red tape, also have failed to respond nimbly to the crisis. Archaic computer systems in state Unemployment Insurance offices crashed as applications surged. The Center for Disease Control and Prevention, our front-line agency against pandemics, not only sent out flawed coronavirus tests, but also allowed bureaucratic inertia to delay the production of reliable tests by private laboratories.

Tens of millions of young children and older students have lost months of early learning and classroom instruction as schools of all kinds have closed. Some K-12 school systems used virtual learning to mitigate the loss, but many either did not have that capacity or chose not to use it to avoid discriminating against low-income families without computers or internet access.

Through the free and reduced price lunch and breakfast programs, public schools also play a critical role in feeding needy children. While some schools improvised "grab and go" programs to provide meals to kids, 80 percent report serving fewer meals, and only 22 percent offered meals two days a week. School closings thus have contributed to an upsurge in hunger in poor communities, even as they interrupt all childrens' education.

A BOLD BLUEPRINT FOR RECOVERY AND RESILIENCE

In contrast to Trump's "let's get back to the way things were" message, progressive leaders should offer voters this fall an ambitious vision for America's economic and social reconstruction.

In this report, PPI presents a blueprint for speeding recovery and building a more resilient society. It tackles long-festering social inequities and bolsters the capacities of business and government to perform their vital missions during future pandemics or other national emergencies.

Applying what we have learned during the Covid-19 crisis, our scholars and policy experts offer radically pragmatic ideas for change:

- Spur digital manufacturing in America and shorten supply chains for essential goods.
- Launch a "national reemployment" drive to get everyone back to work as soon as conditions allow, and to make work pay.
- Drive down the exorbitant cost of medical care so that we can invest more in healthy communities.
- Create well-paid production jobs and fight climate change by making America number one in electric vehicles.
- Make the social safety net more resilient.
- Forge a new economic security bargain with gig workers.
- Install a "fiscal switch" that allows Washington to automatically stimulate during economic downturns and shrink its debts during expansions.

- Give birth to two million new businesses to replace those that have gone under during the pandemic shutdown.
- Invest in resilient cities and metro regions.
- Fix America's broken financing model for higher education.
- Create a more nimble and accountable K-12 school system.
- Democratize capital ownership and expand national service.
- Replace outdated U.S. immigration laws with a "demand-driven" policy that welcomes more willing workers.
- Make our electoral democracy more resilient by ensuring that every citizen can vote at home.

Spur Digital Manufacturing in America

MICHAEL MANDEL

AUGUST 2020

INTRODUCTION

Resilience is the ability to react quickly to unexpected events. Market economies are inherently resilient because they are decentralized. But by outsourcing too much production to the rest of the world, the U.S. has traded much of its flexibility and resilience for somewhat lower short-run prices. Moreover, we've reduced our ability to deal with new sources of unexpected events, including climate change, pandemics, and wars.

Our inability to produce enough N95 masks for healthcare workers, months into the pandemic, is both astonishing and instructive. N95 masks are classic examples of what might be called "middle-tech"—the masks themselves are individually cheap to produce and have no moving parts or electronic components, but the machines to make the masks, including the special non-woven fabric that filters out tiny particles, are precise pieces of equipment that are expensive, time-consuming to build and mainly come from overseas. A resilient manufacturing sector has to have the know-how and the capabilities to build more machines if needed—and it may be that we no longer have enough of the suppliers with the necessary know-how and capabilities to increase our productive capacity in a crisis.

Government statistics clearly show our eroding manufacturing base. Twelve out of nineteen major manufacturing industries shrunk between 2007 and 2019. Over the same stretch, the non-oil goods trade deficit grew by 60% to record levels, showing the gap between what we produce and what we need, and how unprepared we are to deal with potential shocks.

That's why we propose a "National Resilience Council" to lead a national push to stimulate local production, shorten supply chains, create high-wage factory jobs and make our manufacturing sector more resilient in crises. We have to harness our strength in tech to transform manufacturing for the 21st century. To be honest, we can't and shouldn't fight this battle on China's ground of giant factories supported by government subsidies.

Instead, a resilient manufacturing recovery requires the fostering of flexible, local, distributed manufacturing—relatively small efficient factories that are spread around the country, using new technology, knitted together by manufacturing platforms that digitally route orders to the nearest or best supplier.

The National Resilience Council would be tasked with identifying those industries and capabilities that are strategic, in the sense of improving the ability of the economy to deal with shocks like pandemics, wars, and climate changes. These areas are likely to be underinvested by private sector companies, who quite naturally don't have an incentive to tackle these sorts of large-scale risks. For example, no single company has an incentive to invest in improving N95 mask technology so that it is easier to scale up production, but the US government does. Or to harken back to an important historic example, the Defense Department's original motivation for funding the research that led to packet switching and the Internet was to create a decentralized network that would be more survivable in case of nuclear attack.

Shorter, simpler supply chains also help with sustainable production. Long and complicated supply chains require more air and water transportation, generating more greenhouse gases. International shipping alone, especially container ships, accounts for about 2 percent of all carbon dioxide emissions, about the same as Germany. Beyond that, the more links in the supply chain, the more difficult it is for end producers to get a full picture of their carbon emissions.

Our initiative has four parts:

- First, we should double the National Science Foundation's roughly $8 billion budget, with more of an emphasis on manufacturing-related areas such as materials sciences. That would still put it well below the roughly $40 billion going to the National Institutes for Health.

  Such a doubling has been a consistent bi-partisan goal in the past, yet the U.S. has consistently fallen short. For the past two decades more than two-thirds of U.S. private and public R&D spending has gone to infotech and biosciences, while other areas of science and technology have received much less attention. It's time to make up the shortfall.

- Second, the government can shore up the nation's supplier base by providing $200 million in low-cost loans and grants to help small and medium manufacturers test and adopt new production technologies, including digital advances such as robotics and additive manufacturing. Even in a low-interest rate environment, capital is relatively scarce for companies that are too small to tap the bond market.

  A somewhat similar initiative to provide loan guarantees for investment in innovative manufacturing technologies, authorized under the America COMPETES Act and supervised by the Commerce Department, never got off the ground because of excessively restrictive terms. Under our proposal, the loans and grants to small and medium companies would be tied to improving the resilience of the manufacturing base.

- Third, the National Resilience Council should sponsor a Manufacturing Regulatory Improvement Commission, along the lines that PPI has suggested in the past. We have no desire to roll back essential environmental and occupational health regulations. But we do want to consider whether rules governing manufacturing have become so restrictive as to unnecessarily force out jobs.
- Fourth, the federal government should take the lead to create a common "language" so that product designers, manufacturers, and suppliers can more easily work together online, just like DARPA helped create the basic structure of the Internet in the late 1960s. Just as a young person can write an app, put it online, and find users around the world, it should be possible to create a design for a new product and easily find potential local manufacturers.

The first two parts of our "National Resilience Council" initiative, which were laid out in our 2019 policy brief, "Jumpstart a New Generation of Manufacturing Entrepreneurs", find echoes in Joe Biden's excellent plan for boosting U.S. manufacturing. Key elements that we support include his proposals for bringing back critical supply chains to America, boosting worker training, increasing R&D investment, building up the Manufacturing Extension Partnership, and providing capital for small and medium manufacturers.

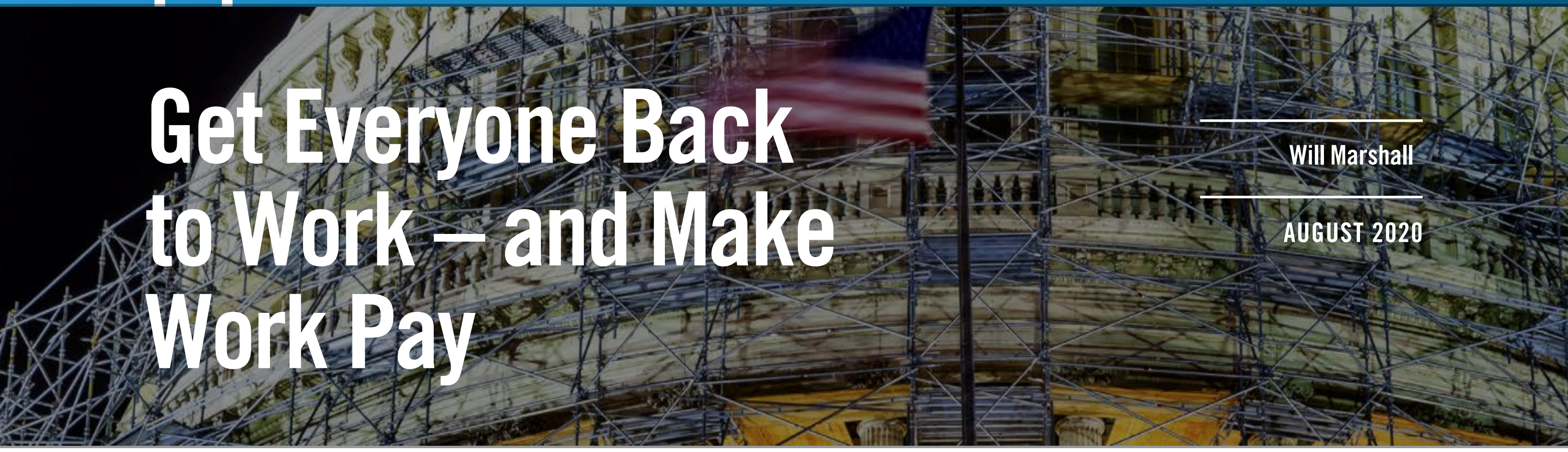
Biden's "Buy America" initiative is understandable, given the stunning size of the trade deficit. But in the long run, improving resilience is more about improving America's manufacturing capabilities than it is about restricting trade. Globalization and the development of new sources of supply, like India, can be a plus for resilience as long as we keep investing at home.

Moreover, one key word is essentially missing from Biden's plan: Digital. His proposals make no mention of digital manufacturing, cloud computing, 3D printing, or all the other technologies that have the potential to create new business models for America's factory sector.

The key is connectivity. Twenty-five years ago the rise of the Internet connected computers and made all sorts of new businesses possible, creating millions of jobs. Now it's time to make even the smallest factory in Ohio or Michigan part of a larger manufacturing network that can compete on a level playing field with larger foreign competitors.

Some manufacturing networks or "platforms", with names like Xometry and Fictiv, are already starting to sprout. Such platforms can make it easier for buyers to find domestic suppliers who have the necessary capabilities, and then to shift producers quickly when shocks hit or when it becomes necessary to lower carbon emissions. Such platforms can also give manufacturing startups access to immediate markets, make it easier for entrepreneurs to create well-paying factory jobs.

But this transformation of manufacturing is not happening fast enough to help American workers. The government has an important role to play leading the way to the Internet of Goods.



Get Everyone Back to Work – and Make Work Pay

Will Marshall

AUGUST 2020

INTRODUCTION

Summer is normally a time when Americans look forward to taking a vacation. In the pandemic summer of 2020, however, many of us probably would like nothing better than to get back to work.

Since the coronavirus reached our shores, tens of millions of Americans have been laid off or furloughed. Many others have had their hours reduced or their pay cut; have been prevented from plying their trade by stay-at-home orders; and, have stood by helplessly as businesses they built went under. Schools closings have compounded parents' ordeal, since it's hard to work or look for a job when you are taking care of kids at home.

More than 51 million Americans – almost one third of the nation's workforce -- have filed for unemployment since the pandemic began. In June, the official unemployment rate was 11.1 percent, which translates into nearly 18 million people out of work.

These figures don't take into account the summer surge that has pushed Covid-19 infection rates to record heights in 39 states across the South, West and Midwest. Sunbelt Governors who heeded President Trump's premature calls to "reopen" have closed bars, gyms and beaches to stem the spike in infections and prevent hospitals from being overwhelmed.

The longer the pandemic rages, the deeper the damage to a U.S. economy that remains largely locked down. So far, about three million small businesses have shut their doors for good. Many large companies also have announced sharp workforce reductions. It's estimated that at least 3.7 million Americans no longer have jobs to go back to.

"It's clear that the pandemic is doing some fundamental damage to the job market," said Mark Zandi of Moody's Analytics. "A lot of the jobs lost aren't coming back any time soon."

The economic pain inflicted by Covid-19 has not been distributed evenly. Hit hardest have been workers in retail, personal services, restaurants and hotels, entertainment and sports and manufacturing. Job losses are disproportionately high among low-income, black and Latinx workers.

Working Americans have made tremendous sacrifices to help the country contain an unusually infectious and deadly virus. Our country owes them an all-hands-on deck push to get everyone back to work as soon as conditions allow – and at a decent living wage.

What's needed is a robustly funded national reemployment drive in which the federal, state and local governments work in tandem with the private sector to match displaced workers to openings in fast-growing sectors; acquire the skills they need to switch careers; and, lower obstacles to starting new businesses to replace those we've lost.

This initiative also should take aim at the low-wage trap in which many less educated U.S. workers are caught. Raising the minimum wage is necessary but insufficient to reverse decades of growing wage inequality. The reemployment campaign must also include new ways to lift the pay and career prospects of blue collar workers who have fallen out of the middle class.

Ideas for stimulating entrepreneurship appear elsewhere in this report. This section proposes three big initiatives for connecting displaced workers to new jobs and careers, and for making work play.

First, increase apprenticeship in America ten-fold.

The United States lags other advanced countries when it comes to apprenticeship and other "active labor market" policies to facilitate the rapid reemployment of laid-off workers. Yet research shows that workers reap significant financial gains from apprenticeship, which usually combines on-the-job training and classroom instruction. In fact, the gains surpass those from other alternatives, including completing a degree at a community college.

Employers also benefit too. Their recruitment and training costs decline and their ability to add skilled workers rapidly improves. They also report higher worker productivity and morale.

Since apprenticeship clearly is a "win-win," it's puzzling that there are only about 440,000 registered apprentices in the United States. The Urban Institute's Robert Lerman, the nation's leading scholar of apprenticeship, notes that if we aimed at creating as many apprenticeships as a share of our labor force as Britain, Australia or Canada, that number would climb to around four million, or nearly 10 times higher.

Facing the challenge of getting millions of displaced workers into new jobs as quickly as possible, as well as finding slots for first-time workers whose entry into the labor markets has been delayed by the shutdown, America should go big on apprenticeship. This will also make U.S. labor markets more resilient against future economic downturns.

U.S. lawmakers should create strong incentives for intermediaries (private or public) to organize apprenticeship training and placement and market them to employers. Lerman estimates the cost of stimulating 900,000 new participants in rigorous apprenticeship at $3.15 billion a year. Since most of the occupational training would happen at worksites, at no public cost, the government would pay only for off-site classroom instruction and training in "soft skills." From the taxpayers' perspective, apprenticeship is a bargain compared to the cost of subsidizing full-time attendance at community colleges.

Another way to scale up is to tap the growing number of private intermediaries that compete to supply employers with skilled and reliable workers.

There are thousands of private firms and non-profits that are well positioned to supply purpose-trained talent to their clients. Many are already providing services to dozens or hundreds of clients in sectors facing talent shortages, notably technology or healthcare. Ryan Craig, an investor and writer, notes that these business services companies can become a vector for new talent by bridging the crucial "last mile" between educational institutions and employers. In what Craig calls an "outsourced apprenticeship," they hire laid-off and entry level workers and train them with an eye toward the occupational and soft skills required by specific companies. The intermediaries incur the training expense and get paid only when they succeed in placing their apprentices in full-time jobs. In so doing, they can create frictionless pathways to good first jobs.

The federal government can stimulate the growth of this competitive market with "pay for performance" awards financed by shifting funding from higher education (especially community colleges). Private intermediaries would get paid for each placement when they hire candidates who meet certain criteria (such as eligibility for Pell grants), provide them with an apprenticeship that pays minimum wage, train them and place them in permanent positions.

Second, it's time to end the federal bias against career education.

Even with a quite low unemployment rate before the virus struck, the U.S. economy suffered from a dearth of skilled workers. This "skills gap" left more than seven million jobs unfilled. When you add to that the millions of workers whose previous jobs vanished in the pandemic, it's clear that our country faces an enormous reskilling and upskilling challenge.

A national reemployment initiative therefore must expand access to high-quality career education and training. Yet federal policy tilts heavily in favor of aid for college-bound youth, while providing far less support for the majority of young Americans (69 percent) who don't get college degrees.

Many of the jobs that define the skills gap are positions that require specialized occupational training or education but not a four-year degree. More than half of U.S. jobs, in fact, are "middle skill" jobs in such fields as cybersecurity, welding and machining, truck driving and home health. They often require a certificate, license or other industry recognized credential.

Yet federal financial aid for career education and training is a pittance. In 2016, Washington spent more than $139 billion on post-secondary education, including loans, grants and other financial aid for students. Of that, just $19 billion went toward occupational education and training.

Demands from Sen. Bernie Sanders and others for "free college" would compound this inequity, showering new benefits on college-bound youth at the expense of working families whose children don't go to college. Instead, as a simple matter of equity, Washington should invest a roughly equal amount to expand access to high-quality career education and training for young workers who need post-secondary credentials but not a four-year degree.

Third, create a new "Living Wage Credit" to make work pay.

A national reemployment drive should also aim at reversing the decades-long trend toward wage stagnation and diminished job prospects for working Americans without college degrees. This dynamic is shrinking America's middle class and creating a new class divide along educational lines.

Our economy's seeming inability to generate decent family wages for non-college workers – along with unfounded fears that robots are making many workers superfluous -- has triggered calls on the left for guaranteed government jobs or income.

Pragmatic progressives ought to avoid statist solutions and instead offer direct support for low-wage workers. By raising the minimum wage and instituting a new "Living Wage Credit," our country can ensure that all full-time workers earn enough to support a middle class lifestyle.

Inspired by the success of the Earned Income Tax Credit (EITC), the Living Wage Credit would function as both an incentive and reward for work. It builds upon similar proposals by Tax Policy Center's Elaine Maag, and the Brooking Institute's Belle Sawhill.

Sawhill's version, for example, would give all U.S. workers a 15 percent raise up to some annual ceiling ($1,500). The tax credit, essentially an offset to the payroll tax cut, would phase out as earnings rise past $40,000 a year. Unlike the EITC, the Living Wage Credit would be based on an individual workers' income, not household income.

PPI's more ambitious Living Wage Credit absorbs the EITC, provides more generous tax relief and offsets the cost with a new national tax on consumption or value-added tax (VAT). In the absence of a VAT, however, the costs of a stand-alone credit for workers above the EITC cutoff could be defrayed by taxing the unearned incomes of wealthy Americans.

For example, a "tax wealth, not work" package could include higher rates on top earners; equalizing capital gains and personal tax rates; and, replacing the current estate tax, which the 2017 Trump-GOP tax bill cut dramatically for the wealthiest heirs, with a progressive inheritance tax (as proposed last year by PPI).

Invest in a Healthier America

Arielle Kane

AUGUST 2020

INTRODUCTION

The pandemic has thrown the shortcomings and inequities of America's health care system into sharp relief. These include the extreme vulnerability of the elderly in nursing homes; the poor health status of impoverished and minority communities; regulatory obstacles to deploying telemedicine; and, a lack of basic medical equipment and surge capacity in hospitals.

There's never been a better time to fundamentally change the way we deliver and pay for health care. Progressives should build on the foundation of the Affordable Care Act (ACA) to finish the job of universal coverage. But there's an even bigger challenge: Driving down the exorbitant cost of medical treatment in America, which drives up insurance costs, lowers wages, and sucks up resources we need for social investments that promote public health.

It's time for a new approach to regulated competition that caps medical prices and uses global budgets to create incentives for improving health on the front end to reduce the need for heroic interventions on the back end. These steps will generate large societal savings that we can invest in improving the "social determinants" of a healthier society — especially better housing, schools, nutrition, public safety and opportunities for our most vulnerable citizens.

The coronavirus pandemic has laid bare the weaknesses of the American health care system. Despite the fact that we spend far more on health care than any other advanced country in the world, we have worse outcomes. The United States spends 18 percent of its GDP — nearly twice as much as the average of the 11 OECD countries — yet has the lowest life expectancy and the most uninsured people. This grim reality set the stage for the novel coronavirus to rip through the population and take a particularly high toll on vulnerable populations.

The virus has disproportionately impacted the elderly, low-income people and people of color. According to the New York Times, 42 percent of the more than 130,000 U.S. coronavirus deaths are tied to nursing homes. A lack of resources, including testing and personal protective equipment, low-paid vulnerable direct care workers compounded with the defenseless elderly population they serve, was a tinderbox ignited by the virus.

In every age bracket, Black people are dying at rates equivalent to white people a decade older. There are likely a number of reasons for the variation in death rates.

For one, Black and Latinx citizens may be more likely to contract the virus because they are more likely to work in grocery stores, direct care, food processing and public transportation -- jobs deemed "essential." In addition, they are more likely to suffer from chronic conditions like hypertension, obesity, diabetes, and lung disease, and have less access to good health care services because of poverty and the legacy of racial discrimination.

The pandemic also has illuminated a fundamental lack of resilience America's health care system. For example, more than five million Americans have lost their health coverage because it was tied to jobs they lost in the shutdown. They should be able to turn to Medicaid for coverage, but 13 states have refused to expand their Medicaid programs under the ACA. Thus the rise of uninsured is expected to hit these Republic-led states harder.

Covid-19, and the subsequent shelter in place orders, have exacerbated mental health conditions. Because many people couldn't access their usual care, drug overdoses have increased during the pandemic. Treating patients via telehealth might not work for every condition, but it is effective for many mental health issues. Seeing this, many states have changed regulations to expand access to telehealth services

Even as we fight to contain the Covid-19 pandemic today, U.S. policymakers should be looking ahead to constructing a more innovative health care system that covers everyone, holds medical costs down, creates healthier conditions in low-income communities and makes our society more resilient against future public health emergencies.

PPI has proposed a comprehensive architecture for health care reform. This report highlights two critically important steps forward: Plugging coverage gaps and adopting global budgeting to lower health care costs.

First, to make coverage truly universal, lawmakers should expand the Affordable Care Act's subsidies, set up auto-enrollment mechanisms for the uninsured, and cap the price of medical services. The recent vote to approve Medicaid expansion in Oklahoma demonstrates that Republican resistance to expanding Medicaid as allowed by the ACA is slowly melting away.

In addition, PPI has endorsed a "Midlife Medicare" buy-in. As conceived by health care analyst and historian Paul Starr, Midlife Medicare would respect the traditional status of Medicare as a program for the elderly by allowing the not-quite retired (those aged 55-65) an opportunity to buy their benefits early. By taking many older, high-cost people out of the individual insurance market, Midlife Medicare would lower premiums for younger workers.

Second, we need to change the perverse incentives in our system for overspending on after-the-fact medical treatment so that we can invest more in upstream social determinants of health.

Getting everyone covered is essential, but it will not by itself address racial disparities in health. Health status is a product of more than medical care — things like public safety, housing, education, transportation, and nutrition all impact a person's health. The United States spends roughly 18 percent of GDP on health care — the most of any OECD country. At the same time, America spends the least on social services.

Reducing U.S. health care spending to 12 percent of GDP — the amount that the second highest cost country, Switzerland, spends on health care — would free up roughly $1 trillion dollars to invest in a broad array of social services that are conducive to better health. For example, the data overwhelming demonstrate that access to affordable, quality, safe housing improves health outcomes.

As former Oregon Governor John Kitzhaber, MD argues, America needs to shift from an after-the-fact medical treatment model to a sickness-prevention and health promotion model. The only to break the back of health care cost inflation, he argues, is to embrace global budgeting:

"Doing so requires that everyone has timely access to effective, affordable, quality medical care; and that we have room in the budget to make strategic long-term investments in stable families, housing, nutrition, safe communities and economic opportunity. In other words, the key elements are universal coverage, financial sustainability and effective social investment. The economic reality is that the only way these three elements can exist together, is if universal coverage is accompanied by a reduction in the rate of medical inflation; and the only way we can effectively reduce medical inflation is through a global budget indexed to a sustainable growth rate."

The key mechanism to reduce the cost of medical services is global budgeting. A global budget is a fixed amount of money all payers in a region agree to pay to deliver care to a defined population.

For example, hospitals in Maryland, which operate under a global budget, found themselves better positioned to weather the Covid storm because their revenues did not drastically change when elective procedures stopped and they continued receiving predictable revenue as they delivered care to Covid patients. Rural hospitals in Pennsylvania also recently moved to this model.

Global budgets also eliminate incentives for hospitals to inflate prices for Covid-19-related services to compensate for the loss of normal revenue. A recent analysis in JAMA outlines why these hospitals will be better positioned to bounce back from Covid-related economic hardship.

The federal government should take its cue from Maryland and Pennsylvania. Rather than set a federal cap on health care spending, Washington should encourage each state to set its own global budget and work with the payers and providers in its borders to work out the details.

Washington also should give States should also have greater flexibility to spend Medicaid dollars on housing and other social determinants that can reduce health care expenditures, as Oregon has done.

There is no question that dramatic reform of the health care system will be difficult. But the U.S. has long been the outlier of advanced countries – overpaying for poor health outcomes. We have a crisis that has laid bare the weaknesses of our system and policymakers should not let the moment pass without dramatically reforming our system more cost effective, productive and resilient for the future.

Make America #1 in Electric Vehicles

Paul Bledsoe

AUGUST 2020

INTRODUCTION

Achieving U.S. climate resilience requires a dynamic and unprecedented American clean energy transition, including large investments in zero-emissions infrastructure and clean energy manufacturing -- the fastest growing global manufacturing sector set to attract $10 trillion in investment by 2050.

A new report from the Progressive Policy Institute finds the U.S. has the opportunity to build tens of millions of new electric vehicles, charging stations, and the advanced electric grid to serve them, as well as upgrading our roads, bridges, high-speed internet, ports, and public transport to fulfill this clean energy vision. The Covid-19 economic and unemployment crisis has only intensified the political imperative to create millions of these new, clean energy jobs, with a particular emphasis on well-paid manufacturing.

In his 2016 campaign, Donald Trump famously promised to revitalize American manufacturing and rebuild our crumbling infrastructure. But as president he has done neither one. In fact, U.S. manufacturing declined deeply during each quarter of 2019, long before the coronavirus reached our country.

Now former Vice President Joe Biden and other Democrats have put clean energy at the center of bold blueprints for reviving the comatose U.S. economy. The House last month passed a $1.5 trillion infrastructure and tax package, and Biden recently unveiled his $2 trillion “Build Back Better” plan. But ambitious as these proposals are, they do not offer a detailed roadmap for making America the global leader in the key clean energy technologies, especially electric vehicles, and related technologies like an advanced electricity grid and storage.

Yet the mass commercialization of electric vehicles is key to cutting the largest source of U.S. greenhouse gas emissions, making America's air cleaner and healthier, ending dependence on foreign oil, and bringing about a resurgence of the U.S. auto industry and American manufacturing jobs.

Until we are producing American-made vehicles that can beat oil-burning cars on price and consumer appeal over the long-term, the clean energy transition in the key transport sector will not gain speed. We need a muscular new vision of America's clean energy infrastructure and manufacturing sector creating millions of good new jobs. This is modern equivalent of Franklin D. Roosevelt's "Arsenal of Democracy"— helping to solve many of our economic, manufacturing, trade and environmental problems together.

The United States can't afford to forfeit the lead on electric vehicles to China, as has happened with other clean energy technologies. For example, China in 2008 devoted half its total $650 billion stimulus to manufacturing PV solar panels and lithium ion batteries, growing China's PV solar panel global market share from less than 30% to about 70% today.

Cars are far more important America's economy and national identify than solar panels. Thanks to heavy investments in electric vehicle technology, China already is dominating the emerging global EV market, with over 50% of global production, and 73% of the EV battery market. Meanwhile, the US produces fewer than 20% of EVs. Industry experts predict that electric vehicles will be the key to auto industry growth over the next years and decades—from less than two million EVs today to more than 30 million by 2030—representing the world's most important new manufacturing market.

But today, most Americans cannot afford the excellent but more expensive EVs that dominate the U.S. market. And the EVs that are affordable are not available in models—especially SUVs, minivans and light trucks—that most U.S. consumers prefer, and that provide higher profit margins for automakers.

America needs a new approach to the electrification of transport – a comprehensive program to jumpstart the production and purchase of the electric cars and trucks Americans want and can afford. The existing federal consumer tax credit of $7,500 per EV has reached a cap of 200,000 for GM and Telsa, the largest US producers. While Democrats in Congress have proposed raising the cap per manufacturer, this minor change won't drive large and rapid electrification of the U.S. fleet. And Republicans have (hypocritically but successfully) attacked the current tax credit as a government giveaway for "Tesla millionaires" that favor only the richest consumers.

Instead, Congress should provide average American consumers much larger tax credits for purchase of affordable U.S.-made EVs, including models Americans actually want, especially minivans, SUVs, and light trucks. This means dedicating large consumer tax credits to the purchase of more affordable EVs with an emphasis on high-volume model types on graduated scale as follows: $15K credit for vehicles under $35k: $7.5k for EVs under $50k; $2.5k under $75k and $1.5k under $100k. A version of this PPI approach has been crafted into legislation by US Rep. Jackie Speier; the bill has over 30 cosponsors but, the tax credit must be applied to SUVs and trucks to achieve volume and scale and gain broad bipartisan support.

Buyers should also get to use the EV credit over a 5-year period, or apply the credit at the point of sale, making it more applicable to average income buyers who lack large tax liability. Additional measures should include extra tax incentives for trade-in's to rapidly turn over the non-EV fleet ("cash for clunkers") and requiring the federal government fleet to purchase U.S.-made EVs. And infrastructure legislation must provide strong incentives for electric charging stations, advanced electric grid and storage.

The rapid retooling at GM and Ford to build ventilators and masks to address the Covid-19 crisis illustrates the ability of automakers to adapt to new market demands and government incentives. In fact, many these plants had been making hybrid car batteries.

With nearly 20 million people out of work, America must create millions of new jobs by investing in an infrastructure-led manufacturing recovery through federal legislation just as we did in the 1930s New Deal, the 1950s Interstate Highway System, 1960's through NASA and the 2009 American Recovery and Reinvestment Act. We must also train workers in technology and manufacturing skills through high schools and community colleges, focused where unemployment is highest, in direct cooperation with EV and other clean energy employers.

America has led the world in auto innovation for most of the last century. We must do so again in a new era. U.S.-made EVs are crucial to climate resilience, the U.S. economic rebound and gaining broader political support for the clean energy transition. It's time to act.

Weave a Stronger Safety Net Post-COVID

Crystal Swann

AUGUST 2020

INTRODUCTION

The coronavirus pandemic has opened some gaping holes in our nation's social safety net, especially where hunger and malnutrition are concerned. Millions of low-income workers have lost their jobs (and will soon lose expanded unemployment benefits if Congress fails to extend them) and millions of children in low-income families have lost access to school meals because the K-12 system has shutdown. These twin blows have triggered a dramatic rise in hunger and food insecurity in America.

Even before the pandemic hit, an estimated 37 million people, including 11 million children, reported experiencing food insecurity or hunger. Unless Covid-19 is contained, that estimate could reach 54 million by the end of 2020.

America's most vulnerable populations — poor families with children, Black Americans, Hispanics and those living in rural areas and the South — are disproportionately affected by food insecurity and hunger. Their school-aged children also are more likely to rely on free and reduced-price school meals to meet their nutritional needs.

In March, Congress passed the Families First Coronavirus Response Act, which provided emergency food assistance and authorized the U.S. Department of Agriculture and the states to adapt the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) to meet the needs of the hungry during the crisis. According to a Center on Budget Policy Priorities report, almost all states have taken advantage of the flexibility the Act provides to maintain SNAP benefits to households with children missing school meals.

Before Covid-19, the national school lunch program on average served nearly 29 million students, and the school breakfast program served nearly 15 million students. When the schools closed in March, many school districts scrambled to keep feeding their students, by establishing "Grab and Go" sites for picking up meals, or establishing daily meal delivery routes using buses to deliver food rather than transport students.

Despite these improvisations, however, most school aged children apparently are not receiving as much food as they did before their schools closed. For example, a survey of school nutritional professionals found that 80 percent of school districts reported serving fewer meals since school closures. Of those districts, 59 percent have seen the number of meals served drop by 50% or more.

In response to the K-12 shutdown, the Families First Act created the Pandemic Electronic Benefit Transfer program that provides food to families that have lost access to free and reduced-priced meals. This one-time meal replacement benefit is added to an existing electronic benefits transfer card for families already receiving SNAP. Families with school-age children that don't receive SNAP can also get a card.

SNAP historically has proven to be one of the nation's most effective programs for providing low-income households with food during economic downturns. That makes it a powerful counter-cyclical policy tool. Research shows each $1 of SNAP benefits generates between $1.50 and $1.80 in total economic activity. Yet when Congress in April passed its next pandemic relief measure, the CARES Act, it increased more operational funding for SNAP operations but failed to increase SNAP direct benefits.

There are compelling moral and economic reasons why U.S. lawmakers should make offering more food aid a top priority as Covid-19 infections climb in most of the states, slowing economic recovery and causing more workers to file for unemployment. In the first place, hungry and malnourished people are more vulnerable to disease. There's also a strong possibility that many K-12 students will not be able to go back to school in September, despite President Trump's ill-considered calls for a general reopening. Additionally, by supporting food consumption by low-income families, more aid stimulates demand and keeps our stricken economy afloat.

To meet the immediate crisis, PPI endorses anti-hunger provisions of the HEROES Act that House Democrats passed in May, but is now blocked by Republican Senate Majority Leader Mitch McConnell. These include:

- Increasing the SNAP maximum benefit by 15 percent through September 30, 2021, which translates into an additional $25 per person each month;
- Raising the minimum monthly benefit from $16 to $30;
- Adding $3 billion for child nutrition programs; and,
- Extending the Pandemic Electronic Benefits program through the fall of next year.

MODERNIZING THE SAFETY NET

This is also the right time to look beyond the current crisis and ask how our country can build a more resilient system of social supports that can better protect our most vulnerable citizens against future pandemics and other emergencies.

"While it's true that government safety net programs help tens of millions of Americans avoid starvation, homelessness, and other outcomes even more dreadful than everyday poverty, it is also true that, even in 'normal times,' government aid for non-wealthy people is generally a major hassle to obtain and to keep," notes Joel Berg, CEO of Hunger Free America.

"Put yourself in the places of aid applicants for a moment," Berg added. "You will need to go to one government office or web portal to apply for SNAP, a different government office to apply for housing assistance or UI, a separate WIC clinic to obtain WIC benefits, and a variety of other government offices to apply for other types of help—sometimes traveling long distances by public transportation or on foot to get there—and then once you've walked through the door, you are often forced to wait for hours at each office to be served. These administrative burdens fall the greatest on the least wealthy Americans."

A survey of low-income households by Hunger Free America found that 42 percent said it was "time-consuming and/or difficult to apply" for Unemployment Insurance, and nearly a quarter said the same about applying for SNAP. In addition, "40 percent of respondents said they had problems reaching government offices while applying for SNAP, with 36 percent stating that they never received a call back after leaving a message."

To reduce the high "opportunity costs" of being poor in America, the federal and state governments should adopt modern digital technologies that help low-income families apply once for public benefits without having to run a bureaucratic gauntlet of siloed programs for nutrition, housing, unemployment, job training, mental health services, and more. Specifically, as Berg proposed in a 2016 report for PPI, governments at all levels should cooperate to create online accounts from which families can apply remotely for all the benefits they qualify for, and into which they can deposit their public assistance.

This proposal is the centerpiece of a new bill introduced by U.S. Reps. Joe Morelle (D-NY) and Jim McGovern (D-Mass) and Senator Kirsten Gillibrand (D-NY). The Health, Opportunity, and Personal Empowerment (HOPE Act) would fund state and local pilot projects setting up online HOPE accounts to make it easier for low-income people to apply for multiple benefits programs with their computer or mobile phone. In addition to saving them time, money and aggravation, HOPE accounts enable people to manage their benefits – effectively becoming their own "case manager" – and easing their dependence on often inefficient and unresponsive social welfare bureaucracies.

In keeping with former Vice President Joe Biden's "Build back better" theme, expanding food aid now to stem a surge in hunger, while deploying digital technology to give low-income Americans more control over their economic security, can help us weave a stronger and more resilient social safety net, rather than simply plugging holes in the old one.

Make the Gig Economy More Resilient

MICHAEL MANDEL
ALEC STAPP

AUGUST 2020

INTRODUCTION

The "gig economy" has unlocked a wave of economic value in recent years. The direct impact of independent workers on the economy is almost $1 trillion, or 5% of GDP. Now, this extremely flexible segment of the economy is more important than ever in the midst of the COVID-19 pandemic. Surprisingly, even the healthcare industry has been laying off workers, as patients defer elective surgeries and postpone non-urgent care.

The gig economy has been a rare bright spot during a dark time for the U.S. economy. Since the shutdowns began in mid-March, more than 44 million Americans have filed for state unemployment benefits. Fortunately, platforms for independent workers have been able to pick up some of the slack. Instacart has hired 300,000 new workers and plans to hire 250,000 more. Target's Shipt added 100,000 workers. Doordash and Amazon Flex are also seeing a surge in signups by workers. Part of the reason for this uptick is that gig workers often perform tasks that enable social distancing for others such as food or package delivery. Platforms that facilitate these transactions are also one of the only ways newly laid off workers can earn income during the crisis, bypassing strenuous hiring processes or the need to learn new skills. These flexible work arrangements can benefit society by swiftly shifting labor out of dormant sectors and into in-demand sectors.

For many workers, these new gig economy jobs will be temporary, serving as a lifeline during a difficult time. For others — and for the millions who were already independent workers — these new jobs might become permanent. While these jobs are certainly much needed during these times, a key inequity from before the pandemic remains: independent workers don't receive the same benefits as employees. This is due to two factors. First, businesses generally prefer working with independent contractors as opposed to hiring employees because there are fewer rules and regulations associated with independent workers and therefore lower costs. Second, the tax code is biased against independent workers. Employee benefits tend to be untaxed, while independent workers must purchase benefits on their own using post-tax income.

So the critical question becomes: How can we help workers in these jobs get the benefits they need and deserve while maintaining the flexibility that traditional employment arrangements can't offer and that independent workers value so dearly — and that have helped make our labor markets more supple and resilient during the present crisis?

As part of its disaster relief, Congress augmented regular unemployment benefits under the Pandemic Unemployment Assistance (PUA) program, including self-employed workers who had previously been excluded from receiving UI benefits. Including independent workers in this stimulus measure makes sense even from the logic of the unemployment system: Across the business cycle, the unemployment system already pays out more in benefits to workers than it receives in UI taxes. The system is designed to be an automatic stabilizer and Congress regularly increases outlays as a first line of defense in a recession.

Traditionally, workers have been sorted into two categories: employees and independent contractors. Gig workers are most often classified as independent contractors. Some progressives are calling for a change to the laws so that gig workers become employees. This shift could undermine many of the benefits involved in freelancing by imposing costs, rules, and regulations associated with employment that undermine the autonomy independent workers currently enjoy. It's no surprise that in surveys gig workers overwhelmingly say they don't want to be reclassified as employees.

Nonetheless, that doesn't mean they don't want and deserve basic protections and benefits employees have. The current distinction between employees and independent workers is outdated and ill-suited to the 21st century digital economy. However, that didn't stop California's legislature from doubling down on the old model, passing AB-5 last September which effectively reclassified most independent workers as employees.
The predictable result: independent workers in California have been laid off en masse.

In its news coverage of the passage of AB-5, Vox published an article with the headline "Gig workers' win in California is a victory for workers everywhere." Its reaction as a business, however, was quite different. A couple months later, its parent company, Vox Media, laid off 200 freelance writers right before the holidays (and right before the law went into effect on January 1).

It is time to update the U.S. tax code, which is biased toward employees and against independent contractors. According to the Bureau of Labor Statistics, total benefits are more than 30% of hourly compensation for private sector employees. If businesses try to give independent workers benefits, that's taken as prima facie evidence that those workers are actually employees and the associated regulations apply to them. And most of these benefits are tax-advantaged: retirement and savings, insurance (life, health, short-term, and long-term disability), paid leave, workers compensation, and unemployment benefits.

But it's important to note: all else equal, that this plan to extend tax-preferred benefits to independent workers wouldn't cost taxpayers any more in lost tax revenue than converting all independent workers into employees because the benefits would be untaxed in both cases. In other words, if a federal version of AB-5 were to be implemented, independent workers that become employees in that scenario would also receive tax-advantaged benefits.

A new tax and regulatory regime that solves this inequity would have several important features:

- It should equalize the tax treatment of benefits so that independent workers are on a level playing field with employees.
- It should require a baseline level of benefits and protections for independent workers, including a cafeteria-style plan with a menu of options for workers to choose what makes the most sense for them.
- It should have a uniform national standard for determining who is an independent worker. For example, one possibility is that companies would have minimal control over hours of work, and no non-compete agreements

Here's how it would work. Companies would pay a certain share of the worker's earnings into a dedicated account for pre-tax benefits. There would be no required match from the beneficiary. The independent contractor would accrue benefits in proportion to the amount of money he or she earned on the platform. A separate and important question is whether the new regulatory regime would be opt-in or mandatory. We lean towards opt-in given the wide variety of independent contractor arrangements that exist (e.g., doctors, realtors, etc.). If companies do not opt in, they would remain subject to existing legal tests for determining worker classification.

If a company opts-in to this alternative classification — which we call "gig workers with benefits" — then once a worker reached a certain number of hours contracting with them, that worker would be entitled to a required set of tax-advantaged benefits — for example, portable benefits including paid leave, retirement savings accounts and contributions towards an individual's health insurance premiums. All workers also should be covered by occupational accident insurance for on-the-job injuries.

On the other hand, companies that opt-in to this new regulatory framework would be required to give workers the freedom to choose their hours as well as work for other companies in the same industry. In effect, this would give employers minimal control over hours or non-compete agreements.

Companies would be required to choose, on a year by year basis, whether they apply this new category of worker to their independent contractors. Companies are incentivized to opt-in because the benefits independent workers receive under this model are tax-advantaged. On the margin, independent workers will choose to work with companies that offer these benefits because they are worth more than pure cash compensation (which is subject to payroll and income taxes).

This new category for independent workers would come with some of the costs of regular employment, but many companies would likely still choose this option over hiring employees because their business model depends on flexible, on-demand workers. For example, a ride-hailing company would likely not be able to comply with minimum wage and overtime laws if workers set their own hours, as there would be no way to ensure that workers don't "clock-in" during off-peak demand to sit idly and collect the minimum wage and overtime. The "gig workers with benefits" category, on the other hand, enables companies to maintain their flexible approach to engaging gig workers, without compromising the independence that the workers themselves value highly. If this flexibility went away, workers would demand more cash compensation to compensate for needing to work a rigid schedule.

This choice would allow companies to offer benefits to independent contractors without worrying that they would be reclassified as employees at either the state or federal level, while preserving the flexibility and independence that are synonymous with independent contractor status. And independent contractors would be on equal footing with the tax-advantaged employee benefits.

America's gig workers deserve greater economic security but eliminating their jobs or undermining the autonomy of workers who need flexibility in their employment isn't the right way to achieve that goal. Leveling the playing field to ensure independent workers and employees receive the same tax treatment on their benefits is the better path forward.

Create a "Fiscal Switch" to Make Our Economy More Resilient Against Recessions

Ben Ritz

AUGUST 2020

INTRODUCTION

The federal government is on track to run a record-shattering $4 trillion budget deficit in 2020, in large part due to its aggressive fiscal response to the pandemic-induced recession. Some on the right have raised alarm about this borrowing, despite their support for budget-busting tax cut and border-control policies over the last three years. The hypocritical chorus will likely only grow louder if Democrat Joe Biden is elected president in November.

But temporary deficits are an invaluable tool for mitigating the damage caused by economic downturns, as government spending replaces a drop in demand from the private sector. The long-term fiscal costs of failing to support an economy with a double-digit unemployment rate would far exceed those of even the most overzealous stimulus measures. Necessary fiscal support should therefore continue as long as the economy remains hobbled by the coronavirus, no matter the cost.

However, Washington also faces structural deficits that will persist long after the pandemic has been contained. Thanks to the Trump administration's reckless borrowing binge at a time when the unemployment rate was below 5 percent, the federal government was already projected to spend over $1 trillion more than it raised in revenue even before the pandemic hit. This structural deficit will only grow worse in the coming years because our nation's aging population is causing federal spending on health-care and retirement programs to grow significantly faster than the revenues needed to finance them. The Trump administration did not create these problems, but it did make them significantly worse with its pre-pandemic fiscal policy and its disastrous handling of the public health crisis.

In the two years following the 2008 financial crisis, the national debt grew from less than 40 percent of gross domestic product to more than 60 percent of GDP. In 2020 alone, the debt will likely surpass the all-time high it reached following the end of World War 2 (106 percent of GDP). The rising cost of servicing this growing debt threatens to crowd out critical public investments that lay the foundation for long-term growth after the recession ends.

The federal government spent more money servicing the national debt last year than it spent on critical public investments in education, infrastructure, and scientific research combined. Although interest rates are low now, they eventually will rise as the economy recovers. Allowing interest payments on our debt to further crowd out these investments — which have already fallen by nearly 40 percent in real terms since the 1980s — would have disastrous consequences, including lower incomes, fewer high-quality jobs, and reduced economic mobility.

It is therefore essential to pay down the debt during expansions to create fiscal space for the necessary surge in short-term borrowing during recessions. Unfortunately, Washington has often waited too long to enact sufficient stimulus in response to recessions, and then failed to summon the will to narrow the structural gap between taxes and spending when the economy rebounds.

To make our economy more resilient against downturns, PPI proposes the federal government adopt a "fiscal switch" that automatically balances out the business cycle by increasing spending during recessions and recouping the cost during subsequent periods of economic growth. This switch would trigger based on economic variables such as the unemployment rate and operate through three mechanisms: a rebalanced relationship between federal and state governments, a more dynamic and progressive tax code, and phased-in reforms to mandatory spending programs driving our structural deficits. Implementing these automatic mechanisms, as recommended here and in PPI's Emergency Economics report earlier this year, takes politics out of these decisions and ensures stimulus or deficit reduction will be implemented as warranted by economic conditions.

The first step is to better leverage the federal government's unique borrowing capacity, which is unavailable to the vast majority of state and local governments required by law to balance their budget each year. Many government programs, including Medicaid, infrastructure, and education spending, are partnerships in which the federal government provides matching grants for state and local spending.

Some of these partnerships could be improved by allowing matching rates to adjust up or down automatically based on a state's unemployment rate. This would prevent state and local governments from having to cut essential services during a downturn while asking them to shoulder a greater share of program costs when their budgets are healthy.

Other programs that currently function as a federal-state partnership but whose costs fluctuate significantly with the business cycle would benefit from becoming more nationalized. For example, when Congress tried to ensure that unemployment insurance replaced a minimum percentage of lost wages for everyone who was laid off in the early days of the coronavirus recession, lawmakers found they were unable to do so because of outdated operational infrastructure in a messy patchwork of 50 different state programs. As a result, policymakers were forced to settle for a controversial across-the-board benefit increase of $600 per week that gave some laid-off workers even more income from unemployment benefits than they lost in missed wages, while failing to make others whole. Even worse, Congressional squabbling over how long to maintain this benefit increase allowed them to lapse temporarily in the midst of an economic crisis.

Moving the operations of unemployment insurance and similarly-situated safety-net programs off state balance sheets and onto the federal government's, in addition to automatically making benefits more generous during downturns and phasing them out in recoveries, would leverage Washington's fiscal firepower in recessions when it's needed most.

The second step is to make the income tax code more progressive, which serves as a strong automatic fiscal stabilizer by boosting average tax rates when incomes rise in expansions and lowering them when incomes fall in recessions. This objective could be accomplished by closing tax preferences for the wealthy, such as lower tax rates on inherited income and income from capital gains, while expanding the Earned Income Tax Credit and other pro-worker tax incentives. PPI also favors replacing the antiquated payroll tax with a dynamic value-added tax – which has a rate that automatically falls during recessions and rises during expansions – to encourage hiring and consumption when the economy needs it most and reclaim substantial revenues during economic expansions.

Finally, lawmakers must take additional measures to rein in the drivers of underlying structural deficits automatically when the fiscal switch calls for a pivot away from stimulus. Social Security and Medicare – the two largest programs in the federal budget – both face the prospect of becoming insolvent within the next decade, potentially leading to sudden and across-the-board benefit cuts for millions of seniors if lawmakers take no action to close the growing gap between dedicated revenue and scheduled benefits. Significant deficit reduction that takes effect in the middle of a recession could be catastrophic, but lawmakers should put in place a process now to develop and phase in a balanced package of revenue increases and benefit changes as the economy recovers. PPI's Progressive Budget for Equitable Growth offers policymakers a model for how they can modernize these programs to strengthen work incentives, retirement security and financial sustainability in a way that is fair to both younger workers and older beneficiaries.

The right fiscal policy in a recession is not the right fiscal policy for an expansion, and vice versa. Washington politicians are often too slow or ideologically beholden to react sufficiently swiftly to changing economic circumstances. Taking these steps and creating a two-sided fiscal switch will give our government the tools it needs to manage the economy through both the ups and the downs of the business cycle.

Create Two Million New Businesses

Dane Stangler

AUGUST 2020

INTRODUCTION

Millions of America's smallest businesses have been severely affected by the COVID-19 crisis. They've seen revenue evaporate and have been forced to lay off millions of workers. Over two million small businesses had simply disappeared by June 2020. The U.S. economy now finds itself in a deep hole, with millions of small businesses gone for good—and a dried-up pipeline of new business creation.

By the end of June, the American economy also was without tens of thousands of new "employer" businesses (those with employees) that normally would have been started. The pandemic and economic crisis have wreaked havoc on existing small businesses and the new start-ups that the economy depends on for job creation and innovation.

Meanwhile, the Trump administration's implementation of the Paycheck Protection Program (PPP), authorized by Congress to provide billions in loan guarantees through the Small Business Administration (SBA), has been flawed. The Treasury department has provided insufficient, and constantly changing, guidance to lenders and businesses. The SBA's own Inspector General found that the administration did not adhere to Congressional intent in deploying PPP funds.

Even before COVID-19, the Trump administration had proven itself incapable of inspiring entrepreneurial confidence. Business formation had trended steadily downward over the previous two years. According to a PPI analysis of Census Bureau data earlier this year, new business applications fell steadily from the middle of 2018, after rising more or less interrupted since 2012. Business applications that have a "high propensity" of turning into employer businesses had also fallen since the middle of 2018.

The picture gets worse the deeper you dig. The pandemic recession has disproportionately affected female, Black, and Latinx business owners. By April, the number of female-owned businesses had fallen by 25 percent (compared to 20 percent for male-owned businesses). The number of Black- and Latinx-owned businesses had shrunk by, respectively, 41 and 32 percent (compared to 17 percent for white-owned businesses).

These are astonishingly high losses and they come on top of a small business landscape already tilted against minorities and women. According to Census data, going into the crisis, Blacks owned just two percent of employer businesses in this country, despite comprising 13 percent of the population. Latinos and Latinas, making up 18 percent of the population, owned six percent of businesses. Male-owned businesses were larger and with higher revenues than female-owned businesses.

What's needed now is a major national push to reinvigorate business creation and address underlying demographic disparities in business ownership. For women and minorities, when it comes to entrepreneurship, returning to the pre-crisis status quo is simply not an option. It shouldn't be an option for the country, either. Greater business creation and ownership among women, Blacks, Latinx, and others will accelerate recovery and strengthen resilience.

Over the last 40 years, new businesses have, on average, created about six jobs per year, per company. If one million new Black and Latinx businesses opened (replacing the ones that have closed permanently) and were joined by half a million additional new businesses, we could see about nine million new jobs created. Not all these companies would survive—in the "normal" course of economic activity—but a significant subset of them would not only survive but also thrive. Young companies that survive and grow drive the lion's share of net new job creation each year.

Public policy should seek to help stimulate new business creation and support the survival and growth of young businesses. The focus of this effort should be on women- and minority-owned businesses. Vice-President Joe Biden has proposed renewing the State Small Business Credit Initiative (SSBCI), an Obama-era program, to focus on these businesses. Evaluations of the SSBCI found positive effects in terms of investment and job creation, but a much larger effort is likely needed. The federal government has many tools at its disposal to be leveraged in support of new business formation and to aid specific types of entrepreneurs.

PPI believes the federal government should launch a National Start-Up Initiative that aims to spur creation of at least two million new businesses as our country recovers from the pandemic recession. It would include the following key actions:

- Create a startup visa for founders of new companies. These would include foreign students graduating from a U.S. university, those transitioning out of Optional Practical Training, or any H1B visa-holder after three years. The foreign-born start companies at disproportionately high rates; encouraging them to do so would give a significant boost to overall business creation. This could be accompanied by incentives for business creation in specific geographic areas or neighborhoods.

- Leverage federal research funding to reform technology commercialization processes at universities. America's research universities are the best in the world at knowledge creation, yet their ability to turn knowledge into innovation and new companies has been declining. Many promising entrepreneurial ventures get stuck in bureaucratic processes. The federal government, which provides billions of dollars to support university research, should create new incentives for those institutions that devise more effective commercialization practices and generate new businesses for their communities.

- Create a new "Start-Up Tax Credit" to encourage new businesses to grow into large businesses. Modeled on the Earned Income Tax Credit, the Startup Credit is designed to help these businesses avoid the scale-up trap unintentionally posed by tax breaks and regulatory exemptions for new enterprises. For example, businesses with fewer than 50 employees are exempt from the employer shared responsibility payment of the Affordable Care Act and providing unpaid leave. While these "carveouts" certainly help small businesses get off the ground, they impose an implicit tax when those companies grow past a certain threshold. The Startup Tax Credit would mitigate that tax.

  As proposed by PPI economist Elliott Long, the Startup Tax Credit would be tied to the number of employees and payroll at a small business. Firms that have been operating for fewer than five years would be eligible for a credit equal to half the employer-side payroll tax they pay on their first 100 employees, up to a maximum credit of $1,200 per employee in 2020 (indexed to inflation). The proportion of payroll taxes offset by the credit and the maximum credit per employee would then gradually phase down as businesses grow until phasing out entirely once the business reaches 500 employees. PPI estimates this proposal would cost roughly $150 billion over 10 years.

- PPI has also supported the New Business Preservation Act, introduced by Sen. Amy Klobuchar (D-MN). This would allocate $2 billion in federal funding to match private investments in areas of the country bereft of startup equity investments.

These steps would help seed the ground for new business creation, just as our country needs to create millions of them to provide jobs to U.S. workers whose previous jobs vanished in the pandemic shutdown. They would also create conditions that would make America's entrepreneurial culture more vibrant and resilient against future public emergencies of all kinds.

Invest in Metro Recovery and Resilience

Crystal Swann

AUGUST 2020

INTRODUCTION

A resilient city is defined by "the policy-induced ability of an (urban) economy to withstand or recover from the effects of shocks." It took many U.S. cities years to recover from the 2008 Great Recession and Wall Street meltdown. Today, the coronavirus pandemic and recession pose an even more severe test of the resilience of America's great metropolitan hubs.

"The scale and speed of this economic collapse is without precedent in modern American history," according to a new Brookings Institute study. "In just two months, measures to safeguard public health wiped out a decade's worth of job gains since the Great Recession."

The speed and strength of America's recovery from this calamity is inextricably linked to what happens in urban centers. According to 2019 report by The United States Conference of Mayors and IHS Markit, the nation's 10 highest-producing metro economies generated $7.2 trillion in economic value in 2018, surpassing the output of the sum of 38 US states. Their output exceeds all the nations of the world save China, and is 45% greater than that of Japan, the 3rd largest economy of the world.

Twelve of the world's 50 highest-producing economies are U.S. metropolitan areas. In 2018, the U.S. metro share of total employment increased to 88.1% as metros added 2.1 million jobs, accounting for 94% of all US job gains.

Metro areas are also where our most dynamic innovation clusters are centered, particularly for digital technology, pharmaceuticals, biotech and robotics. Boston, Seattle, San Diego, San Francisco and Silicon Valley captured nine out of 10 jobs created in such industries from 2005 to 2017, according to a report by the Brookings

Institution's Metropolitan Policy Program.

Compounding today's urban economic distress is racial unrest. Coming on top of a disease that has exacted an especially heavy toll on low-income and minority communities, the police killings of George Floyd and other African Americans have triggered protests that continue to roil U.S. cities. Metro leaders are focused not only on the new challenge of recovering from the pandemic, but many recognize they must also tackle the old problems of racial disparity and injustice.

Meanwhile, cities face an intensifying fiscal squeeze. In March 2020, local governments employed nearly 14.7 million people. Two months later that number dropped to 13.4 million with more layoffs and furloughs expected in the coming months as the virus ravages the South and West. Those job losses rippled through various crucial public services, including fire, police, teachers, and frontline healthcare workers.

As millions continue to file for unemployment benefits each week, a recent survey finds that 96 percent of U.S. cities are facing budget shortfalls due in large part to COVID-19. Nearly half report "unanticipated spending increases on top of declining revenue." City leaders also say they face catastrophic shortfalls in all major revenue categories – 69% loss in permitting fees; 68% in other fees; 63% loss in utility fees; 61% loss in sales taxes; 38% loss in state intergovernmental aid and 35% loss of property tax revenue.

Because of balanced budget requirements, local government officials are facing brutal choices – whether to raise taxes in a recession, lay off more municipal workers, slash public services or all of the above. Without an immediate and direct infusion of fiscal relief for all municipal governments, they are certain to act as a major drag on the nation's economic recovery.

Only Washington has the fiscal resources to step into the breach and keep both state and local governments from cratering. Without fiscal support, U.S. cities will not have the capacity to tackle high rates of joblessness, rising hunger and homelessness, and entrenched racial and social inequities.

The CARES Act Congress passed in March provided $150 billion in direct aid to state and local governments. That sounds like a big number, but it broke down into $111 billion in direct aid to states; $22.5 billion for major counties and just $5 billion for large cities with populations over 500,000. The local aid was distributed only to about 38 cities.

At this writing, Congress is debating the scope of a new stimulus bill, but Senate Republicans are balking at Democratic calls for an additional infusion of $1 trillion for state and local governments. Yet doing nothing to help state and local governments weather the pandemic, warns Moody's Analytics, "could shave as much as 3 full percentage points from real GDP and erase about 4 million jobs."

If we fail to throw metro regions a fiscal lifeline, local governments may be forced to explore additional revenue-generating sources such as raising taxes, fines and fees to support the essential services such as water and sewer. Without direct fiscal assistance from the federal governments, local government will be forced to initiate more layoffs or furlough more workers, and cut critical services such as fire, public safety, education, child services, aging services, meal programs and more.

America's cities and metro regions are perched on the edge of an unprecedented economic and social calamity. All of us, whether we live in urban, suburban, exurban or small town and rural American, have a shared interest in preventing these engines of national prosperity from falling into a COVID-19 sinkhole. And we need to look beyond the present crisis, tackling structural weaknesses and inequities that put our most disadvantaged and vulnerable citizens at risk.

METRO ACTION PLAN

PPI proposes three ways for the federal government to help cities provide basic services now while also making them more resilient against future crises.

- **First,** PPI believes state and local aid should be based on empirical evidence of need. To that end we have developed an interactive calculator that tracks state and local revenue losses due to the pandemic recession. By our calculations based on current economic projections, state and local governments need **roughly $500 billion before the end of 2021 to replace lost revenues.**
- **Second,** we recommend that Congress take two steps to ensure that aid reaches local governments as quickly as possible. One is to require states to meet “maintenance of effort” standards to ensure a significant part of the aid is passed on expeditiously to cities. We also propose that the federal government deliver a large percentage of its aid directly to local governments in the form of “revenue replacement” grants, to enable them to suspend layoffs and avoid cuts in essential services.
- **Third,** we call for creation of a **“Metro Recovery and Resilience Board”** to take a longer-range view of urban finances and identify key investments that metro regions should make, in direct partnership with Washington, to sustain the nation’s post-Covid recovery and make local governments more resilient against future national emergencies. The Metro Board would consist of leading Mayors, major county administrators, Members of Congress, and top officials from the Housing and Urban Development Department as well as the White House. Its mission would be twofold: 1) To open a direct channel of communication between local and national policymakers about fiscal needs and priorities; and 2) To take a deeper dive into the long-term investment needs of America’s metro regions, with an eye toward reducing geographical inequality.

Investment in city and metro economies is integral to U.S. recovery and growth. Immediate federal aid is essential to replacing lost metro revenues, which will help local governments combat rising Covid-19 infection rates, avoid mass layoffs and maintain vital public services. But Washington and metro leaders also should forge a new partnership aimed at strengthening metro resilience over the long-term, and to enable more of the public innovations that have made local government the most effective, responsive and popular component of American federalism.

Fix Higher Ed's Broken Model

Paul Weinstein, Jr.

AUGUST 2020

INTRODUCTION

The Covid-19 pandemic and recession will leave lasting marks on many major U.S. institutions, and higher education is no exception. Last spring, as most of the economy shut down, America's colleges and universities also closed their campuses and shifted to online, video-teaching, or some combination of the two.

The experience likely will trigger a searching debate over the relative merits of online versus classroom instruction in higher education. But it already has shown that many U.S. colleges have been resilient enough to deliver a high-quality learning experience amid an unprecedented public health emergency.

If that's the upside, here's the downside: Once the pandemic is behind us, there will be fewer schools to welcome students, and fewer families that can afford to send them to college.

Many of America's colleges and universities have lived on the economic margins for a long time, able to postpone tough budget choices so long as students could get federal loans to finance the rising price of a college education. A 2016 report by Ernst & Young found, there are 800 colleges vulnerable to "critical strategic challenges" because they depend on tuition for more than 85% of their revenue. Already more than 90 colleges have closed in the last three years, according to EducationDive, and that number will likely increase dramatically because of the impact of Covid-19.

The pandemic, in short, may bring to a boil a long-simmering crisis in higher education financing caused by profligate spending and mismanagement. Tuition and fees have skyrocketed since the 1970s, increasing by 2020 percent at private nonprofit four-year schools and 285 percent at four-year public colleges and universities. Though some higher education institutions have frozen or roll-backed tuition because of the pandemic and its impact on family income and savings, many others have marched ahead with their tuition hikes.

As America recovers from the Covid-19 crisis, policymakers and educators should give high priority to fixing higher education's broken finance model. Building a more resilient education system, where schools are less dependent on tuition to survive and better skilled in providing different modalities of learning, is the key to moving forward.

More specifically, PPI proposes the following reforms:

1. Expand opportunities for qualified applicants at leading universities by creating more high-quality online and virtual courses and degrees. Many of America's top schools already have significant experience in offering online education (where everything is online, lectures, assignments, readings) and virtual education (remote learning typically by videoconferencing).

By combining in person, online, and virtual learning, schools could expand college enrollments by 10 to 25 percent, helping to expand access to America's best public and private schools. For example, students could take their introductory courses online or virtually, and then shift to in-person classes for their majors. Schools also could offer an online/virtual version of their bachelor's degree in certain specialties.

2. Cut the cost of higher education. Even before the pandemic, the cost of higher education was reaching a tipping point, with total debt held by students and parents now at half a trillion dollars -- more than total credit card debt in America.

Yet despite the warning signs, few schools have made progress toward controlling tuition, much less reducing it. Most university presidents have called for more government aid to students rather than subjecting their institutions to touch-minded fiscal scrutiny and finding ways to cut costs and hold down expenses.

While those who call for the federal government to provide more aid to students are well-intentioned, experience shows that opening the spigots allows colleges and universities to inflate prices even more, thereby eating up most of the additional assistance. A better approach is to use some of the almost $75 billion in direct federal spending on higher education to leverage cuts in college tuition and fees. Schools can bring down the costs of tuition, and federal and state governments should require them to do so as part of any bargain to increase aid. There are a number of ways they can do this:

- **Reduce Administrative Bloat.** As my colleague Ben Ginsberg has noted, over the past 40 years, the growth rate in the number of administrative staff at colleges and universities has been five times that of faculty. Jobs faculty used to do, including admissions, have now become the province of a cadre of overpaid "management" staff who spend days and weeks devising new rules and procedures that stifle creativity and initiative and bloat university budgets. Schools should commit to cutting administrative expenses, including staff, travel, as well as association fees, and salaries of every school leadership position (presidents, provosts, deans, vice deans, associate deans, etc.) by five percent for the next three years.

- **More Teaching.** Teaching loads at research universities have declined almost 50 percent in the past 30 years, according to the American Council of Trustees and Alumni. While university research is often of great societal value, teaching should be given equal if not greater consideration. After all, tuition is the main source of revenue for most colleges and universities. Over the next five years, colleges should require tenured and full-time faculty to teach one additional course per year at the median pay rate for adjuncts -- $2700. According to the American Association of University Professors, there are over 52,000 tenured or non-tenured full-time faculty in the U.S. If each agreed to teach one additional course during the next academic year at 20 students per class, the number of course slots would increase by one million.
- **Three-Year Degrees.** Three-year degree programs are common in much of Europe, and students who graduate with bachelor's degrees from prestigious institutions such as Oxford, Cambridge, or the London School of Economics typically do so in just three years. Transitioning to a three-year degree system would force U.S. universities to streamline their curricula and cut unnecessary degree requirements that pad educational expenses for students without enhancing the value of their degree. Making a 3-year bachelor's degree the norm in the United States as well could cut the cost of tuition, fees, room & board by up to 25 percent. There are a variety of ways schools could shift to three-year degrees. Schools could award course credit (not just course waivers), for Advanced Placement (for students with a score of three or higher), International Baccalaureate, and other college-level coursework completed by students in high school. Schools could also give students credits for work experience and internships even if those jobs paid wages. And universities could create accelerated bachelors/masters programs so that students could earn both degrees within five years rather than in six or seven years as is currently the case.

The coronavirus pandemic has tested our country's capacity to adapt and improvise in the face of a nationwide quarantine of indefinite duration. So far, many of America's colleges and universities have stepped up to the challenge by shuttering their on-campus operations and swiftly moving students to virtual education. But others, operating on the slimmest of economic margins, are unlikely to survive the pandemic recession.

To make our higher education system more resilient against future shocks of this kind, lawmakers and educators must now focus on two critical tasks. The first is refining and improving remote learning and striking the right balance between online and classroom instruction. The second is developing a new financing model for higher education, one that makes colleges more cost-effective and affordable, instead of relying on ever-growing public subsidies to chase ever-rising tuition costs.

Create More Innovation Schools

David Osborne

AUGUST 2020

INTRODUCTION

The nation is embroiled in a fierce debate over whether or not to reopen public schools this fall. Governors facing fresh outbreaks are rightly reluctant to act in haste, while President Trump has threatened to withhold federal aid to districts that don't open on schedule. Everyone wants to see their kids get back to school when it's safe. But the deeper question is how to make our public schools more resilient against this still unfolding crisis—and more adaptable as other challenges arise in the future.

The pandemic posed a revealing test of our adaptability. Too many school systems reacted slowly and had trouble finding effective ways to deliver remote education (and food) to their students. In other places, such as New Orleans, districts and schools were remarkably nimble. Our goal should not be just returning to the status quo ante COVID, as Trump insists, but building a more nimble, adaptable way of organizing public education in America.

How bad was it this spring? By April 3, three weeks after school districts began shutting down, 76 percent of the 82 districts studied by the University of Washington's Center on Reinventing Public Education (CRPE) still provided no instruction to students. More distressing, by May 22 a third of them provided no instruction.

But even that finding was overly optimistic. In a later study of 477 districts, a statistically representative sample of all districts, "We found just one in three districts expect teachers to provide instruction, track student engagement, or monitor academic progress for all students—fewer districts than our initial study suggested," CRPE reported. "Far too many districts are leaving learning to chance during the coronavirus closures." Since "school districts in affluent communities are twice as likely as their peers in more economically disadvantaged communities to expect teachers to deliver real-time lessons to groups of students," many students in poorer communities "were unlikely to receive consistent instruction in spring 2020."

The most damning finding: "Only 14.5 percent of school districts with the highest concentration of students receiving free or reduced-price lunch expect teachers to provide live instruction."

National student surveys reflected the same disappointing reality: 41 percent of teens had not attended any online or virtual classes; 78 percent reported spending only one to four hours per day on online learning; 32 percent reported two hours or less; and nearly one in four said they were connecting with their teachers less than once a week. "In a survey by YouthTruth, only half of students say that while schools were closed their teachers gave them assignments that really helped them learn, and just 39 percent say they learned a lot every day," reports CRPE Director Robin Lake. "According to YouthTruth, only 50 percent of students say they were able to focus on learning and only 41 percent said they were motivated to do schoolwork."

CRPE found more rapid adaptation when it studied the responses of 18 charter management organizations (CMOs), which operate networks of public charter schools. By April 3 44 percent of these CMOs were providing instruction and monitoring student progress, and by May 22 only 17 percent still provided no instruction.[2] Yet charter schools have higher percentages of low-income and minority students, who are less likely to have computers and internet access at home, than districts. CRPE found that CMOs quickly redefined teachers roles and responsibilities to fit the new reality—using teacher leaders for each grade to lead the redesign of instruction, record sample lessons, and organize professional development for other teachers, for instance.[3]

Unlike district schools, charters control their own operations; they are not subject to most state and district rules. While district principals and teachers are constrained by bureaucratic rules and collective bargaining agreements, most charter leaders and teachers can pivot quickly when necessary. On the other hand, districts (and larger CMOs) had the resources to purchase and distribute computers and hotspots quickly, a big advantage. To adapt to remote learning effectively, in other words, school systems needed strong central offices capable of marshaling resources but decentralized operation of schools, so principals and teachers could quickly implement remote education.

Perhaps the best example was New Orleans, where every public school is a charter. Within three school days of the closure, more than half the schools were handing out free meals. By May 20 schools and the district, working together, had distributed over a million meals to students and families. Within three weeks of closure, the district had procured thousands of laptops and hotspots, which it then delivered to schools for distribution to those who needed them.

"By March 23, the beginning of the second week of school building closures, at least 97% of New Orleans public schools had begun providing their students with some form of physical and/or digital educational resources to continue learning," reports New Schools for New Orleans. "Responses to a Louisiana Department of Education (LDOE) survey in mid-April show that teachers at 100 percent of New Orleans schools were reaching out to their students across all grade levels at least weekly. Teachers at approximately 90 percent of New Orleans schools were providing students in all grades with feedback on their work. Roughly 80 percent of schools were delivering at least some instruction of new content across all grade levels, as opposed to solely providing assignments in which students review and practice material taught previously."

This pandemic will not be the last time our school systems need such resilience. Hurricanes, tornadoes, terrorist attacks, future pandemics, fiscal crises and more lie in our future. We need school systems capable of rapid adaptation to new conditions: systems with lean but capable central offices that can steer well but empowered school leaders and teachers who can row —i.e. operate schools—effectively.

This combination is possible in a system of charter schools, whether it is a district like New Orleans or a CMO. But it is also possible with district schools that are given charter-like autonomy, often called "innovation schools," "partnership schools," "pilot schools," or "renaissance schools."

While these schools should be given significant autonomy, so their leaders can make key hiring, budgetary, and management decisions usually reserved for the central office, they must also be held accountable for their performance. Not all autonomous schools will succeed, particularly with low-income students, so districts need to weed out the failures, replacing them with stronger operators. With autonomy must come accountability.

More than a dozen school districts across the nation are converting significant numbers of their schools to this model. The best approach, in our view, is that of Indianapolis Public Schools, which has converted a third of its schools to nonprofit organizations with full autonomy and five-year performance agreements. They are called "innovation network schools," and they include restarts of failing schools, new startups, conversions of district schools, and conversions of charter schools. Since they were launched five years ago, they have been the fastest improving group of schools in the district.

To be ready for the next crisis, states should create incentives for districts to do this, both carrots and sticks. Many states have sticks already: when a district school is rated failing for four, five, or six years, some states can close the school, hand it to a charter operator, and/or appoint a new school board. But Texas has shown how effective it can be to add carrots. There, districts that recruit nonprofit organizations to operate "partnership schools" receive about $1,000 per student per year in extra funding for those schools.

Other states should pass similar legislation. (PPI is preparing an extensive report outlining the most effective methods to do this, complete with model legislation.) With President Biden's leadership, Congress should enact and his education department should implement a financial incentive to encourage states to pass such legislation and districts to implement it. President Obama's Race to the Top showed how effective financial incentives can be, particularly when states face fiscal crises. By devoting as little as $2-3 billion to challenge grants for states that empower and encourage their districts to shift toward a more decentralized model, the federal government could speed up a transition that is already underway but moving far too slowly. In today's world of rapid change, extraordinary technologies, and growing inequality, we need nimble, decentralized public systems full of innovative, empowered school leaders and teachers.

Democratize Capital Ownership

Jason Gold

AUGUST 2020

INTRODUCTION

As Covid-19 wreaks havoc in Southern and Sunbelt states, America's battered economy faces a new round of shutdowns, bankruptcies and layoffs. Yet one sector seems strangely buoyant – the financial markets. From its all-time high in mid-February, the S&P 500 plummeted 34%, only to recoup all its losses by mid-June.

What explains Wall Street's remarkable resilience while Main Street endures a punishing pandemic recession?

Although the three economic relief packages Congress has passed since the crises began no doubt have played a supportive role, the answer mainly lies in bold intervention by the Federal Reserve. The Fed played a similar role in staving off a financial collapse following the 2007-08 housing crisis. With a robust toolkit at its disposal, from slashing interest rates, purchasing securities, lending money directly and backstopping unstable markets, the Fed allayed investor fears about the impact of the Covid-19 lockdown on corporate profits and debts.

While Fed action to keep capital markets afloat is essential to prevent a wider economic implosion, it does have the unfortunate consequence of aggravating economic inequality. Only about 55% of Americans own stocks, and the top 1% percent own 50% of all equities. Pushing up stock prices, in other words, helps the rich get richer.

The progressive response to this distributional dilemma is not to let financial markets crash, but to democratize capital ownership in America.

U.S. policymakers therefore should emerge from the Covid-19 crisis resolved to tackle a growing "wealth gap" that is largely defined by race and ethnicity. According to the Urban Institute, the median wealth of white families in 1963 was $45,000 higher than the median wealth of nonwhite families. By 2016, the median wealth of white families had climbed to $171,000, or $132,600 more than the median wealth of black families ($17,400) and of Hispanic families ($21,000).

The strategy for narrowing the nation's wealth gap has three key parts: Reduce racial and ethnic wage disparities, expand home ownership, and create new opportunities for Americans now locked out of capital markets to build financial assets that allow them to take advantage of the power of compound interest.

Focusing here on the third element, PPI endorses a radically pragmatic idea for democratizing capital ownership: Create lifetime savings accounts for all newborns, tied to voluntary national service. Here's how these new "America Serves" investment accounts would work:

At birth, the federal government would stake every U.S. child to a $5,000 investment account similar to a government Thrift Savings Plan or a 401k. The money would be invested in a market index or target date fund to ensure the high average returns of investing in equities rather than low-return T-bills. With one stroke, this action would put America on the road toward universal capital ownership.

Families could also contribute post-tax earnings to their children's accounts. No one could touch the funds in the account until the children turned 18. An "asset waiver" would also protect the account, preventing the income from being counted toward means testing for financial aid, food stamps, Supplemental Security Income (SSI), Social Security Disability Insurance (SSDI) or Medicaid.

Upon turning 18, account owners would face a choice. If they agree to perform a year of national service before they turn 25, they would be deemed 100% vested and could tap their funds after serving for specified purposes at tax advantaged rates. These include: post-secondary tuition, down payment on a first home, or starting a business.

Our goal is to start by engaging one million young adults in qualified domestic and international service programs (including active military), out of the roughly four million who turn 18 every year. Those who choose not to serve would be entitled to only the returns (and principal) on half the original stake -- $2,500. The other half of their accounts would revert back to the taxpayers via the U.S. Treasury.

Although the governments' upfront investment is considerable, over the long-term costs of America Serves accounts will likely decline. We estimate that the first 10 years would cost $230 billion, and a 25-year timeline sees total outlays of just under $700 billion.

It's even possible that after 25 years, the program could become self-financed, depending on how many people choose to serve. Our projections are based on the assumption that one in four newborns will receive the full government contribution via service.

We use a historic average return rate on the S&P 500 of 8% for our assumptions. That means the $5,000 initial taxpayer contribution invested in the market grows to $34,250 after 25 years (See tables below). Assuming that one in four account holders choose to serve, the rest will be required to return to the U.S. Treasury half their savings – $17,125 (half the original government contribution plus market earnings.) That would be enough to stake three newborns with $5,000 contributions.

By creating a strong incentive to serve, this proposal – in the spirit of the World War II G.I. Bill -- would link the opportunity to start building significant financial assets to civic responsibility. It would help to scale up voluntary national service and make it a more potent tool for public problem solving. Volunteers, for example, could assist in contact tracing during future pandemics, provide services to the swelling population of older Americans, help tutor low-income children, clean up public spaces, and much more.

A large national service program would also help our divided society bridge its class, racial and cultural divisions by bringing together youths from all backgrounds to engage in a common civic enterprise.

The organizing framework already exists: AmeriCorps and Peace Corps and other volunteer programs that operate under the aegis of the Corporation for National and Community Service (CNCS). The 75,000 yearly volunteers in these civilian service programs are in addition to the approximately 180,000 Americans who join the active duty military each year, and who would also qualify for full "America Serves" investment accounts.

The idea of expanding national service already enjoys bipartisan support in Congress. Senators Chris Coons, (D-DE), Roger Wicker (R-MS) and Cincy Hyde Smith (R-MS) recently introduced the CORPS ACT, which would increase from 75,000 to 150,000 in year 1, and up to 300,000 in years 2 and 3, the number of civilian national service slots.

"As we work to recover from the dual challenge of a public health crisis and an economic crisis, national service presents a unique opportunity for Americans to be part of our response and recovery while earning a stipend and education award and gaining marketable skills,"

Sen. Coons has said. "Expanding these programs to all Americans who wish to serve should be a key part of our recovery effort."

Another sponsor of the bill, Sen. Tammy Duckworth (D-IL), a Purple Heart military veteran gravely wounded in action, notes that "Just as picking up a rifle to defend our country is 'American Service,' so is helping out a food pantry for those at risk of hunger, assisting students with remote education and helping patients make critical health care decisions."

WHY INVEST FUNDS IN THE MARKET?

Simply put, stock markets have been the most reliable generator of long-term wealth accumulation in history, and financial capital grows traditionally faster than wages. There have also been a series of innovations that have helped underpin the ability to efficiently and safely invest for the long term.

These include Index based, passive investing in target date ETF's (Exchange Traded Funds), which essentially invest in a diverse basket of stocks or other assets such as commodities or bonds, and manages risk according to a future "target date" – usually when someone plans to retire. This passive investment approach diversifies the risk of any single stock plunging in value, and uses the ETF structure with minimal fees as opposed to active management models that assess much higher fees. Small investors get access to higher returns with less risk and keep more of their money as it grows.

To illustrate how "America Serves" investment accounts could grow, consider these projections of possible returns over 18, 25, and 65 years from an initial $5,000 contribution:

	18 YRS	25 YRS	65 YRS
1%	$5,981	$6,412	$9,547
5%	$12,033	$16,932	$119,200
6%	$14,272	$21,459	$220,725
7%	$16,900	$27,137	$406,364
8%	$14,980	$34,243	$743,899
9%	$23.586	$43,115	$1,354,230

Let's look at the standard market benchmark of the S&P 500, which since adopting 500 stocks to the index in 1957 has produced an annual return of 8% (through 2018). Yet, since stocks and bonds fall as well as rise in value, it is worth looking at the largest "drawdown" (market pullback) since that time. According to S&P Dow Jones Indices:

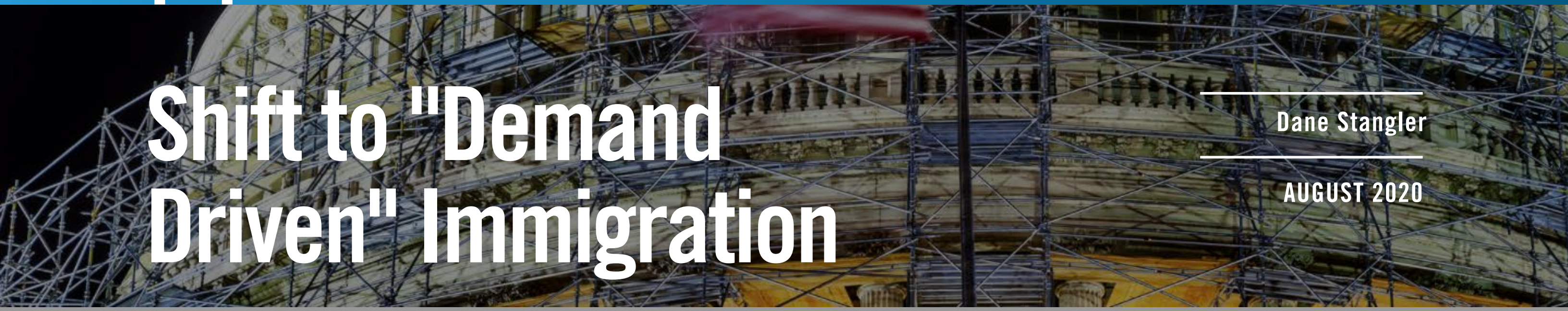
> **"the most significant market downturn occurred in the early 1970s, coinciding with the U.S. economy reeling from double-digit inflation courtesy of a quadrupling in oil prices. During this period, the S&P 500 declined by 45% over a 21-month period and took three and a half years to return to its previous local peak."**

This means that should the market be down in any given year, history shows us the largest pullback only took about 5 years to regain all its lost value. What that means is that by ensuring that every American has an opportunity to build a significant financial asset, this proposal would enhance their economic security and resilience in economic downturns from whatever sources.

CONCLUSION

The pandemic has thrown a harsh light on America's economic and racial inequities. The government's otherwise commendable efforts to keep the comatose U.S. economy from flatlining have had the unintended effect of making these disparities worse. By giving every newborn child a capital stake in America's future, we will put our economy on a higher growth trajectory while also making it fairer. And by linking the accounts to service, we will create a powerful new incentive for young Americans to give back to their communities and their country.

(Note: The author would like to thank Alan Khazei, a longtime PPI friend and co-founder of Boston's City Year voluntary service program, who with the late Harris Wofford and other leading national service advocates originally envisioned the link between "service bonds" and service.)



Shift to "Demand Driven" Immigration

Dane Stangler

AUGUST 2020

INTRODUCTION

The COVID-19 crisis initially affected the U.S. immigration system by prompting the shutdown of immigration courts and suspension of routine visa processing services. These actions were more or less in line with broader economic shutdowns and closures. The Trump administration, however, has seized on the COVID-19 crisis as a fresh pretext for enacting a cruel and radically restrictive immigration agenda that slows economic recovery, hurts the United States in the long-term, and is out of step with what Americans support.

In June, for example, President Trump announced an extension, through the end of the year, of his "temporary" ban on new work visas. This includes high-skilled workers, executives, and seasonal workers who are critical to U.S. innovation and growth. While small modifications to the order have been made—and lawsuits have been brought—it still places serious limitations on America's ability to act as a magnet for talent. Immigrant workers already in the country have also faced disproportionate exposure to the pandemic at, for example, meatpacking plants, thanks to the administration's lax approach to occupational safety.

The administration's actions are bad policy at any time; today they make life even more difficult for immigrants and dig the pandemic-created economic hole even deeper. They also follow three years of immigration policymaking that has made our labor markets less flexible and our economy less dynamic and less innovative.

Yet it must also be said that America's immigration system was not in the best shape even before the Trump administration's detour into nativism and wall-building. Despite some progress made by President Obama, U.S. immigration policy had been growing misaligned with the nation's changing economic needs. For progressives, the challenge is not merely to undo what Trump has done, but to make our economy more dynamic and resilient by bringing our immigration laws into the 21st century.

The key change is to make U.S. immigration laws more "demand-driven" and responsive to labor market needs as America ages, our workforce grows more slowly, and labor shortages hamper production from agriculture to high tech.

Two-thirds of green cards issued each year are for family reunification, with about one in six being employment-based. A large share of employment-based green cards, moreover, are issued to family members of workers. While family reunification is the broad superhighway by which most legal immigrants enter the United States, we also have an alphabet soup of visa programs which offer certain workers narrow routes of entry. There are, for example, nearly two dozen different types of visas for "temporary nonimmigrant workers." Some of these programs function fairly well but taken as a whole they make work-based immigration unduly fragmented and complex, and subject to industry capture.

Family reunification should remain an important goal for U.S. immigration policy. Our country has a proud tradition of welcoming migrants and refugees as families as well as individuals. Many economically successful first- and second-generation immigrants that we celebrate—such as Sergey Brin, Elon Musk, and Steve Jobs—came here as children or students.

Nonetheless, the time has come to adjust the balance and widen channels for work-based immigration, making sure they more closely match employer demand and economic need. To shift our policies in this direction, PPI proposes to replace the welter of narrow visa programs with a new Willing Worker Visa that admits people regardless of the kind of skills they have as long as they have a valid job offer from a U.S. employer. In order to be valid, employers would have to show they could not meet their labor needs with native workers alone.

In addition to expanding the supply of legal workers and dramatically simplifying our immigration laws, our approach would crack down on employers who knowingly hire illegal workers. The Trump administration has focused instead on penalizing workers while letting employers off the hook—echoing the president's own record of using illegal workers in his businesses.

Key elements of the Willing Worker Visa would include:

- Simplification and consolidation of existing visa programs to make entry and certification processes far smoother.
- Contingency on job offers from U.S. employers, just as many employment-based visas are now.
- Expanded pathways for temporary and nonimmigrants workers to become citizens, in part to discourage and reduce illegal border-crossing.
- Tying visas for willing workers to areas of demonstrated skill gaps and labor shortages.
- Tougher penalties on employers who knowingly hire illegal workers, fail to check documentation, or ignore immigration law.

It may seem incongruous to argue for more employment-based immigration as the coronavirus pandemic continues to spread across the United States. Much of our economy is still locked down, we have double-digit unemployment, and there's deep uncertainty about how long it will take the economy to recover.

Current projections are that unemployment rates will remain over 10 percent well into 2021. We know, however, that even at the height of the economic expansion in 2019, the U.S. economy faced severe skill shortages, with more than seven million jobs unfilled.

Moreover, Trump's claim that he wants to restrict immigration to preserve U.S. jobs for U.S. workers stems from a faulty, zero-sum understanding of how labor markets work. In a dynamic market economy, the number of jobs is never fixed but grows with labor supply. We have a compelling national interest in opening America's doors to willing workers from elsewhere who can help us close skills gaps and fill labor shortages.

The challenge is to ensure that unemployed native workers are successfully reabsorbed into the labor force while also ensuring a strong supply of willing foreign workers who help make the U.S. economy more productive and innovative.

Make Electoral Democracy More Resilient

Colin Mortimer

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INTRODUCTION

The COVID-19 pandemic has laid bare the fragility of the United States electoral voting system. Polling places, which are often densely packed indoor spaces, represent an acute public health danger. Yet, many states do not have the infrastructure in place to adapt to this situation, and it has thrown the health of Americans and our democratic institutions into doubt.

Right from the onset of this pandemic, several individuals and organizations raised alarms that the United States' electoral system would have to radically adapt to coronavirus. Some states took this cue and pushed back their elections to buy time to implement alternative election systems or in hopes that COVID-19 would abate. Several other states, however, did nothing. Florida, which held its Democratic primary on March 17th, experienced a 53% drop in turnout from its turnout in 2016. Illinois which held its primary on the same day, saw a 61% drop in primary turnout.

States are still lagging on providing their residents with ways to vote safely during coronavirus. According to analysis from the Brooking Institute, 32 states received a C grade or lower on their performance providing residents with the ability vote-at-home during the pandemic. Alabama, which received an F grade as of writing, requires voters to have a notary or two witnesses to complete an absentee ballot. Connecticut, which received a D grade as of writing, does not offer no-excuse absentee voting, nor does it accept COVID-19 as a permitted reason to request an absentee ballot.

There is a solution to this dilemma: universal vote-at-home. Registered voters would receive a ballot in the mail automatically, without having to file an application or request one. Unlike traditional election procedures, universal vote-at-home allows

Americans to vote from the safety of their households and then to return their ballot by mail or to drop in a secure drop box. This would give Americans the opportunity to carry out their democratic responsibility without putting them in harm's way. Yet, very few states have the infrastructure currently in place to shift their electoral system to universal vote-at-home. Neither has Congress made this a priority.

Universal vote-at-home is not a novel idea. Five states – Washington, Oregon, Utah, Hawaii and Colorado – currently have the proven capacity to conduct their elections without the need for physical polling locations. Dozens of other states have the proven capacity to allow a significant percentage of their citizens to vote-at-home, and few others have precedence for voting-at-home but only allow it in the most extreme of circumstances.

Congress should incentivize the remaining states to move to a universal vote-at-home model, not only for the upcoming election but for future elections as well. Based on estimates from the Brennan Center for Justice, the cost of expanding vote-at-home to all Americans runs from $982 million to $1.4 billion. While the short-run cost is not insignificant, research has shown that universal vote-at-home reduces the administrative costs related to running elections by 40%. This represents a long-term cost saving for states and all Americans.

Some officials and organizations have alleged that universal vote-at-home is more vulnerable to fraud than in-person voting, but the evidence does not support such claims. The decentralized nature of vote-at-home means that widespread fraud would require infiltrating the foundations of the decentralized electoral network itself, while in-person voter fraud requires only the infiltration of a singular machine or ballot box within a centralized network. The track record of states with vote-at-home proves this point: Oregon, for example, had only 10 instances of voter fraud during the 2016 Presidential election.

In other words, allowing all citizens to vote from home will make our democracy more resistant to fraud as well as more resilient against national emergencies that threaten to impede our citizens' basic right to vote.

With the evidence stacked against them, Republicans have resorted to other lines of argument to oppose vote-at-home. Sen. McConnell argued during the CARES Act debate that the proposed $2 billion in election grants would "federalize" states' elections. Only $400 million in election grants were included in the final bill. President Trump also weighed in, saying "Mail ballots, they cheat. OK, people cheat. Mail ballots are a very dangerous thing for this country because there are cheaters" and tweeting "...[MAIL-IN VOTING] WILL ALSO LEAD TO THE END OF OUR GREAT REPUBLICAN PARTY." This alarmist tweet is not just anti-democratic, but wrong. In a working paper out of Stanford, a team of researchers took advantage of the staggered rollout of vote-at-home in California, Utah and Washington to show that while vote-at-home modestly improved overall election turnout, the additional turnout did not benefit any party disproportionality.

Never has it been more paramount that our democratic institutions preserve their trust between it and the American people. For a small investment – one that will likely pay off in the long-run – Congress can ensure that our elections are safe and secure not just for this November but for generations to come.

ABOUT THE AUTHORS

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Founded in 1989, PPI started as the intellectual home of the New Democrats and earned a reputation as President Bill Clinton's "idea mill." Many of its mold-breaking ideas have been translated into public policy and law and have influenced international efforts to modernize progressive politics.

Today, PPI is developing fresh proposals for stimulating U.S. economic innovation and growth; equipping all Americans with the skills and assets that social mobility in the knowledge economy requires; modernizing an overly bureaucratic and centralized public sector; and defending liberal democracy in a dangerous world.

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