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The Honorable Mike Crapo
Chairman
United States Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
United States Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

April 14, 2017

Dear Chairman Crapo and Ranking Member Brown,

The Center for American Progress (CAP) welcomes the opportunity to respond to the Senate Banking Committee's request for proposals to foster economic growth. Improving economic growth in a way that combats rising inequality is one of the defining issues of our time and we commend the Committee for making this a policy priority. It is vital to underscore the point that economic growth alone is not sufficient. The Committee should seek to develop proposals that generate economic growth and prosperity that is widely shared. In September 2016, CAP released a comprehensive report (attached), "Raising Wages and Rebuilding Wealth," that outlined the concerning trends in middle-class wealth and wage growth over the past two decades.

The average middle-class household's net worth fell 49 percent, or $82,500, between 2001 and the aftermath of the financial crisis in 2010—and has only begun to recover, growing $14,000, or 16 percent, between 2010 and 2013. In addition to highlighting these disturbing trends, the report also outlined a series of policy proposals aimed at restoring economic security for the middle class and those who seek to enter it, including (listed according to page number):

- **Orient corporate incentives towards the long-term**. Aligning the incentives of the corporate sector could foster a long-term approach that boosts productive investments, which drives economic growth and helps workers and firms both get ahead. Specific changes to the tax treatment of executive compensation, the safe harbor for share buybacks, and required corporate public disclosures are a good place to start. (39-40)

- **Make employment more resilient.** Policies that make it easier for workers to reenter the workforce would raise demand in the short term while increasing productivity in the long term. Temporary national service positions during periods of high unemployment, a national subsidized jobs program, reform to unemployment insurance, and a jobseeker's allowance would all help the unemployed remain in or reenter the labor market. (pp.40-41)

- **Restore worker bargaining power.** Unions are one of the most important vehicles for raising middle-class wages. Worker bargaining power should be restored by changing labor market rules to encourage industry-wide collective bargaining. (p. 43)

- **Rebuild labor standards.** Government should provide a baseline set of employment standards for all working Americans. This means raising the minimum wage and enacting protections against job-scheduling volatility. (p. 45)

- **Reinvigorate competition policy.** The active enforcement of antitrust policy would ensure that business profits are shared more widely by, for example, reducing the growth in consumer prices, enabling workers to compete for higher wages, and providing more opportunities for small- and medium-sized businesses to grow. (p. 46)

- **Support pro-consumer actions toward an affordable and accountable market.** Deceptive, fraudulent, and abusive practices take money out of consumers' pockets and impede their ability to support the broader economy. Policymakers should facilitate consumer access to their own financial records, spurring competition and enabling customers to easily switch banks. Policymakers should also restore consumers' access to critical legal protections. Troubled student debtors holding poor-quality loans or attending poor-quality programs should have access to bankruptcy, and policymakers should limit arbitration clauses that deny consumers their right to take powerful companies to court. (pp. 46-47)

- **Use tax policy to promote fairness.** The U.S. tax code, while progressive, would benefit from changes that support middle- and low-income Americans while ensuring that financial gains are taxed fairly. The federal government should collect enough revenue to fully fund much-needed public investments. (pp. 50-51)

- **Increase availability of education and training.** Making childcare affordable and pre-school universally available, expanding workforce training programs such as apprenticeships, and making college available for all, will make significant contributions to productivity and labor force participation. (pp. 48-49; 63-83)

- **Ensure that safe mortgages are within reach for America's families.** Creditworthy families should have access to safe mortgages. Congress should oppose measures that weaken the underwriting standards put in place after the housing crisis to prevent predatory lending. Congress should ask FHFA to consider modifying fees that mortgage financers Fannie Mae and Freddie Mac charge for borrowers with suitable, but not outstanding, credit. Policymakers should support low down payment mortgage options, help prospective borrowers save for a down payment, and support shared equity programs run by local governments and nonprofits. (pp. 118-123)

In addition to the comprehensive report mentioned above, CAP also released a report in October 2016 (attached), "A Progressive Agenda for Inclusive and Diverse Entrepreneurship," that found stark disparities in entrepreneurship rates for communities of color and women workers. The report sets forth several policy proposals aimed at tackling these disparities to foster entrepreneurship, a key driver of U.S. economic dynamism and leadership in the world economy, in an inclusive manner. The proposals in the report include:

- **Reauthorize and expand the State Small Business Credit Initiative.** This initiative, through collateral support, loan guarantees, and other programs, offers a powerful vehicle for helping overcome the particular barriers to capital that people of color and women face in being entrepreneurs. (pp. 17-20)

- **Leverage apprenticeship model for Small Business Administration grants.** Programs such as the SBA Growth Accelerator Fund could be increased and expanded to include apprenticeships. Acquiring the skills through hands-on experience in a successful business, while earning an income could help mitigate the risks of business failure in a new startup. (pp. 20-22)

CAP has published analyses of other important policy proposals not listed here that can also help foster economic growth, such as a well-designed program to improve our infrastructure. We will share additional materials with Committee staff on these and other topics at the Committee's request.

Finally, it is important to state that the Committee should not sacrifice the principles of financial stability and consumer and investor protection when considering submitted proposals. The 2007-2008 financial crisis devastated workers and families—wiping out over 8.5 million jobs, $19 trillion in wealth, and 10 million homes. Thanks to the Dodd-Frank Act, the financial system is safer than before the crisis and more oriented towards the real economy, and consumers and investors are better protected from toxic products in the financial marketplace. Moreover, since the Dodd-Frank Act was signed into law, business lending—a key ingredient for economic growth—has rebounded significantly. Indeed, a stable, well-regulated financial sector

encourages sustained economic investment. The Committee should build on Dodd-Frank's progress, not undermine financial reform under the guise of fostering economic growth.

CAP appreciates the Committee's consideration of the attached reports, and we look forward to working with Committee staff throughout this process as the Committee aims to tackle economic inequality and foster inclusive economic growth.

Sincerely,

Marc Jarsulic
Vice President, Economic Policy
Center for American Progress

Raising Wages and Rebuilding Wealth

A Roadmap for Middle-Class Economic Security

Edited by Carmel Martin, Andy Green, and Brendan Duke

September 2016

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CHAPTER 1

Introduction and summary

By Brendan Duke and Christian Weller

Introduction and summary

The American middle class is finally seeing economic gains after more than a decade of declining economic security. Yet millions of Americans are still feeling the effects of a painful economic period.

Middle-class wages and incomes grew rapidly during the 1990s, but that growth came to an end around 2001.[1] Seven years of stagnant middle-class income growth were followed by the financial crisis of 2008 and the Great Recession, which ravaged middle-class jobs and savings. And in recent years, ill-advised austerity policies have slowed the recovery of jobs and wages while income inequality has reached new heights. Add to this the growing costs of child care, health care, higher education, and housing, and families are feeling squeezed. On top of that, saving for retirement has become a monumental challenge, since far too many middle-class families are barely able to get by.

The precarious state of middle-class finances emerges clearly in the trends for household wealth: The average middle-class household's net worth—the difference between the savings it owns and the debt it owes—fell an astonishing 49 percent, or $82,500, between 2001 and the aftermath of the financial crisis in 2010.[2] Not only has this left families more exposed to the ordinary ups and downs of the economy and regular life, but it has also placed the basic tenets of middle-class life—such as paying for college and retiring comfortably—frustratingly and increasingly out of reach.

But there are signs of hope. The unemployment rate has fallen from a high of 10 percent in October 2009 to 4.9 percent in July 2016.[3] Real median household income in 2016 has recovered to its 2000 levels.[4] And real wage growth—the heretofore missing element of the recovery—made its first appearance in the recovery last year.[5] And middle-class wealth too has begun to recover, growing $14,000, or 16 percent, between 2010 and 2013.

Nevertheless, public policy can and must deliver better results for the middle class and those who seek to enter it. Despite largely stagnant middle-class household incomes, real gross domestic product, or GDP, per capita grew 16 percent and the share of income going to the top 10 percent rose between 2000 and 2016.[6] Middle-class wealth remains $68,000 below its 2001 level. This is unacceptable and demonstrates the need for policies that will help all Americans share in the fruits of economic growth.

Much progress has been made in the past eight years. A stimulus bill helped prevent another Great Depression, a health care reform bill expanded health insurance coverage to millions of Americans, and far-reaching Wall Street reform significantly improved financial stability and consumer financial protection. Unfortunately, additional measures that would support job creation, raise middle-class wages, and rebuild wealth have been repeatedly blocked. No wonder many Americans feel that the system is rigged against them.

In January 2017, the next president and the U.S. Congress will have the opportunity to generate policies that grow and support the middle class. A policy agenda that raises wages and reduces the burdens of major expenses would help families rebuild their wealth and afford the pillars that make up a secure, middle-class life. This report provides a roadmap for doing just that.

At the same time, an economic agenda that helps the middle class would simultaneously give a boost to low-income families trying to enter it.[7] Raising wages by returning the economy to full employment and restoring worker bargaining power are two of the most effective ways to increase economic mobility. Indeed, recent Center for American Progress research shows that children of fathers without a college education who grow up in union households earn 28 percent more as adults than children of fathers without a college education who do not.[8] Similarly, reducing the price of key human-capital investments such as child care and higher education would make it easier for low-income families—and their children—to enter the middle class.

The course of the past 15 years demonstrates that addressing genuine problems is never easy. And while Americans have made progress, much more remains to be done. In this report, we* outline the squeeze that middle-class families have been feeling and summarize the policy prescriptions to relieve it. We provide analyses of the causes behind—and solutions to—these middle-class challenges.

*All instances of "we" and "our" in this section refer to the authors of this report.

The challenge to middle-class wages and wealth

To capture the financial state of middle-class households, income and wealth are two critical starting points. Income, which includes wages, reflects the amount of money households receive each year, while wealth is the value of families' assets—such as savings and houses—minus their debts, such as mortgages and credit cards. Together, income and wealth help determine the ability of households to consume. Wealth also reflects the ability of a household to weather economic shocks such as job loss and to provide for long-term needs such as education for children and retirement. Thus, examining the trends for real incomes and real wealth—that is, their levels after adjusting for inflation—reflects how well both have kept up with the cost of living.

For the purposes of our analysis, we focus on households with children in which the head of household is between the ages of 25 and 54. We focus on this group since it is in this life stage that families need to make important investments such as child care and college. We define middle-class as the middle three income quintiles of this group, or the middle 60 percent of households ranked by income. Defining the middle class is a difficult concept, but this group is both broad enough to calculate meaningful statistics on the financial state of the middle class and narrow enough to allow for a distinction to be made between wealthy, middle-class, and low-income households.

Most of the analysis ends in 2013 since that is the last year for which our primary data source—the Federal Reserve's Survey of Consumer Finances—provides data, but we provide more updated statistics for context when they are available from other sources.

Incomes and wages

Incomes grew rapidly—if somewhat unevenly—over the second half of the 20th century, enabling middle-class households to pay for college, purchase homes, and build nest eggs for retirement. Beginning around 2001, however, 40 years

of growth came to an end. Middle-class incomes were not growing before the 2007–2009 Great Recession and, as of 2013, were still 5 percent below their 2001 levels.[9] This trend held across families regardless of the head of household's age, race, and level of education and developed despite a 10.8 percent increase in real GDP per capita.[10] In other words, the middle class did not share in the period's economic gains. More recent data suggest that middle-class incomes in 2016 have finally reached their 2000 levels—a fact that still amounts to more than a lost decade for middle-class income growth.[11]

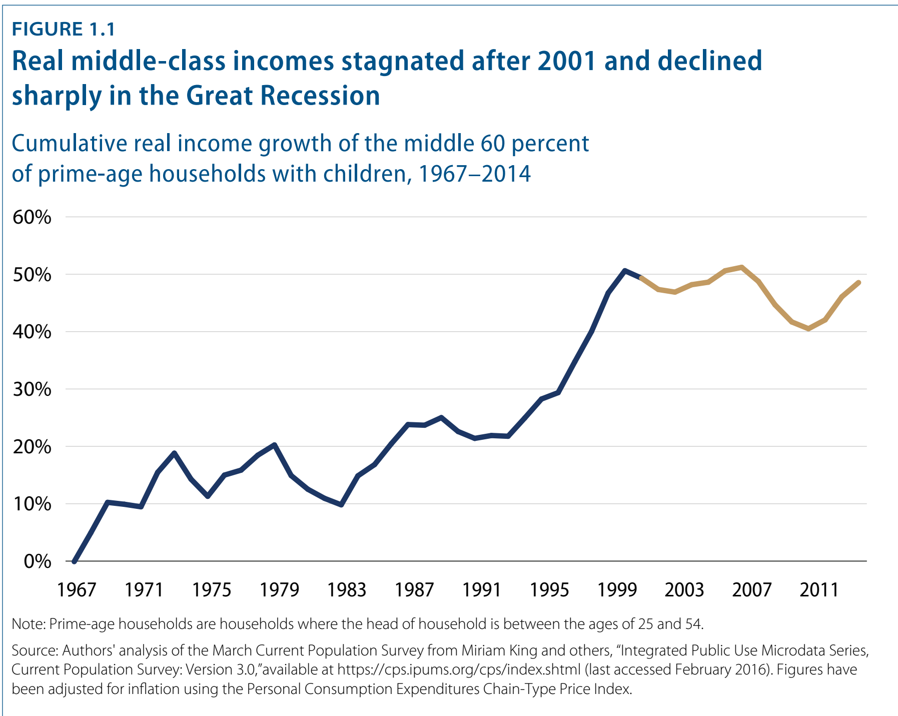


FIGURE 1.1

Real middle-class incomes stagnated after 2001 and declined sharply in the Great Recession

Cumulative real income growth of the middle 60 percent of prime-age households with children, 1967–2014

Note: Prime-age households are households where the head of household is between the ages of 25 and 54.

Source: Authors' analysis of the March Current Population Survey from Miriam King and others, "Integrated Public Use Microdata Series, Current Population Survey: Version 3.0,"available at https://cps.ipums.org/cps/index.shtml (last accessed February 2016). Figures have been adjusted for inflation using the Personal Consumption Expenditures Chain-Type Price Index.

TABLE 1.1

Incomes across demographics

Real average income of the middle 60 percent of prime-age households with children

	2001	2007	2010	2013
Overall	**$69,400**	**$70,200**	**$63,100**	**$65,800**
25- through 39-year-old family head	$57,600	$59,900	$51,800	$52,700
40- through 54-year-old family head	$85,100	$84,700	$79,300	$82,100
Black	$46,100	$42,800	$43,500	$39,700
Latino	$41,200	$50,000	$43,100	$39,400
White	$81,100	$80,900	$74,800	$82,000
College educated	$107,400	$106,200	$100,700	$103,600
Not college educated	$53,100	$53,000	$47,200	$46,500

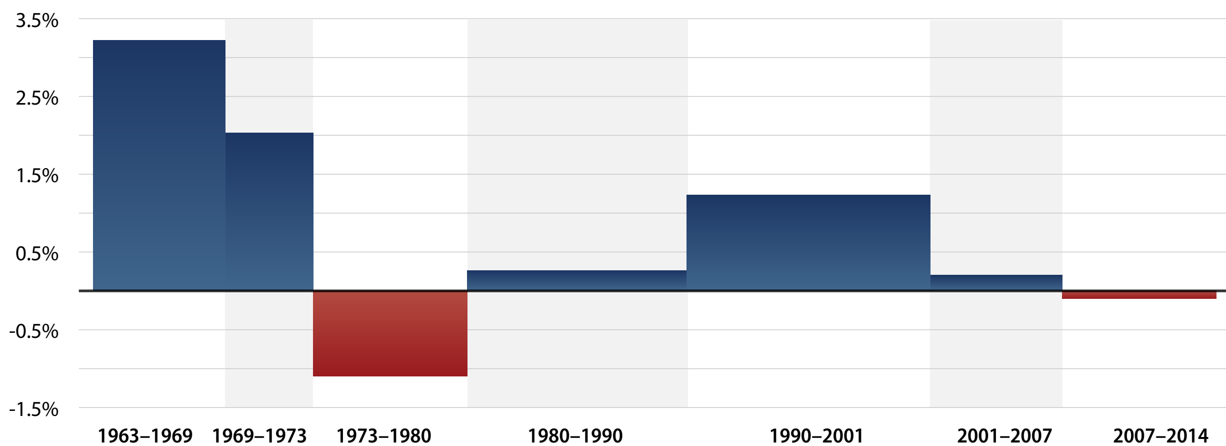
Note: "Middle 60 percent" refers to the income distribution. Prime-age households are households where the head of household is between the ages of 25 and 54.

Source: Authors' analysis of Board of Governors of the Federal Reserve System, "Survey of Consumer Finances," available at http://www.federalreserve.gov/econresdata/scf/scfindex.htm (last accessed July 2016). Figures have been adjusted for inflation using the Personal Consumption Expenditure Chain-Type Price Index.

FIGURE 1.2

40 years of stagnant middle-class wages—with one exception

Annual growth rate of median weekly earnings of full-time, year-round workers by business cycle



Source: Authors' analysis of the March Current Population Survey from Miriam King and others, "Integrated Public Use Microdata Series, Current Population Survey: Version 3.0," available at https://cps.ipums.org/cps/index.shtml (last accessed July 2016). Figures have been adjusted for inflation using the Personal Consumption Expenditures Chain-Type Price Index.

The main reason middle-class incomes stagnated after 2001 is that their most important component—wages—has also been stagnant. But wage stagnation began long before: Real middle-class wages fell between 1973 and 1990. Indeed, the 1990s have been the only business cycle since 1973 during which real middle-class wages grew faster than 1 percent per year.[12] (See Figure 1.2) Real middle-class incomes, on the other hand, continued to grow between business cycle peaks during the 1970s and 1980s.[13]

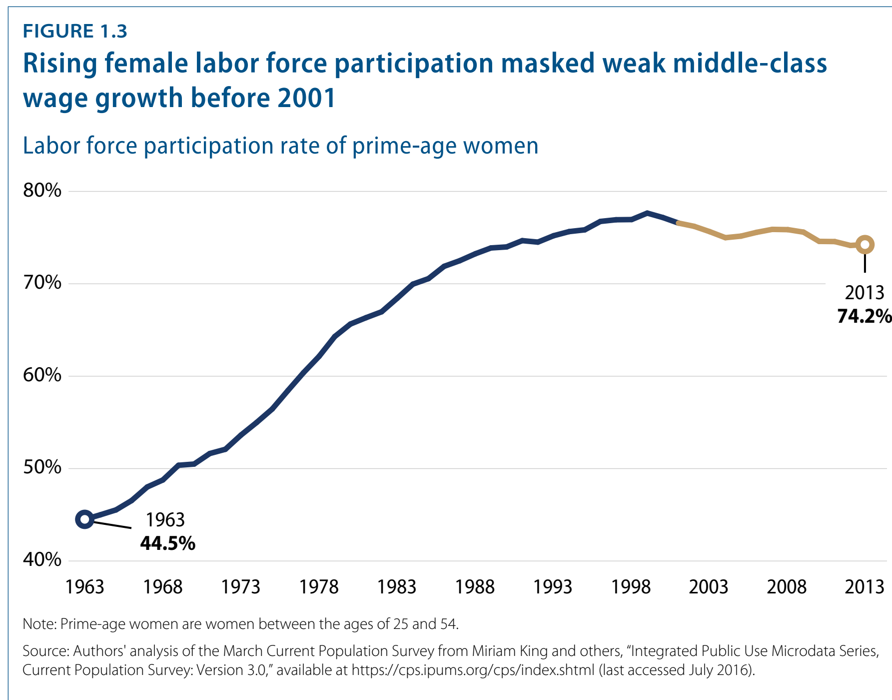
How do we reconcile the negative wage growth for workers between 1973 and 1990 with families' continued income growth during that period? Families' incomes mostly reflect their hourly wages multiplied by the number of hours they work per year. When wages do not rise, families can raise their incomes by working more hours. The surge in female labor force participation during this period shows that they did just that, as shown in Figure 1.3.

Middle-class families thus offset stagnant wages for each worker by working more hours, many of them transitioning from one- to two-earner households. The entire inflation-adjusted increase in middle-class incomes from 1975 to 1990 came from increased workforce participation and hours rather than higher wages, as shown in Figure 1.4.[14]

FIGURE 1.3

Rising female labor force participation masked weak middle-class wage growth before 2001

Labor force participation rate of prime-age women



Note: Prime-age women are women between the ages of 25 and 54.

Source: Authors' analysis of the March Current Population Survey from Miriam King and others, "Integrated Public Use Microdata Series, Current Population Survey: Version 3.0," available at https://cps.ipums.org/cps/index.shtml (last accessed July 2016).

In the 1990s, a unique period of productivity growth and a tightened labor market forced employers to compete for workers by raising wages. Almost three-quarters of middle-class earnings growth between 1990 and 2001 came from higher wages rather than workers putting in more hours, reversing the trend of the previous 15 years.[15] At the same time, female labor force participation reached its peak. The confluence of these factors drove middle-class incomes to reach their peak around 2001.

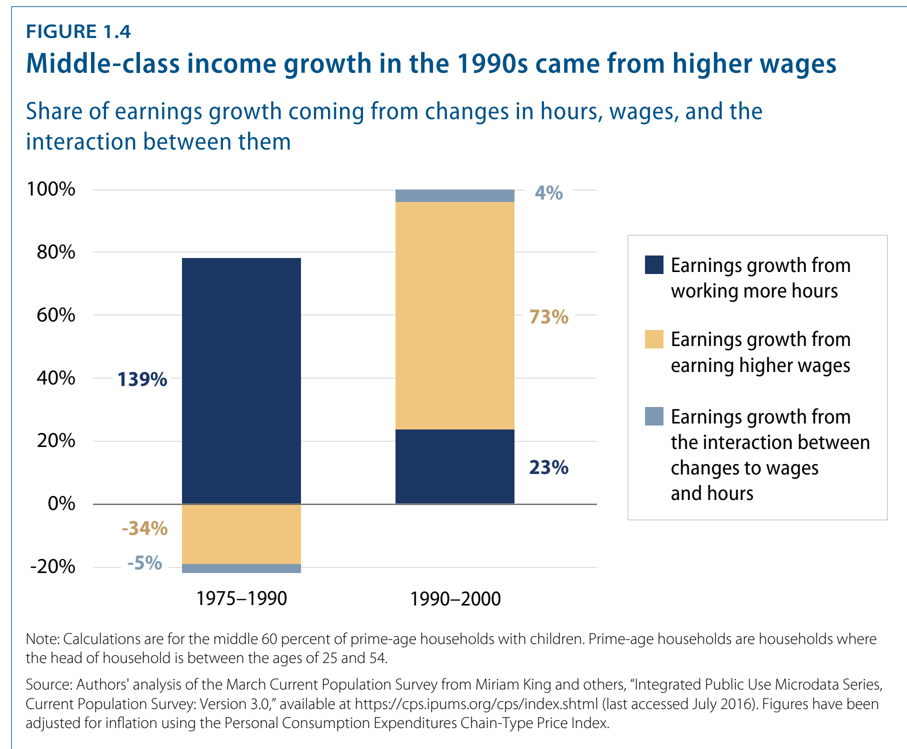


FIGURE 1.4

Middle-class income growth in the 1990s came from higher wages

Share of earnings growth coming from changes in hours, wages, and the interaction between them

Note: Calculations are for the middle 60 percent of prime-age households with children. Prime-age households are households where the head of household is between the ages of 25 and 54.

Source: Authors' analysis of the March Current Population Survey from Miriam King and others, "Integrated Public Use Microdata Series, Current Population Survey: Version 3.0," available at https://cps.ipums.org/cps/index.shtml (last accessed July 2016). Figures have been adjusted for inflation using the Personal Consumption Expenditures Chain-Type Price Index.

The 2000s, however, marked a return to stagnant middle-class wage growth, but families could no longer simply rely on working more hours. Middle-class women, who drove the previous growth in hours, had already dramatically increased their labor supply, working 558 more hours per year in 2007 than in 1975—the equivalent of almost 14 additional 40-hour work weeks.[16] Raising female labor force participation even further was certainly possible, but it would have required either higher wages to draw more women into the labor force or the type of family-friendly policies that the United States lacks, such as paid leave. And after the Great Recession, both men and women have struggled to find work in an economy that, for most of the past several years, has remained far from full employment.

The above analysis of incomes focuses on the trend for pretax income and does not include the effects of noncash transfers from the government, such as Medicaid, and from employers, such as employer-sponsored health insurance. Some analyses that include these transfers show stronger middle-class income growth than described above. However, close examination of these analyses shows that the income gains come almost entirely from tax cuts and transfers, rather than the ability of families to get ahead through work. Moreover, the gains are likely to be overstated because of their treatment of health care inflation. (See Textbox on p.52)

Wealth

Most analyses of the financial state of the middle class focus on income, but wealth is also important. Indeed, 86 percent of Americans view the ability to save money as a requirement for a middle class lifestyle.[17] In this section, we analyze the trend for household wealth using the above definition of middle-class—the middle three income quintiles of families with children whose head of household is between the ages of 25 and 54.

Wealth primarily serves two main economic functions. First, it serves as insurance against economic hardship in the event of layoffs and other financial emergencies when families need to spend more than their incomes. Second, it allows families to make the most important and largest expenditures—everything from paying for higher education to buying a house to saving for a comfortable retirement.

Unfortunately, the wealth that has traditionally formed the economic and political foundation for the middle class has undergone an even more disturbing convulsion than the corresponding trend for income. While the average middle-class household's wealth grew slightly between 2001 and 2007, it collapsed beginning in 2007 with the onset of the financial crisis and the Great Recession. The result was a $82,500, or 49 percent, decline in average middle-class household wealth, comparing 2001 to 2010, and an even starker decline compared to 2007. The collapse in wealth from the financial crisis occurred regardless of the head of household's age, race, and education.[18] (See Table 1.2)

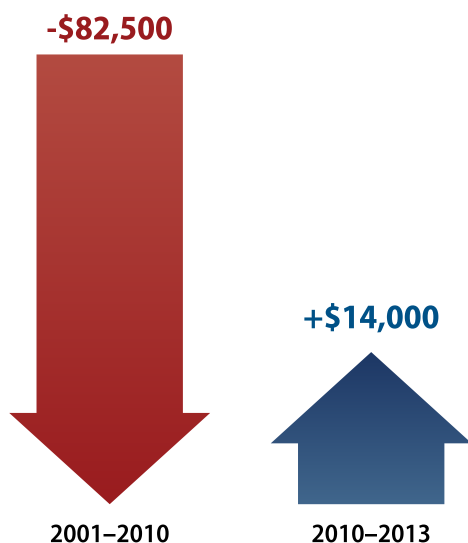
In 2013, the most recent year in which these data are available, showed a modest recovery for household wealth: growing $14,000, or 16 percent, from its low point in 2010. However, average middle-class household wealth is still $68,000, or 41

percent down from 2001. More recently, housing and stock market prices have finally recovered to their pre-crash levels nationally.[19] Many communities, though, still struggle to fully recover from the crisis.[20] Overall, the wealth effects of the financial crisis and Great Recession have been tangible and long-lasting, harming families' feelings of economic security, their ability to pay for college, and confidence that they will enjoy a secure retirement.

FIGURE 1.5

Typical middle-class family wealth declined sharply in the Great Recession but has begun to rebound

Change in real average wealth of the middle 60 percent of prime-age households with children, 2001–2013



Note: "Middle 60 percent" refers to the income distribution. Prime-age households are households where the head of household is between the ages of 25 and 54.

Source: Authors' analysis of Board of Governors of the Federal Reserve System, "Survey of Consumer Finances," available at http://www.federalreserve.gov-/econresdata/scf/scfindex.htm (last accessed July 2016). Figures have been adjusted for inflation using the Personal Consumption Expenditure Chain-Type Price Index.

A particularly disturbing phenomenon is that the wealth of African American households—which was always far below that of white households—has essentially disappeared, falling from $36,000 in 2001 to just $7,000 in 2013.[21] A likely reason for this enormous loss is that African Americans suffered a disproportionate loss of housing wealth, made worse by the fact that housing represents a far larger portion of black families' assets than of white families' assets.[22] Subprime lending and particularly aggressive predatory lending practices were far more prevalent in communities of color leading up to the housing crisis: African American and Latino borrowers were 30 percent more likely to receive the highest-cost subprime loans than white subprime borrowers with similar risk profiles.[23] It should then be no surprise that the foreclosure crisis hit black homeowners disproportionately. African Americans were 47 percent more likely to face foreclosure than non-Hispanic whites in 2010, and there is a strong relationship between metropolitan areas' degree of racial segregation and the number of foreclosures they experience.[24]

It is no coincidence that middle-class wealth declined during a period in which incomes stagnated and middle-class costs rose. Unable to cope with stagnant wages by increasing female labor force participation, middle-class families responded by reducing their savings and—in some cases—actually reduced their savings by borrowing. The middle-class savings rate declined during this period, and the rise in borrowing was concentrated in areas where real incomes were declining.[25]

The housing bubble in the mid-2000s masked and even exacerbated the decline in middle-class savings rates. Thus, although middle-class wealth ostensibly grew between 2001 and 2007 due to a 46 percent real increase in home prices that

TABLE 1.2

Wealth across demographics

Real average wealth of the middle 60 percent of prime-age households with children

	2001	2007	2010	2013
Overall	**$168,600**	**$180,200**	**$86,100**	**$100,200**
25- through 39-year-old family head	$67,700	$88,400	$25,400	$38,700
40- through 54-year-old family head	$291,300	$306,300	$187,000	$209,700
Black	$36,300	$51,300	$19,400	$6,600
Latino	$40,500	$93,300	$30,300	$31,500
White	$228,300	$225,700	$130,000	$154,600
College educated	$357,500	$357,400	$258,700	$276,400
Not college educated	$87,200	$98,300	$43,500	$45,600

Note: "Middle 60 percent" refers to the income distribution. Prime-age households are households where the head of household is between the ages of 25 and 54.

Source: Authors' analysis of Board of Governors of the Federal Reserve System, "Survey of Consumer Finances," available at http://www.federalreserve.gov/econresdata/scf/scfindex.htm (last accessed July 2016). Figures have been adjusted for inflation using the Personal Consumption Expenditure Chain-Type Price Index.

caused middle-class residential assets to rise in value, households also took on more debt.[26] Higher housing prices meant that families had to take out larger mortgages to purchase a home, and many existing homeowners responded to the increase in their house's value and the stagnation of their wages by borrowing against their home to finance consumption.[27] This increase in debt left middle-class wealth extremely vulnerable: Housing prices could decline, but the debt would remain. Fueled by consumer protection failures, that is exactly what happened in 2007 and 2008, with long-lasting consequences.

The arrival of the financial crisis and Great Recession destroyed trillions of dollars in middle-class wealth. The decline in real housing prices and the rise in foreclosures left middle-class residential assets at around their 2001 levels but with substantially more debt. (See Table 1.3) Middle-class nonresidential assets—especially financial assets—had actually been declining between 2001 and 2007, consistent with the decline of the middle-class savings rate during that period. But they then fell sharply during the financial crisis and the Great Recession as a result of the stock market crash, declining small business ownership rates and value, the tendency of many investors to buy high and sell low, and the need to make up for the real decline in earnings.[28]

TABLE 1.3

Financial positions across demographics

Ratio of debts to assets of the middle 60 percent of prime-age households with children

	2001	2007	2010	2013
Overall	**34.6%**	**44.6%**	**57.7%**	**51.5%**
25- through 39-year-old family head	51.9%	58.9%	77.7%	66.8%
40- through 54-year-old family head	26.8%	34.0%	44.8%	40.3%
Black	54.5%	51.5%	57.0%	69.1%
Latino	48.8%	56.1%	51.7%	65.1%
White	32.4%	40.3%	40.3%	54.0%
College educated	27.7%	38.4%	45.2%	41.6%
Not college educated	42.2%	48.5%	60.3%	55.1%

Note: "Middle 60 percent" refers to the income distribution. Prime-age households are households where the head of household is between the ages of 25 and 54.

Source: Authors' analysis of Board of Governors of the Federal Reserve System, "Survey of Consumer Finance," available at http://www.federalreserve.gov/econresdata/scf/scfindex.htm (last accessed July 2016). Figures have been adjusted for inflation using the Personal Consumption Expenditure Chain-Type Price Index.

Recently, real home values have returned to their pre-crisis levels nationally and the stock market has reached all-time highs.[29] Middle-class wealth has begun to recover as well, rising 16 percent above 2010 lows.[30] Rebuilding middle-class wealth will require solutions that solve the problem that caused it to decline in the first place: stagnant wages and incomes, as well as the rising costs of child care, higher education, housing, and retirement. It also requires policies that protect against financial crises and ensure a quick and robust return to full employment should recessions hit.

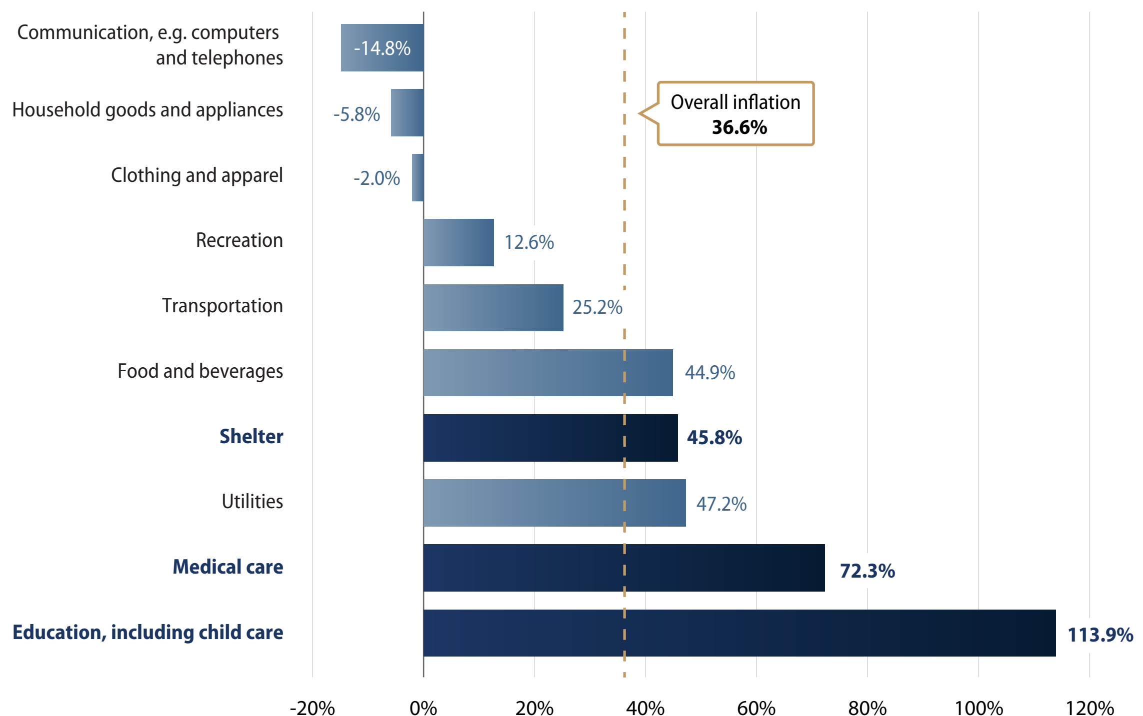
Under pressure: Middle-class costs

The other part of the story is the high cost of several middle-class necessities. Even as inflation across a wide variety of goods and services has been relatively modest for many years, big-ticket necessities such as housing and education have increased much faster.[31] The price of education—which includes higher education and child care—rose more than three times faster than overall inflation between 2001 and 2016, as shown in Figure 1.6. The goods that have seen their prices fall

FIGURE 1.6

The cost of education, health care, and housing have grown rapidly

Nominal percent growth of Consumer Price Index components and subcomponents, 2001–2016



Source: Authors' analysis of several Consumer Price Index components and subcomponents. See Federal Reserve Economic Data, "Consumer Price Index for All Urban Consumers," available at https://fred.stlouisfed.org/graph/?g=5jxL (last accessed July 2016).

the farthest, on the other hand, have been durable consumer goods such as communications technology—cell phones and computers, for example—whose price has actually fallen in nominal terms.

It is noteworthy that necessities and human capital investments have gone up the most in price. This places families at risk should their incomes suddenly decline. Normally, when a family member loses a job or faces a medical emergency, the family can save money by forgoing purchases of discretionary consumer items, such as televisions, in order to continue to pay their mortgage or pay for child care. Yet because the prices of these durables have declined relative to the prices of necessities and human capital investments, the savings from delayed discretionary purchases are smaller than ever.

While each of these costs—child care, higher education, health care, and housing—require their own story, a common thread that weaves them together is how inequality affects both the cost and affordability structures of these big-ticket items. Whether it is growth of expensive technologies in health care or the inability to save for a down payment on a home, low-income and middle-class families are buffeted by expenses that challenge their budgets and balance sheets.

Important policy advances, such as the Affordable Care Act, along with the broader slowdown in health spending growth, have helped cool the growth of some costs. Lower health cost growth, however, has been disproportionately captured by employers, who have not passed along savings to their employees. Progress in other areas has been imperfect, often stymied by backsliding, austerity-driven policies at the federal and state levels. A stark example is in higher education. Although the 2009 stimulus package provided much-needed support to states hamstrung by state balanced-budget rules, it was not sufficient to prevent many states from cutting their support to higher education. Congress has since refused repeatedly to help states avoid higher education cuts, which too often result in families paying more in tuition.

More generally, reducing the prices of critical goods and services such as child care, health care, and housing is an effective way to boost real middle-class economic security. An added benefit is that even as inflation has hovered at quite a low level for most of the past decade, reducing the cost of these more expensive services would raise productivity, giving the Federal Reserve additional space to boost employment and wages without worrying about generating excessive inflation.

Policy response and recommendations

Economic insecurity is not an inevitable condition; the right policy choices can have a tremendous impact. Much of the devastation that was wrought on household incomes and wealth, as well as the major growth trends in high cost services, occurred prior to and immediately following the global financial crisis. In many ways, the past eight years have been spent cleaning up that economic mess. And from health care to consumer financial protection to student debt, we have achieved important progress in addressing the middle-class squeeze.

Yet much more remains to be done in addressing the wage, wealth, and cost challenges that the middle class faces today to ensure that the economy works for everyone and not just the powerful few.

This report offers a package of policy solutions that can help restore economic security to the middle class and grow the economy for those at all income levels. The American people clearly want the federal government to act. This report offers a roadmap for how to do so.

More specifically, it looks at ways to boost middle-class economic security in six crucial areas: jobs and wages, early childhood education, higher education, health care, housing, and retirement. Together, they make up the pillars of a middle-class life. Policies that improve Americans' ability to obtain each of these will make it easier for families to rebuild their financial foundations and restore the social contract that has made a vibrant middle class the heart of America's ongoing effort to build a more perfect union.

Listed below are some of the recommendations that the subsequent chapters explore more fully. The impact and implications of the overall trend outlined in this report are also explored for a range of groups and topics, including immigrants; lesbian, gay, bisexual, and transgender, or LGBT, individuals; the disabled; and African American and Latino communities.

Jobs and wages

- **Use fiscal policy to support growth, for example by investing in infrastructure.** An investment in infrastructure would generate jobs in the short run while raising productivity in the long run. Policymakers should make a $500 billion investment in infrastructure over the next 10 years while adopting measures to ensure that infrastructure investments deliver the highest economic, environmental, and social returns.

- **Promote business investment by orienting corporate incentives towards the long-term.** Aligning the incentives of the corporate sector could foster a long-term approach that boosts productive investments, which drives economic growth and helps workers and firms both get ahead.

- **Make employment more resilient.** Policies that make it easier for workers to reenter the workforce would raise demand in the short term while increasing productivity in the long term. Temporary national service positions during periods of high unemployment, a national subsidized jobs program, reform to unemployment insurance, and a jobseeker's allowance would all help the unemployed remain in or reenter the labor market.

- **Ensure monetary policy targets full employment.** Full employment promotes higher wages and quality jobs for Americans. Given persistently low inflation, monetary policy should be targeted at generating a high-pressure economy with robust wage and employment growth.

- **Protect wage growth by preventing financial crises.** Financial crises and their aftermaths can devastate middle-class wages and wealth. The reforms enacted after the 2008 financial crisis and recession, including the Dodd-Frank Act, must be maintained. Policymakers should take additional steps to mitigate emerging systemic risks.

- **Restore worker bargaining power.** Unions are one of the most important vehicles for raising middle-class wages. Worker bargaining power should be restored by changing labor market rules to encourage industry-wide collective bargaining.

- **Deploy profit-sharing.** Broad-based profit-sharing plans can raise middle-class incomes by enabling workers to share in the benefits of productivity growth.

- **Address the labor market effects of globalization.** Trade policy should promote greater automaticity in enforcement and higher standards for labor and the environment, among other changes to level the playing field.

- **Rebuild labor standards.** Government should provide a baseline set of employment standards for all working Americans. This means raising the minimum wage and enacting protections against job-scheduling volatility.

- **Reinvigorate competition policy.** The active enforcement of antitrust policy would ensure that business profits are shared more widely by, for example, reducing the growth in consumer prices, enabling workers to compete for higher wages, and providing more opportunities for small- and medium-sized businesses to grow.

- **Support consumer financial protections.** Consumer financial protections prevent unfair reductions in take-home earnings and level the playing field for high-road companies that do the right thing.

- **Enact family-friendly policies to protect human capital.** Workers who take extended absences from the labor market to take care of children or an elderly parent suffer lifelong earnings losses. Family-friendly policies such as paid family and medical leave and paid sick days—as well as the child care and early education policies spelled out below—would raise both labor force participation and wages.

- **Raise wages by expanding opportunity.** A suite of policies should be deployed to help maximize the value of American workers and their incomes, including investing in workforce training, expanding and diversifying entrepreneurship, and eliminating unfair barriers to formal employment.

- **Use tax policy to promote fairness.** The U.S. tax code, while progressive, would benefit from changes that support middle- and low-income Americans while ensuring that financial gains are taxed fairly. The federal government should collect enough revenue to fully fund much-needed public investments.

Child care

- **Enact the High-Quality Child Care Tax Credit.** This new tax credit would put quality, affordable child care within reach for working families. It would provide low-income and middle-class families with up to $14,000 per child, with eligibility limited to families earning up to four times the poverty level, or $97,000 for a family of four.

- **Create a federal-state partnership to provide universal preschool.** Congress should authorize a universal preschool program to prepare 3- and 4-year-old children for school.[32] The federal government should partner with states and share the cost of expanding preschool to low- and middle-income children.

Higher education

- **Reshape the financial aid system through College for All.** Policymakers should overhaul the federal student financial aid program to provide greater guarantees that college will be affordable for low- and middle-income students. This includes additional federal aid as well as requirements for states to maintain postsecondary education funding.

- **Simplify the federal financial aid application to make it easier to apply for grants and loans from the U.S. Department of Education.** Paperwork should not be a barrier to college affordability. The Department of Education should allow students to apply for financial aid while still in high school and limit how often they must reapply.

- **Simplify student loan repayment to support affordability.** The federal government should make it easier for federal loan borrowers to make payments equal to an affordable share of their income. This includes allowing borrowers to sign up for income-based repayment plans for multiple years at once and experimenting with automatic enrollment into these plans.

- **Ensure that students have high-quality options.** Congress should create accountability measures to monitor and reduce student loan default.

Health care

- **Address cost shifting with increased transparency and shared savings.** Policymakers should require employers to increase transparency on annual costs to illuminate and discourage cost-shifting. As a further safeguard, employers should have to share savings in particularly egregious cases. In addition, Congress should require health plans to include three free primary care visits per enrollee per year.

- **Combat excessive drug prices.** The federal government should categorize new drugs by their comparative effectiveness and develop value-based payment recommendations. Drug companies should be required to justify prices outside of the recommended payment range and to invest more in research and development. In addition to these steps to address the overall price of drugs, out-of-pocket prescription drug costs for individuals should be capped.

Housing

- **Reform mortgage credit practices to boost affordability and access.** The federal government should ensure that creditworthy families have a fair shot at getting a mortgage. The Federal Housing Finance Agency, or FHFA, should finalize a strong Duty to Serve rule and modify fees that mortgage financers Fannie Mae and Freddie Mac charge for borrowers with suitable credit. Policymakers should also support and expand low down payment lending, help prospective borrowers save for a down payment, and support shared equity programs run by local governments and nonprofits.

- **Promote neighborhood stabilization and reduce costs on the struggling middle class.** Policymakers should commit to helping stabilize distressed communities, which includes supporting access to affordable housing for middle-class families. Federal agencies should prioritize home retention and tighten reporting standards for purchasers of nonperforming loans. Congress should work with federal agencies to implement a progressive agenda for rural housing finance; expand the Low-Income Housing Tax Credit, or LIHTC, program; ensure funding for the HOME Investment Partnerships Program and the National Housing Trust Fund; and strengthen the Section 8 housing choice voucher program. In addition, local governments should confront restrictive zoning policies in order to boost the supply of affordable housing.

Retirement

- **Update Social Security provisions to support the vulnerable.** Congress should increase the Social Security special minimum benefit and modernize survivorship and divorce benefits, as well as institute a caregiver credit.

- **Innovate to make private retirement savings safer and more convenient.** Congress should create a National Savings Plan to ensure that all workers are able to save at work; help states and the federal government provide collective defined-contribution plans; and reform retirement tax incentives to help those who need it most. Policymakers should also implement and defend the conflict of interest rule to protect savers from hidden, unfair costs that drain retirement savings.

Implemented together, the above policies will raise middle-class wages, reduce critical costs, and make it easier for families to accumulate wealth. In 2017, a new president and Congress will have the opportunity to demonstrate that they work for all Americans, not just the wealthy few, and all Americans should hope that they seize it.

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CHAPTER 2

Jobs and Wages

By Michael Madowitz and Brendan Duke

Jobs and Wages

The most important step toward rebuilding middle-class economic security is raising middle-class incomes—and the vast majority of middle-class income comes from wages.[1] Therefore, raising wages and creating more good-paying jobs are both key to rebuilding middle-class incomes, wealth, and security.

The U.S. economy has made a great deal of progress on job creation since the end of the Great Recession. It is impossible to overstate how dire the economic and job situation was at the beginning of 2009, when the economy suffered a worse financial crisis than in 1929[2] and was losing 800,000 jobs per month.[3] It took extraordinary government efforts—including fiscal stimulus, industrial and financial system rescues, tax cuts, small-business support, and more—to prevent the economy from collapsing. The Federal Reserve's actions and commitment to its full-employment mandate were also—and remain—critical to turning the economic ship around.

The economy has added about 15 million jobs since the labor market bottomed out in February 2010.[4] The unemployment rate in July 2016 was a low 4.9 percent, and broader measures of unemployment have almost returned to prerecession levels.[5] The economy's progress toward recovery has been remarkable, yet there remains substantial room to create jobs.

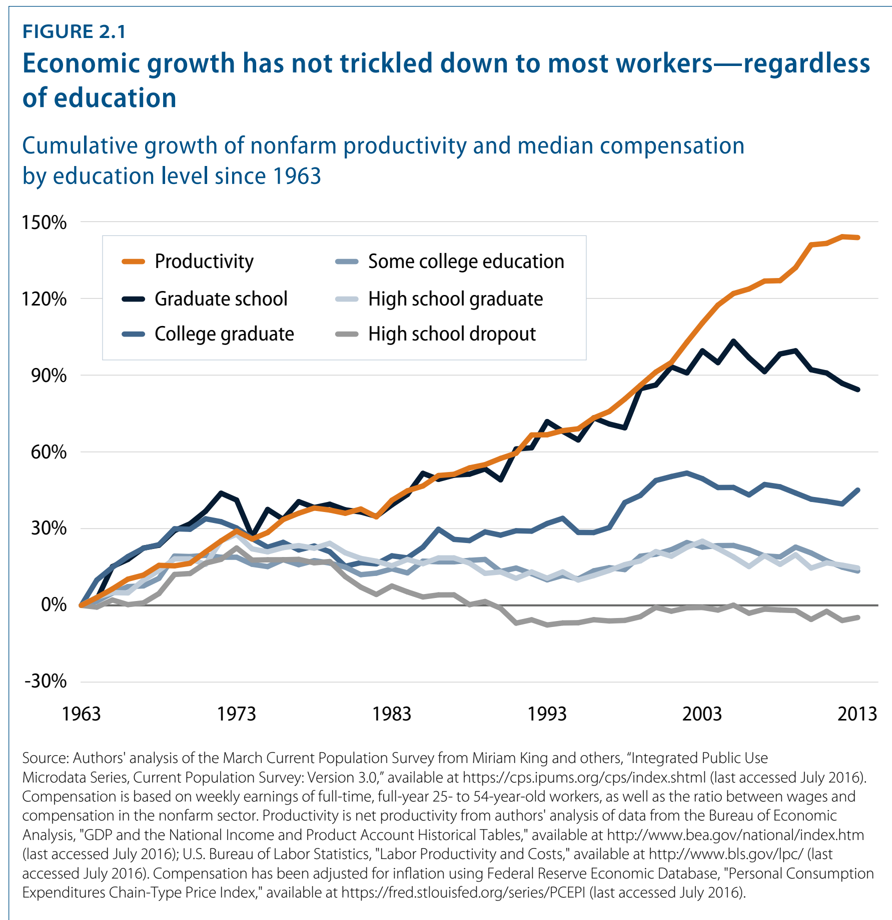
Last year marked the first year of healthy real wage growth in the recovery as a result of stronger nominal wage growth and low inflation.[6] More troublingly, stagnant wages were a problem that long preceded the Great Recession. While real middle-class wages grew robustly in the 1960s and early 1970s—as they had since World War II—beginning in the mid-1970s, real wage growth stalled and, at certain points, disappeared. Strong, sustained real wage growth returned in the late 1990s but has been mostly absent since 2001.[7] Families originally coped with this wage stagnation by working more hours—primarily women joining the workforce—and later borrowing against their homes. Ultimately, rebuilding middle-class incomes and wealth will require a return to solid, broad-based wage growth.

One of the most striking aspects of wage stagnation before 2007 was that it occurred despite substantial output and productivity growth. Indeed, Figure 2.1 below demonstrates that even the earnings of full-time, college-educated workers grew at a slower rate than productivity. In other words, while the pie grew plenty fast until 2007, rising inequality had prevented middle-class workers from sharing in those productivity gains.

FIGURE 2.1

Economic growth has not trickled down to most workers—regardless of education

Cumulative growth of nonfarm productivity and median compensation by education level since 1963



Source: Authors' analysis of the March Current Population Survey from Miriam King and others, "Integrated Public Use Microdata Series, Current Population Survey: Version 3.0," available at https://cps.ipums.org/cps/index.shtml (last accessed July 2016). Compensation is based on weekly earnings of full-time, full-year 25- to 54-year-old workers, as well as the ratio between wages and compensation in the nonfarm sector. Productivity is net productivity from authors' analysis of data from the Bureau of Economic Analysis, "GDP and the National Income and Product Account Historical Tables," available at http://www.bea.gov/national/index.htm (last accessed July 2016); U.S. Bureau of Labor Statistics, "Labor Productivity and Costs," available at http://www.bls.gov/lpc/ (last accessed July 2016). Compensation has been adjusted for inflation using Federal Reserve Economic Database, "Personal Consumption Expenditures Chain-Type Price Index," available at https://fred.stlouisfed.org/series/PCEPI (last accessed July 2016).

Broad-based wage growth has become even more difficult to achieve since the Great Recession as a result of weak demand and weak productivity growth. In this chapter, we analyze the forces restraining middle-class wage and job growth in the United States and propose a suite of policies to help boost them.

The forces squeezing middle-class wages and the challenge to current policy

In January 2015, the Center for American Progress released the "Report of the Commission on Inclusive Prosperity"—the product of a multiyear collaboration between policymakers, academics, and thought leaders from across the developed world.[8] The commission concluded that economic growth was necessary for middle-class income growth but was insufficient without policies to ensure that growth was inclusive. Countries such as Australia and Sweden have demonstrated that the right set of policies can deliver robust middle-class market income growth, even amidst trends of automation and globalization, which are often blamed for the generation-long stagnation of wages in the United States.

Building on that report's analysis, this chapter will briefly examine five trends that have played important roles in the stagnation of U.S. middle-class wages. They are:

- The undermining of worker power
- Global competition from low-wage labor
- The decline of labor standards and other regulatory protections
- The Great Recession and the incomplete labor market recovery
- Challenges tapping the full potential of people

The first three factors drove the uncoupling of economic growth and wage growth that preceded the Great Recession. The financial crisis, the Great Recession, and the slow return to full employment have made the challenge of wage growth more complicated. Wage growth is also complicated by continuing challenges in tapping Americans' full potential, which has reduced productivity growth.

In sum, these five factors leave many Americans frustrated with the present and fearful about the future. We have made important advances on all of these fronts in recent years. However, much more needs to be done.

Undermining of worker power

Labor unions once guaranteed middle-class workers an equitable share of the pie. Unions helped build the robust post-war middle class, since they had the negotiating leverage to ensure that middle-class workers shared in the fruits of productivity gains. Middle-skilled workers in a union, for example, earn 20 percent more than similarly skilled nonunion workers.[9] Unions also deliver workers benefits such as paid leave and retirement. [10]

Today, however, unions have all but disappeared from the private sector: The share of private-sector workers in a union today is just one-third of what it was 40 years ago. [11] This collapse has directly contributed to the inequality that has robbed most workers of the benefits from productivity growth. One study by sociologists Bruce Western of Harvard and Jake Rosenfeld of Washington University in St. Louis estimates that about one-third of the rise of wage inequality is explained by the decline of labor unions.[12] Recent research by the Center for American Progress found that about half of the decline in the size of the middle class came from a weaker labor movement.[13]

One reason union membership has declined is a lack of enforcement of federal laws that protect the right of private-sector workers—regardless of their status as union members—to come together to discuss problems and push their employer for improvements. The penalties to businesses for violating workplace laws are often trivial or come too late to prevent the violation. And the fear of employer retribution and even firing has a chilling effect on workers seeking to exercise their collective rights and has helped drive the collapse of private-sector union density.[14]

Important progress has been made in recent years toward restoring worker power, even in the face of strong opposition. For example, President Barack Obama signed a number of executive orders to ensure that workers on federal contracts have a stronger voice on the job and are able to come together in unions. The orders require contractors and subcontractors for the federal government to inform their employees of their rights under federal labor laws; encour-

age federal agencies to consider labor agreements by project or consider prehire collective bargaining agreements on large scale construction projects; and require that workers on service contracts who would otherwise lose their jobs as a result of the completion of a contract be given the right of first refusal for employment with successor contractors.[15]

In addition, the president has consistently appointed pro-worker board members to the National Labor Relations Board, or NLRB, the independent federal agency charged with safeguarding workers' right to organize into unions. In October 2015, the Obama administration helped jumpstart a national dialogue about how to strengthen worker voice and power by convening a White House summit on the issue.[16]

Increased global competition

A second shift that has driven a wedge between economic growth and wages for many U.S. workers is increased competition from low-wage labor in other countries.

U.S. open-trade policies after World War II helped Europe, Japan, and other allies build or rebuild their middle classes. In the past 30 years, however, the United States has witnessed the opening of China, India, Eastern Europe, and other emerging economies around the world, absorbing new entrants to the global labor market with populations much larger than that of the United States, some of which also deploy aggressive export-led development strategies.[17]

At the same time, rapid changes in technology and financial market incentives have enabled and encouraged U.S.-based companies to coordinate production across national borders, putting domestic workers into direct competition with workers in other countries.[18] The parallel rise of the "knowledge economy"—the growing importance of intellectual property, or IP—has also shifted the relative strength of labor versus capital at a global level.[19]

In the past two decades, the ease of global transport and communication means that firms can shop around like never before for the lowest labor costs; weakest worker and environmental rights; minimal taxes; and highest subsidies. To obtain market access, companies also come under intense pressure from foreign govern-

ments to open production sites in local markets, as well as from competition from state-backed enterprises and industrial acquisition strategies. Together, we have witnessed a race to the bottom on a wide array of norms and standards.[20]

A growing body of research documents the effects of trade on U.S. workers' wages. MIT's David Autor and others have shown that the more a U.S. region was exposed to Chinese import competition between 1990 and 2007, the more it experienced declining wages, employment, and labor force participation.[21] Another study exploring the reasons for the declining share of income going to employees' wages, salaries, and benefits—which it calls the "payroll share"—found that globalization has been a key factor and that "increases in import exposure of U.S. businesses can explain about 3.3 percentage points of the 3.9 percentage point decline in the U.S. payroll share over the past quarter century."[22]

Rising global trade competition, of course, has also benefitted the middle class through lower costs and greater variety of goods. Fred Bergsten of the Peterson Institute for International Economics estimates that benefits from increased trade translated into an additional $9,000 in inflation-adjusted income between 1945 and 2003 for the average American household. And this is to say nothing of the millions of people in other countries able to join the middle class due to rising global trade.

Trade and foreign market access are also important for tapping new growth opportunities for U.S.-based parts of the value chain. They can further help build a middle class around the world that can be a source of demand for U.S. goods and services, as well as a driver of new democracies.[23] But those benefits can only accrue when trade meets certain basic norms and standards. For example, trade law has long recognized the importance of a level playing field in the form of prohibitions on unfair "dumping" products abroad below their domestic cost or of governments subsidizing products or services to boost market share.[24]

In recent years, progress has been made, for example, on better coordination of international tax transparency and by adding state-owned enterprise concerns into trade agreements. However, significant risks, practical details, and obstacles, such as insufficient enforcement, remain.

The challenge of growing global low-wage labor competition can also be met, in part, with a vigorous set of policies to better tap the full potential of people and better adjust to the new realities of an IP- and skills-driven economy.

Deteriorating labor standards and other regulatory protections

A third factor that has divorced middle-class wage growth from economic growth has been the deterioration of regulatory protections for the middle class.

The United States originally enacted a wide range of regulatory policies to rebalance the playing field between workers and powerful interests that had the ability and incentive to pay workers lower wages. And those regulatory policies have largely worked. Higher minimum wages, for example, reduce both poverty[25] and reliance on public safety net programs,[26] while also raising wages for workers making well above the minimum wage,[27] and increasing the economic security and stability of families.[28]

Many of those existing regulatory protections have not been sufficiently updated. Neither the federal minimum wage nor the overtime salary threshold have been automatically indexed to inflation or wage growth. Indeed, the $7.25 federal minimum wage has not been raised for the past seven years, and it is currently below its real value in 1968 despite a doubling in output per hour.[29] And the overtime threshold—which once protected about two-thirds of full-time workers—only protects 8 percent today.[30] Fortunately, the Obama administration recently announced[31] that it will update the overtime threshold to ensure that middle-class workers are appropriately covered by the protections of overtime laws, as was intended by the original law.

Moreover, new challenges are also emerging. For example, the rise of volatile scheduling practices shift risk and responsibilities to working families without commensurate increases in pay. In 2011, 1 in 5 American workers—including more than one-fifth of parents with children under age 13—faced a nonstandard schedule.[32] Women, workers of color, and younger workers are particularly likely to face job schedule volatility.[33] Uncertain work also means uncertain pay, and these arrangements demand that workers budget, save, and plan more to get through the next week.[34]

Unfair scheduling practices make it nearly impossible for workers to balance work with caregiving responsibilities,[35] affecting not only parents but children as well. Research shows children's language development can be reduced if their parents work nonstandard schedules early in the child's life, and reduced academic performance in adolescence is associated with parents working nonstandard schedules for long periods.[36]

The deterioration of other regulatory protections has reduced middle-class economic security by reducing the buying and wealth-creation power of wages. For example, protections for employee retirement savings are critical to ensuring that workers' wages are efficiently transformed into retirement wealth and not siphoned off into unfair fees and financial traps. Consumer finance regulations perform the same role for financial services, such as a mortgage or a credit card, as does regulation for health insurance, student loans, or any number of other important middle-class consumer products.[37] And regulation can also have a broader effect on jobs and wages if a lax approach leads to a financial crisis,[38] if a corporate sector is focused on short-term profits at the cost of longer-term investments and sustainability,[39] or if industry concentrations raise costs, lower wages, or limit entrepreneurial opportunity.[40]

From the Affordable Care Act to the Dodd-Frank Wall Street Reform and Consumer Protection Act and beyond, the Obama administration has spent much of the past eight years updating these regulatory protections. Protecting the gains of recent years is critical—but more needs to be done.

The Great Recession and an incomplete labor market recovery

The three forces above—the undermining of worker power, increased global competition for low-wage labor, and deteriorating regulatory protections—drove a wedge between economic growth and middle-class wage growth between 1973 and 2007.

But wage stagnation became even more severe in the wake of the financial crisis and Great Recession, as well as the subsequent slow labor market recovery. Middle-class wage growth and full employment in the economy are inextricably linked. Employers do not raise wages out of charity—they raise them when workers have enough bargaining power to demand a raise or find a new job as a result of a tight labor market. When there are several out-of-work people willing to do the same job, wages will not rise.

It is difficult to overstate the economic effect on the middle class of the 2008 financial crisis and the subsequent Great Recession. To pick just a few data points: 20 percent of 16- to 24-year-olds were without a job in 2010; 2 million middle- and high-wage jobs were lost; 15 million families had their houses foreclosed on between 2007 and 2014; $2.8 trillion in IRA and 401(k) wealth was destroyed; $116 billion in small business lending evaporated between 2008 and 2011; and public confidence in the economy—and the American dream—was deeply damaged.[41]

Upon taking office, the Obama administration correctly recognized the need for fiscal stimulus support and responded with a sizable stimulus program in 2009. Unfortunately, the Great Recession also produced severe budget crises among states and cities, causing them to cut spending, reduce hiring, and lay off workers. Rather than continuing to help state and local governments fill their budget hole, Congress itself cut spending beginning in 2011, culminating in the sequester cuts in 2013, which altogether cost 1.2 million jobs.[42] For several years thereafter, the Obama administration continued to fight for additional stimulus, but Congress continued to oppose it.

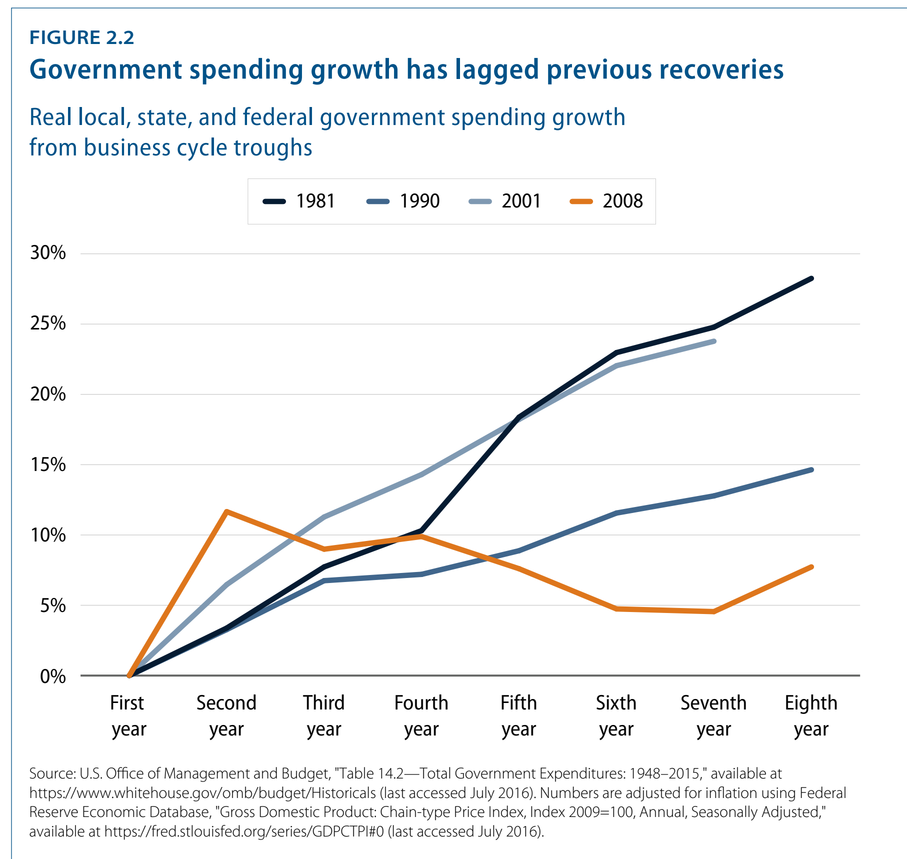


FIGURE 2.2

Government spending growth has lagged previous recoveries

Real local, state, and federal government spending growth from business cycle troughs

Source: U.S. Office of Management and Budget, "Table 14.2—Total Government Expenditures: 1948–2015," available at https://www.whitehouse.gov/omb/budget/Historicals (last accessed July 2016). Numbers are adjusted for inflation using Federal Reserve Economic Database, "Gross Domestic Product: Chain-type Price Index, Index 2009=100, Annual, Seasonally Adjusted," available at https://fred.stlouisfed.org/series/GDPCTPI#0 (last accessed July 2016).

While the labor market has certainly improved over the past six years, it is far from clear that it has reached full employment, despite a low headline unemployment rate. The share of prime-age—25- to 54-year-old—workers with a job is still below its 2007 level and far below its 2001 level, as shown in Figure 2.3. There would be an additional 4.4 million employed workers today if the prime-age employment

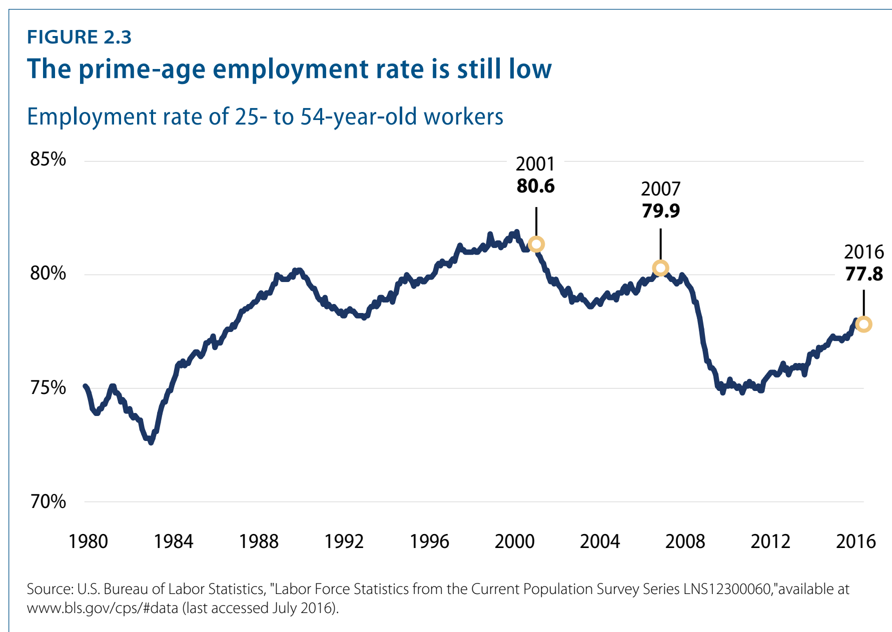
rate returned to its 2001 level. The prime-age employment rate may in fact be a better indicator of labor market health today than the headline unemployment rate: While the relationship between the prime-age employment rate and wage growth has remained strong, the relationship between unemployment and wage growth has broken down.[43]

Perhaps the best evidence that the U.S. economy has not yet reached full employment is the fact that real wage growth—which only began to show signs of life in 2015—remains subdued. Subdued real wage growth and inflation this deep into the expansion suggests that employers still do not feel much pressure to raise wages, implying that a loose labor market is still putting downward pressure on wage growth.

FIGURE 2.3

The prime-age employment rate is still low

Employment rate of 25- to 54-year-old workers



Source: U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey Series LNS12300060,"available at www.bls.gov/cps/#data (last accessed July 2016).

Challenges in tapping the full potential of people

A new concern about the U.S. economy is the recent slowdown of productivity growth—the long-run driver of rising living standards.

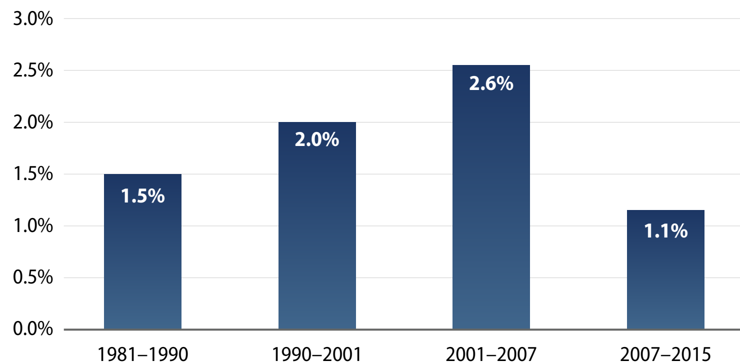
Slow wage growth may itself be a cause of slow productivity growth, as productivity and business investment are inextricably intertwined.[44] High wages give companies an incentive to invest in capital, such as machinery, and make their workers

more productive. But in a labor market marked by sluggish wage growth, firms can meet increased demand by hiring additional low-wage workers instead of investing in capital in order to make their employees more productive.

FIGURE 2.4

Productivity growth has slowed sharply since the Great Recession

Annualized real growth of net nonfarm output, per hour by business cycle



Source: Authors' analysis of data from the Bureau of Economic Analysis, "GDP and the National Income and Product Account Historical Tables," available at http://www.bea.gov/national/index.htm (last accessed July 2016); U.S. Bureau of Labor Statistics, "Labor Productivity and Costs," available at http://www.bls.gov/lpc/ (last accessed July 2016).

The federal government, too, has not made enough productivity-enhancing public investments, such as in infrastructure, education, and scientific research. No number better summarizes this failure than the estimated $3.6 trillion required to fix the United States' crumbling infrastructure by 2020.[45] While the Obama administration sought to rectify that with new investment proposals and attempts at budget deals, lawmakers' opposition to progress remained strong.[46]

Another reason productivity growth may have slowed is that long spells of unemployment can reduce workers' skills, as well as the quality of their matches with employers.[47] Workers who lose their jobs in recessions see their earnings fall even after they find a new job.[48] This earnings decline may reflect the loss of what economists call industry-specific or firm-specific human capital—skills and knowledge workers have that makes them more productive but could only be applied at their former industry or employer.[49] Millions of laid-off workers have returned to the labor force during the recovery, but they may not be as productive because they no longer have the on-the-job know-how they once did.

This speaks to a larger challenge the United States has had in maintaining its base of skills in an economy where workers move in and out of employment in order to take care of themselves and their families. For example, the United States is the only developed country that does not guarantee paid family leave when workers have a new child, and its investments in child care are inadequate. Whether a worker's extended separation from the workforce is the result of a struggling employer or a need to care for family, the result of this employment gap is a permanent reduction in their wages.

Addressing these challenges and restoring growth requires a policy agenda that fits the economy we have today. Fortunately, there are clear solutions to many of the problems we must address.

Policy responses for reigniting growth, jobs, and wages

A policy agenda that seeks to raise middle-class wages must enable workers to share in the economy's gain, ensure a level playing field internationally, and restore the regulatory protections that prevent a race to the bottom at the expense of middle-class incomes and wealth. It must also ensure continued robust job creation, prevent financial crises, and raise productivity by tapping the full potential of the American people.

Maintain a high-pressure, full employment economy

In a vibrant, high-pressure economy, employment grows and employers compete for workers by offering raises. Establishing this kind of economic environment is a crucial starting point for raising wages and rebuilding middle-class wealth. The challenge of assuring that there is sufficient aggregate demand to run the economy at its full potential can be met by boosting public and private investment, ensuring resiliency in employment, executing a monetary policy that supports full employment, and effectively protecting against financial crises.

Boost public investment

One of the smartest investments the government can make is in its infrastructure. Recent research by J. Bradford Delong and Lawrence H. Summers,[50] as well by the International Monetary Fund,[51] shows that infrastructure spending surpasses any reasonable cost-benefit analysis for two reasons. First, infrastructure expenditures have strong output and employment effects. When the economy is operating below potential, public spending increases total economic activity. This is also referred to as the multiplier effect, whereby one additional dollar of expenditure produces more than a dollar in total activity. Conservative estimates place the multiplier effect at approximately 40 percent, meaning for every dollar spent by the government, total economic output increase by a $1.40.[52] Second, well-chosen infrastructure improvements raise overall productivity by providing effective support for economic activity.

Underinvestment produces chronic roadway congestion in metropolitan areas, service interruptions on public transit, and temporary closures of major facilities that add up to billions of dollars of lost productivity each year.[53] The time has come to move away from a reactive approach to infrastructure toward a growth-enhancing approach. To do so, the federal government must partner with state and local governments to provide robust and predictable fiscal support.

Recently, CAP released a comprehensive infrastructure report titled "An Infrastructure Plan for America: How Investing in Infrastructure Will Lay the Foundation for Prosperity, Advance Environmental Goals, and Rebuild the Middle Class."[54] This plan calls for increasing total federal expenditures on infrastructure across sectors by $500 billion over 10 years.

As part of this effort, Congress should establish a national infrastructure investment authority, or NIIA, to provide low-cost, flexible financing to projects of regional or national significance. Furthermore, the NIIA should have the discretion to provide zero or negative interest loans, as well as to offer truly subordinated debt. Finally, Congress should increase the share of federal funds that are distributed through competitive grant programs and expand performance management to provide greater transparency and accountability for how state and local recipients spend federal funds.

Taken together, increased expenditures and greater oversight will not only increase economic productivity but also ensure that funds flow to those projects that provide the greatest social, environmental, and economic return on investment.

Boost business investment through long-termism

The private sector must also play a role in enhancing growth and raising wages. In particular, reducing the short-term focus of public markets may help remove corporate disincentives to invest.

Business investment began to fall off its pre-1990 trend in 2000.[55] Research by Bank of England Chief Economist Andy Haldane and others measured "impatience" across U.S. and U.K. industrial sectors, defined as how much markets excessively penalize a dollar of profit earned tomorrow relative to a dollar earned today.[56] They found no evidence of impatience between 1985 and 1994 but did find evidence between 1995 and 2004.

One of the most important policies that could promote long termism in the business community would be adjusting the tax provision that allows businesses to deduct executive compensation above $1 million, if based on performance. This incentive should be restructured to encourage compensation that rewards long-term, rather than short-term, performance. The U.S. Securities and Exchange Commission, or SEC, should also increase transparency requirements for share buybacks in order rein in insider manipulation and develop a better understanding of the link between buybacks and executive compensation. A sliding capital gains tax rate and greater proxy access both can reward long-term asset holding and better align the interests of executive decision-makers and long-term shareholders.

In addition, the SEC should enhance disclosure that would empower both investors and executives to focus on long-term results. For example—as proposed in a recent CAP report titled "Workers or Waste?"—enhancing disclosure of corporate investments in worker training could remove a disincentive to companies investing in their workforce while also better protecting investors who will want to reward productivity-enhancing workforce training.[57]

Resilient employment solutions

Because the human and economic costs of recessions and slow growth are high, smart policy means preparing for recessions before they happen. Government should become a more active stabilizing force in the face of recessions by making it easier for workers to find jobs when the economy is weak. This will raise wages and curb employment loss in the short term by providing countercyclical stimulus, as well as raise wages in the long term by preventing spells of unemployment from permanently depressing workers' earnings. And policy should also focus on helping workers who want to re-enter the workforce after leaving for noneconomic reasons, such as raising a child or taking care of a parent.

We should enact a suite of policies that will raise wages by making employment more resilient, enabling workers who are laid off or who exit the labor force to find a job as quickly as possible. For example, the United States should deploy a new mechanism to automatically fund additional temporary national service positions during periods of high long-term unemployment, in addition to fully funding the 250,000 national service positions authorized by the Edward M. Kennedy Serve America Act of 2009.[58] The United States should also establish a national sub-

sidized jobs program that would help certain groups at the margins of the labor market—such as the long-term unemployed and persons with criminal records—find employment by providing incentives for local small businesses to invest in training employees whom they would not otherwise hire.

We should strengthen unemployment insurance, or UI, as a tool for fighting recessions and to help working families persevere through spells of unemployment. The Center for American Progress, the Georgetown Center on Poverty and Inequality, and the National Employment Law Project recently released a report, entitled "Strengthening Unemployment Protections in America," that spells out ways to do just that.[59] The report suggests that UI must be better funded so that it can reach a greater share of the unemployed, including giving job seekers access to tools for successful re-employment and training. Eligibility criteria should be reformed to include part-time, lower-wage, and temporary workers. And UI must be made ready to respond to the next recession by modernizing its financing system and improving its solvency.

To support people who are searching for jobs but do not qualify for UI—such as recent graduates and individuals returning from unpaid caregiving—the United States should also create a Jobseeker's Allowance that provides a modest, short-term weekly allowance, conditional on ongoing work search efforts.

Execute monetary policy with the middle class in mind

The policy stance adopted by the Federal Reserve is key to allowing employment and wages to grow and the economy to reach its potential. Given the current economic environment of low inflation, very low long-term interest rates, and economic slack, monetary policy should resist calls to raise interest rates when circumstances do not require it. Premature rate increases could cut off economic recovery; with any challenge from inflation yet to materialize, this ought to be avoided. Instead, the Federal Reserve should focus on sustaining demand adequate to enable the economy to operate at full potential.

Protect the economy and the middle class from financial crises

A healthy and effective financial system plays a central economic role in connecting those who want to save with those who want to borrow and grow. Yet, without strong and effective regulation, this system can break down—with devastating effects on jobs, wage growth, and middle-class wealth. Thus, a core element of maintaining full employment is preventing financial crises.

The Dodd-Frank Act and subsequent regulations under it made significant strides in addressing major fault lines in regulation. These improvements included requiring banks to have sufficient equity to absorb losses; to maintain enough liquidity to enable short-term resiliency; and to end proprietary trading and limit private fund investments to prevent swing-for-the-fences activities. The largest and most systematically important banks are also required to produce credible living wills that demonstrate how they can be wound down in an orderly fashion should they fail. The act also introduced measures to increase transparency and stability in derivatives markets to prevent unobserved daisy chains of risk. A robust Consumer Financial Protection Bureau, or CFPB, helps lay a solid foundation for financial stability as well.

More remains to be done. From the proper design of secondary mortgage markets to new and evolving markets engaged in credit extension—sometimes called shadow banking, or market-based finance—we will need appropriate regulatory guardrails and oversight. Ultimately, reform is also about restoring a sense of fairness and, therefore, trust.

Policymakers also cannot lose focus on making sure enough has been done, including capital, structural reform, and beyond. "Too big to fail" is not a challenge to be taken lightly. Failure to secure needed reform may not be broadly felt until it is too late, and the middle class again face the economic devastation wrought by a financial crisis and recession.

Empower workers to share in the economy's gains

A high-pressure economy with tight labor markets will help to raise wages, but more needs to be done to restore worker bargaining power. We need to firmly re-establish the link between wages and productivity that broke in the 1970s. Central to that is restoring and supplementing worker bargaining power. Here are several ways to do just that.

Restore worker bargaining power

We should modernize our labor relations system—which has not been rethought since the 1930s—so that it can help workers and business thrive in the modern global economy. As described in CAP's recent report "The Future of Worker Voice and Power," there are four key elements to modernizing U.S. labor law: Replacing enterprise wage bargaining with multi-employer bargaining for an industry or region; expanding voice in the workplace to include organizations such as works councils; encouraging membership in worker organizations; and safeguarding basic rights for all workers. These proposals, taken together, will empower workers to negotiate for a larger share of the economic pie—even while supporting the productivity gains that will continue to see that pie grow.

Existing proposals such as the Workplace Action for a Growing Economy, or WAGE, Act are an important part of this modernization, but they should be understood of as part of a broader effort. Modernizing labor law will raise wages, ensure workers have a voice, boost productivity, and foster a collaborative relationship between workers and management.

Deploy profit sharing

In addition to collective bargaining, profit-sharing mechanisms—such as broad-based stock options, worker cooperatives, and employee stock ownership plans—can also help raise wages and incomes. These programs are associated with higher pay, benefits, and long-term wealth accumulation for workers,[60] while businesses benefit from increased productivity, profitability, lower turnover, and a higher likelihood of long-term survival.[61]

Despite the benefits of these broad-based profit sharing programs, less than half of all American workers benefit from these programs today, and those that do only receive modest amounts of income from such programs.[62] As set forth in the CAP report "Capitalism for Everyone," the federal government should adopt a range of policies to promote broad-base profit sharing.[63]

Address the labor market effects of globalization

Technology, transportation, and the end of the Cold War have inaugurated the arrival of a truly global labor market. The U.S. policy agenda must be clear-eyed about the effects on middle-class wages, incomes, and living standards wrought by globalization. This means developing trade policies that encourage open and vigorous trade—but on a level playing field for U.S. workers and businesses.

We must improve our understanding of how trade policy affects local economies, but we cannot close our doors. With the United States and its major trading partners needing to restore growth and increase productivity, trade will be an important tool for the developed world to access the fastest growing sources of demand around the world. Global demographics only underscore the importance of exports to future U.S. economic growth. When put on solid, well-regulated footing, trade can contribute to the prosperity and vibrancy of our global and domestic economies, lift people out of poverty around the world, and increase the United States' capacity to address global threats such as climate change and extremism.

As set out in the CAP report "Progressive Pro-Growth Principles for Trade and Competitiveness," smartly structured trade relationships address challenges to fair competition—and with it, the effects on labor markets—posed by currency mispricing; state-owned and state-supported enterprises; unbalanced dispute settlement mechanisms; insufficient labor and environmental standards and enforcement; and rules of origin that undermine the supply chain benefits of trade deals for their participants.[64] Addressing subsidies that distort investment decisions is also critical.[65] Many of these arise from a lack of taxpayer accountability and uncompetitive, mercantilist practices.[66]

Trade should also move toward greater automaticity and become more like a regulatory relationship and less like a negotiated one.[67] As set out in the CAP report "300 Million Engines of Growth," automaticity first and foremost focuses on making trade decisions more routine. Not only would this reduce the upfront costs of initiating trade actions but also reduces the chilling effects that threats of retaliation can have. Automaticity can also be deployed on a country-by-country level to reduce the potential negative political consequences of enforcing trade obligations.

Rebuild labor standards and the broader regulatory floor

From preventing the labor market from becoming a race to the bottom, to ensuring competition keeps prices in check, to protecting consumers from predatory financial practices, regulation plays an important role in protecting real wages. Much work has been done to rebuild the regulatory floor over the past eight years—but more needs to be done.

Raise minimum wages

One of the most straightforward ways to raise incomes would be for Congress to raise the federal minimum wage to at least $12 per hour by 2020 and index it to the median wage. In addition, Congress should eliminate the special $2.13 subminimum wage paid to America's 4.3 million tipped workers, most of whom are women.[68]

There is growing momentum in states and cities to raise the minimum wage even higher than $12—for example, California, New York, and Seattle have all put their minimum wages on track to reach $15 in the coming years.[69] Cities and states should continue to raise their minimum wages above the inadequate federal minimum wage and consider raising it to $15 per hour, especially in communities with a high cost of living.

Reduce job schedule volatility

To help workers maintain a steady income, Congress should pass the Schedules that Work Act, which would require two weeks advance notice of worker schedules, allowing employees to plan around their work schedules and to request necessary schedule changes.[70] It would also protect workers from retaliation for making such requests and guarantee pay for shifts that were cancelled or shortened with little notice. State and federal policymakers should assess and learn from models of workplace policy reform enacted in municipalities around the country, such as in San Francisco, which recently became the first jurisdiction to pass a fair scheduling law.[71]

Rebuild competition policy

Antitrust policy—and competition policy more broadly—remains a significantly underappreciated and underutilized regulatory tool. As a recent CAP report titled "Reviving Antitrust" shows, there is growing evidence that, across industries, increasing market power is having pernicious effects on our economy and politics.[72] These effects include higher prices and correspondingly lower wages; greater barriers to entry for new and expanding businesses; reduced product quality and innovation; as well as a corrosive influence on policymaking.

The report notes that there are a number of steps the United States can take to spur more vigorous competition. The past 30 years has been generally defined by remarkably permissive enforcement by the Federal Trade Commission and U.S. Department of Justice.[73] With new leaders and a reinvigorated approach, enforcement agencies can begin to administer presumptions against concentration and shift the burden of proof in favor of competition. In addition, executive branch agencies that presently lack clear competition mandates can be more actively engaged in order to provide oversight of concentrated sectors and assist with the sanctioning of anticompetitive behavior. Finally, antitrust enforcement needs greater transparency, which is achievable through more periodic disclosures of agency actions and industry competition data.

Whether it be ensuring that increasing market power does not result in higher prices for families, constrain wage growth for workers, or stymie small-businesses and entrepreneurs, revitalized antitrust policy has an important role to play in protecting middle-class economic security and opportunity.

Empower vibrant pro-consumer regulatory approaches

By putting pro-consumer approaches at the forefront of their agenda, regulatory agencies can improve the economic position of middle-class households by reducing fraud, abuse, and unfair treatment, as well as by protecting against the devastation of a financial crisis. To take just one example, the Consumer Financial Protection Bureau, or CFPB, in its short history has provided more than $11 billion in relief to 27 million wronged consumers and has processed nearly 1 million consumer complaints.[74] CFPB credit card regulations alone saved families $16 billion in fees while also improving the reputation of the credit card industry and maintaining access to credit.[75] Protecting the CFPB from those who would strip it of its independence or effectiveness is critical.

Additional steps should also be taken to empower consumers of financial services and in other areas too. For example, once a year, consumers should be able to open an account at a different bank or credit union and have automatic deposits and withdrawals—such as paychecks and recurring bill payments—seamlessly carry over to the new account. This policy—which has existed in the United Kingdom for three years—would make it easier for families to switch financial institutions and would force banks and credit unions to truly compete for customers' dollars and loyalty.[76]

Legal and regulatory approaches can also help rebuild wealth. Congress should make it easier to discharge student loans in bankruptcy for borrowers with poor-quality loan products or who attended programs with poor educational and career outcomes.[77] Similarly, while the courts currently permit modifications of mortgage loans on second homes and vacation homes, they do not permit modifications on primary residences.[78] During the foreclosure crisis, this restriction unnecessarily delayed the economic recovery of families and communities.[79]

Arbitration clauses that require individuals to waive their right to sue also create an uneven playing field for the middle class, eroding the ability of consumers to seek remedies in court when harmed by a product. Instead, any disputes go to arbitration—a process in which the company picks and pays for the ultimate decider in the case.[80] Despite their ostensible rationale, these provisions do not save consumers money: An analysis of credit card costs by the CFPB found that the difference in price based on the presence of arbitration clauses was not statistically significant.[81] Multiple agencies—including the CFPB, the U.S. Department of Education, and the U.S. Department of Labor—are seeking to limit the use of these clauses; Congress should stand with them.[82]

Overall, U.S. regulatory agencies need strong, independent leadership and funding to enable a vibrant, responsive regulatory approach working on behalf of both the middle class and the most vulnerable. Congress and the courts should not weigh agencies down with costly, burdensome red tape that only undermines their ability to execute the directives that Congress gave them in law.

Raise wages by tapping the productive potential of people

Productivity growth enables the long-run growth of living standards, and its recent slowdown should concern all Americans. Several of the policies found elsewhere in this report will boost productivity—just as full employment and higher

labor standards successfully raised productivity in the 1930s and World War II. But there are several additional policies that will raise wages through tapping the productivity enhancing potential of people, which can ensure growth is inclusive and a middle-class life is accessible for all.

Enact family-friendly policies to conserve and increase human capital

In 2014, women who worked full time year-round earned 79 percent of what men who worked full time year-round earned.[83] Critically, the gap between the earnings of mothers and fathers is even wider. A recent analysis behind the factors driving this motherhood wage penalty found that about half is explained by the reductions in human capital and the types of jobs women take when they become mothers.[84]

The differences between men and women's work habits do not excuse the gender pay gap but rather spell out an agenda for closing it. Policies such as paid family and medical leave, paid sick days, and fair and predictable scheduling would all go a long way toward eliminating the differences between women and men's work histories and job placements. This is one of the most straightforward ways policy can raise incomes for families while growing our economy's long-run productivity.

Invest in workforce training

A highly skilled workforce is essential to the ability of the American economy to respond to the global forces of change buttressing the middle class. Access to job training is crucial to developing those skills. An increasing number of middle-class jobs require postsecondary education or training beyond high school. Education or training can include two- and four-year degree programs; short-term certificate programs offered a community or technical college; or job training programs offered by an employer or community-based or nonprofit organization. Such programs can offer a pathway to a stable profession with significant earnings potential.[85]

For example, apprenticeships are a job training model that is underutilized in the United States, yet has the potential to dramatically improve skill matching, job stability, and earnings for workers. A 2012 study concluded that those that complete an apprenticeship earn, on average, $301,533 more in wages and benefits over their careers compared to peers who do not participate in apprenticeships.[86] Yet, less than half of 1 percent of workers in the U.S. labor force are enrolled in apprenticeship programs.[87]

Policymakers should work with stakeholders—including the business community—to expand apprenticeships among U.S. workers and increase the use of apprenticeship in nontraditional industries and occupations, as well as among nontraditional populations, including women and people of color. CAP set out a number of specific proposals to do so in the 2013 report "Training for Success."[88]

Additionally, policymakers should take additional steps to incentivize and facilitate partnerships between education and training programs and the business community to ensure that worker training programs are preparing workers for jobs that are in demand and that local and regional employers have access to a pipeline of skilled workers. In particular, partnerships between community colleges and local business can help ensure that training is driven by real economic demand in the local community.

Expand and diversify entrepreneurship

For many Americans, starting a business is not just a dream but also the path to reaching or staying in the middle class. Research by CAP has shown that entrepreneurship has declined from the 1990s to the 2000s.[89] Furthermore, the role of entrepreneurship in ensuring access to—and stability within—the middle class appears to be fading into the past, with more recent data suggesting that only those who already have access to capital and assets—typically wealthy, older, white Americans—are forming new businesses.[90]

To make entrepreneurship a vehicle for a middle-class lifestyle, access to stable, healthy capital and support for entrepreneurs must be expanded and targeted toward groups who are currently excluded from such opportunities. Policies that help strengthen the middle class will also provide the stability that entrepreneurs need to take risks, such as having access to housing equity; additional sources of income; education; and the training and skills necessary to start a business.[91]

Eliminate unfair barriers to formal employment

Unfair barriers to formal employment encourage people to work in the less productive informal sector. Ending our ill-conceived immigration policies through comprehensive immigration reform would allow undocumented immigrants to find more productive employment and provide undocumented immigrants with

an incentive to invest in their human capital.[92] At the same time, eliminating these barriers will actually strengthen the effectiveness of protections such as the minimum wage and overtime for native-born workers, since undocumented workers will no longer fear speaking out when their employer breaks the law.[93]

The rising share of the population with a criminal record faces several barriers to finding a good job. Enabling individuals to earn a "clean slate" upon rehabilitation—through automatic sealing of minor offenses after he or she has remained crime-free for a set period of time—is a measure gaining bipartisan traction in states such as Pennsylvania and Michigan.[94]

Use tax policy to promote fairness

Tax policy is an important tool that can partially offset earnings lost due to a range of factors. While it is critical that the tax system raises sufficient government revenue to fund public needs—including everything from the defense budget to environmental protection—how we structure the tax system can make a significant difference for middle-class economic security.

Even though the tax code is progressive—and has grown more progressive under the Obama administration—it still retains various upside-down features that benefit the wealthy more than the middle class or those who aspire to enter the middle class. These include tax rates as low as 15 percent on income from financial industry partnerships,[95] a wide range of deductions that primarily benefit higher-income taxpayers,[96] and estate and capital gains tax rules that allow the wealthy to lower their tax rates or pass valuable assets to their heirs without paying the appropriate taxes.[97]

Eliminating these provisions to fund programs that boost the earnings of the middle class or those who aspire to enter the middle class makes a great deal of sense. For example, turning the mortgage interest deduction into a credit would provide the same benefit to all homeowners rather than a larger benefit to the wealthy.[98] There also exists bipartisan support for expanding the Earned Income Tax Credit, or EITC,[99] and CAP has proposed expanding the Child Tax Credit, or CTC, by eliminating its minimum earnings requirement, making it fully refundable, indexing the value of the credit to inflation, and introducing a Young Child Tax Credit in addition. [100]

At the same time, we can take action to simplify many of the existing tax benefits intended to make it easier for middle-class families to save for retirement and pay for their children's college education. Many of these programs are overly complex and may actually increase inequality since low-income individuals may not be able to afford the expertise to take full advantage of them. More can be done with tax policy, within limits, to increase economic security for the middle class, boost mobility for the aspiring middle class, and address the concentration of wealth and power at the top.

The recent trend for the wages and incomes of the U.S. middle class has been a challenging one. But the right set of policies, such as those outlined above, can help to rebuild them.

Taxes, transfers, and the middle class

The analysis in this chapter and the introduction relies on income data from the U.S. Bureau of the Census and the Survey of Consumer Finances, which measure income before taxes and does not include the value of certain noncash transfers, such as Medicaid. Some datasets that include the effects of taxes and these noncash transfers show stronger middle-class income growth than described above. Yet, the value of these gains is overstated and has come almost entirely from tax cuts and transfers instead of the ability of families to get ahead through work.

Data from the Congressional Budget Office, for example, include the effects of taxes and noncash transfers and show an 11.2 percent increase in middle-class income between 2001 and 2013, which is substantially more than the negative income growth shown by the Census and Survey of Consumer Finances data over the same period.[101]

All datasets have their strengths and weaknesses, and the CBO data are no exception. While the information about the taxes and transfers received by families is invaluable, there are two important caveats to the relatively strong middle-class growth the CBO reports. First, almost half of that increase comes from increased employer and government spending on health insurance. The CBO adjusted these transfers for overall inflation, but health care prices grew more than 40 percent faster than overall inflation between 2001 and 2013.[102] Since Medicare, Medicaid, and employer-provided health insurance can only be used to purchase health care, the CBO overstates their rise in value since it does not adjust them for the rising real price of the only service they can purchase.

The other caveat is that almost two-thirds of the middle-class income growth reflects more government transfers—including health care—and lower taxes. The reliance of middle-class families on tax cuts and transfers from the federal government rather than rising market incomes is a new phenomenon: Between 1979 and 2001, 95 percent of income growth came from rising market incomes. It has only been since 2001 that middle-class income growth mostly relied on tax cuts and transfers.[103] While progressives certainly believe that progressive taxation and smart government transfers can help grow middle-class incomes, the tangible economic frustration that many middle-class Americans feel today demonstrates the importance of structuring the overall economy to facilitate inclusive prosperity.

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An Immigration Policy that Works for All Americans

By Silva Mathema

Like all Americans, immigrants to the United States are driven by the belief that if they work hard, they will be able to own a home, save for retirement, and send their children to college—in other words, build secure, middle-class lives for themselves and their families.[1] Immigrants make contributions to the economy and are taxpayers. Yet they face unique barriers to reaching the middle class themselves.

Immigrants play an essential role in lifting up the American middle class. Immigrant workers increase production and create opportunities for expanding local businesses, supporting the incomes and jobs of local workers across the country. A recent study found that by increasing the demand for local services, each immigrant creates 1.2 jobs for their local economy—most of which go to native-born workers.[2] Immigrants also directly create jobs as entrepreneurs: They accounted for nearly 30 percent of all new entrepreneurs in 2014 and were twice as likely as native-born Americans to start new businesses or become self-employed.[3]

Contrary to hyperbolic rhetoric that is all too common in discussions surrounding immigration, immigrant labor also helps to strengthen the middle class. Many American women, especially those with high skills, are able to work and contribute more to the economy in part because they can obtain the affordable child care and household services frequently provided by immigrant labor.[4] Numerous studies have found that immigrants generally complement—rather than compete with—native-born Americans. Even lesser-skilled immigrants in the workforce tend to cause native-born workers to specialize in more complex jobs.[5]

But immigrants face unique barriers as they work to build middle-class lives. In particular, the country's 11.3 million unauthorized immigrants—many of whom have lived in the United States for a decade or more—are largely relegated to the economic sidelines.[6] Many low-wage immigrants—particularly those who are unauthorized—face dangerous working conditions, frequent workplace violations, and wage theft.[7] In the United States, unscrupulous employers are held responsible for their actions through formal complaints by employees. The inability or unwillingness of unauthorized workers to file complaints or seek redress as a result of their precarious legal status perpetuates unfair and potentially unsafe working conditions for large swaths of workers, including native-born Americans.[8]

Pass comprehensive immigration reform

To bring all unauthorized immigrants off of the economic sidelines and supercharge their economic and fiscal contributions to the United States and its middle class, Congress must step up and pass com-

prehensive immigration reform. Passing reform that provides a pathway to legal status and citizenship has the potential to add nearly $1.2 trillion in cumulative GDP over the course of a decade, while also increasing the incomes of all workers by $625 billion and generating 145,000 jobs annually—ultimately increasing prosperity for all Americans.[9]

Unfreeze and fully implement DAPA and expanded DACA

Separately, the administration should continue to pursue administrative reforms within the bounds of existing law to improve the nation's immigration system and benefit all Americans. One such reform is the Deferred Action for Parents of Americans and Lawful Permanent Residents initiative, or DAPA, and the expansion of the 2012 Deferred Action for Childhood Arrivals, or DACA.[10] If implemented, DAPA and expanded DACA would allow eligible unauthorized immigrants to register with the government, pass background checks, and apply for a temporary reprieve from deportation and work authorization. The implementation of these initiatives remains blocked due to ongoing litigation.[11]

If the courts permit the implementation of these initiatives, the United States, as well as individual states, would reap significant economic benefits. Temporary work authorization would increase recipients' wages, which would in turn add billions of dollars to the U.S. GDP, put upward pressure on wages, and increase state and local tax revenues.[12]

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CHAPTER 3

Early Childhood

By Katie Hamm

Early Childhood

Working parents increasingly rely on child care to make ends meet. Most families no longer include a full-time, stay-at-home caregiver, and 65 percent of children younger than the age of six live in households in which all parents work.[1] In 40 percent of American households, mothers are the sole or primary breadwinners, and another 25 percent of mothers are co-breadwinners.[2] The vast majority of parents, whether dual earners or single working parents, need child care so that they can work. Access to quality child care has become critical to achieving middle-class economic security.

Yet child care costs are crushing household budgets. Child care costs have grown nearly 40 percent over the past 30 years, while low-wage and middle-class workers' wages and salaries have stagnated.[3] In fact, child care has become one of the biggest expenses in a family's budget: The cost of enrolling two children in a child care center now amounts to one-third of the median household income.[4] The average cost of child care does, however, range considerably by state. For an infant, center care averages $4,800 annually in Mississippi and $17,000 annually in Massachusetts.[5] For a 4-year-old, the average ranges from $4,000 annually in Mississippi to $12,800 annually in Massachusetts. In every state, however, the cost of two children in a child care center exceeds the median rent.[6] In 28 states and the District of Columbia, the annual cost of child care for an infant exceeds the average in-state college tuition at a public university.[7]

The high cost of child care is a barrier to security for middle-class families, as well as those trying to climb the economic ladder. While center-based child care is out of reach for many families, costs for all types of settings constitute a sizable portion of income. Families paying for care allocate about 9 percent of their income to child care expenses.[8] Middle- and low-income families, however, spend a larger proportion of their income than families with higher incomes.[9] Low-income families—those households earning $24,000 to $49,000 annually for a family of four—spend about 20 percent of their income on child care, while families with an income below the poverty level spend 36 percent.[10]

Due to these high costs, parents are left to choose from one of several undesirable paths: leaving the workforce, spending much of their paycheck on child care, or finding low-cost care that may be of poor quality. When parents exit the workforce or are forced to spend a sizable chunk of their paycheck on child care, they have fewer resources to spend on housing, food, health care, and other basic necessities. The nation's policies have failed to keep pace with this economic reality.

Parents who leave the workforce face steep costs as well. The Center for American Progress recently released a child care calculator, which demonstrates that when parents exit the workforce, they lose not only their annual wages but income stemming from their longer-term wage growth and retirement assets as well.[11] Parents that do not have the income to pay annual child care costs in their child's first few years stand to lose hundreds of thousands of dollars over the course of their careers.[12]

Because quality child care is more expensive to provide, children may end up in unsafe, low-quality child care programs that do not support healthy development.[13] Low-quality child care can negatively affect development and exacerbate developmental gaps that appear early in life.[14] In fact, researchers see the first signs of developmental differences between low-income children and their higher income peers by 9 months of age—an early indicator of the achievement gap.[15]

While parents and policymakers alike often think of child care and preschool as separate programs, they look very similar from a child's perspective. Children need a safe place to learn and grow while their parents work and while they prepare for kindergarten, regardless of the terminology used to distinguish between programs. Public investments in both stages can help to ensure that children have access to quality programs while their parents work.

Limited access to quality child care not only costs parents and children but also hampers the U.S. economy as a whole. According to a recent poll from *The Washington Post*, 69 percent of working mothers and 45 percent of working fathers have passed up a job opportunity because they needed to care for their children. The same poll found that 62 percent of working mothers and 36 percent of working fathers switched to a less demanding job or stopped working altogether.[16] If the United States implemented policies to address paid leave and child care, the U.S. Department of Labor estimates that approximately 5 million more women would enter the workplace and that U.S. gross domestic product would increase $500 billion.[17]

The status quo fails working families

Existing programs designed to help middle-class families, and those trying to reach the middle class, fall short when it comes to expanding access to high-quality care. Parents often have few good options. The federal government currently subsidizes child care through the Child Care and Development Block Grant, or CCDBG, and the Child and Dependent Care Tax Credit, or CDCTC. The CCDBG provides states with funding to subsidize costs for low-income families, primarily through vouchers. The CDCTC provides families with a tax credit to defray child care costs but largely helps higher-income families.[18]

The CCDBG provides $5.3 billion in annual state block grants to subsidize the cost of care, and states must use their own funds to partially match this contribution.[19] Most states provide vouchers that low-income parents can use for the child care provider of their choosing, but the distribution of child care subsidies can differ by states and even by community. While the program is helpful for the families it does reach, it is severely underfunded. The CCDBG is designed to help low-income families work their way into the middle class, but it falls short of this goal. The program reaches only 1 in 6 eligible children, and the average subsidy for center-based child care covers less than half of the average cost.[20]

The CDCTC is designed to alleviate the cost of child care by providing a tax credit of up to $1,050 annually for one child and $2,100 annually for two children.[21] Similar to the child care subsidy, however, the tax credit reaches far too few families and provides insufficient assistance. It provides the largest benefits to families earning between $100,000 and $200,000 per year, benefitting mostly middle- and higher-income families. Lower-income families trying to reach the middle class often have little to no tax liability and largely do not benefit from the nonrefundable tax credit. Also, families must wait for the credit until the following year when they file their taxes, making it impossible for those who cannot afford to pay the up-front costs of child care to benefit from the tax credit.[22]

In 2015, President Barack Obama proposed tripling the CDCTC and expanding the CCDBG to reach all low-income children within the following ten years.[23] Sen. Bob Casey (D-PA) and Rep. Joe Crowley (D-NY) also introduced legislation in 2016 that would extend child care to all children in families earning below 200 percent of the federal poverty level, but this Congress has not moved further on the legislation.[24] In 2014, Congress reauthorized and updated the CCDBG to improve health and safety, extend eligibility, and improve consumer

information available to parents.[25] While this was an important and necessary step forward, the reauthorization did not include new funding beyond basic health and safety protections.[26] Without new resources directed to quality programs that exceed minimum standards, families will continue to experience high costs and low quality.

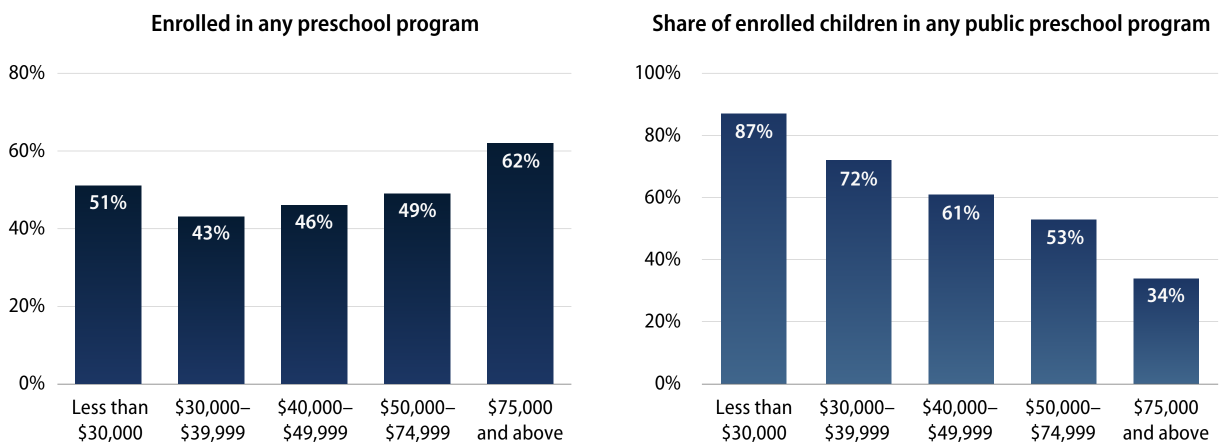
Federal resources to support preschool access are similarly limited. Nearly all states serve at least some children in public preschool, but nationally, just 29 percent of 4-year-olds and 5 percent of 3-year-olds receive services, due to funding limitations.[27] Only a handful of states—including Georgia and Oklahoma—have prioritized enough funding for preschool to serve a majority of 4-year-olds.[28]

The quality of child care and preschool can vary across states as well. Florida, for instance, serves a larger portion of 4-year-olds than any other state but fails to meet widely recognized and research-based quality standards such as teacher training and education.[29] Inconsistent quality across states and a lack of federal investment means that most families are left to find preschool on their own. The majority of programs are rated as mediocre, and children from higher-income families are more likely to attend high-quality preschools.[30]

FIGURE 3.1

Child enrollment in preschool increases with family income, while the share enrolled in public preschool decreases

3- and 4-year-olds enrolled in preschool in 2014, by family income



Note: Calculations exclude 3- and 4-year-olds enrolled in kindergarten.

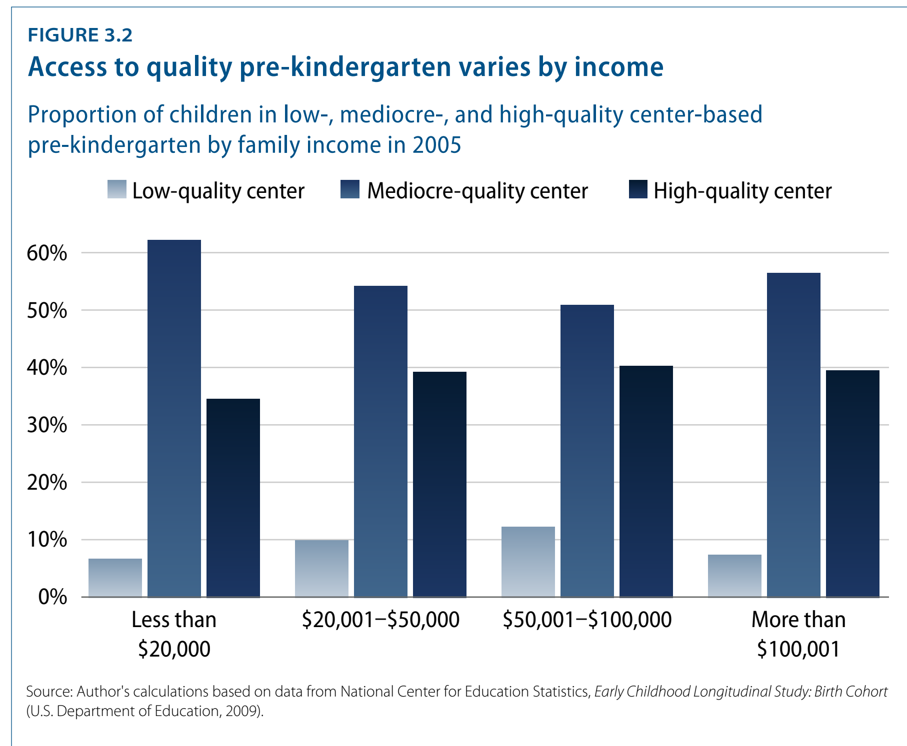
Source: Bureau of the Census, "CPS October 2012 - Detailed Tables," available at www.census.gov/hhes/school/data/cps/2012/tables.html (last accessed May 2016).

Preschool attendance rates vary by income. Children from families earning more than $75,000 per year have the highest preschool attendance rates, and only about half of children who attend preschool are in full-time programs, regardless of income level. The less families earn, the more likely their children are to attend a public preschool program.

FIGURE 3.2

Access to quality pre-kindergarten varies by income

Proportion of children in low-, mediocre-, and high-quality center-based pre-kindergarten by family income in 2005



Source: Author's calculations based on data from National Center for Education Statistics, *Early Childhood Longitudinal Study: Birth Cohort* (U.S. Department of Education, 2009).

In 2013, President Obama proposed an expansion of high-quality preschool to serve low- and middle-income 4-year-olds, defined as families earning up to 200 percent of the federal poverty level, or about $49,000 annually for a family of four.[31] Pending legislation would provide states with resources to scale up their preschool programs to reach all 4-year-olds, as well as provide early learning opportunities for younger children.[32] However, Congress has yet to act.

Policy recommendations

Two new policy initiatives could help families access quality child care and preschool programs: a generous tax credit that would allow families to purchase highly rated child care programs and a universal preschool program for children aged 3 and 4. Taken together, these programs would support healthy learning and development for children, facilitate workforce participation for parents, and help families reach and stay in the middle class.

Enact the High-Quality Child Care Tax Credit

Congress should enact a High-Quality Child Care Tax Credit to put quality, affordable child care within reach for working families. This tax credit would provide low-income and middle-class families with up to $14,000 per child per year, with eligibility limited to families earning up to four times the poverty level, or $97,000 annually for a family of four. Depending on household income, parents would contribute between 2 percent and 12 percent of income toward tuition on a sliding scale. The credit would be paid directly to child care providers on a monthly basis, using the families' income during the previous year to determine eligibility. This approach would provide families with the resources to purchase child care up front rather than waiting for a tax return the following year.[33]

The tax credit would also provide parents with a range of high-quality options that meets their families' needs. This proposal builds on state quality rating systems, which rate programs based on progressively higher standards by focusing on the highest-rated providers over time. The amount of the credit—$14,000 per year—is designed to help providers make quality improvements and meet higher standards.

Initially, parents would be able to use the tax credit at all licensed child care providers. After the initial phase-in period, however, low-rated providers would be excluded, and parents would choose from child care providers rated in the top tiers of their state's quality rating system. This approach would give parents access to a range of quality programs and build the supply of high-quality providers while also providing approximately 6 million children with access to quality child care.[34]

Create a federal-state partnership to provide universal preschool

Consistent with calls from members of Congress and President Obama for preschool expansion, Congress should authorize a universally available preschool program to prepare 3- and 4-year-old children for school.[35] The federal government should partner with states and share the cost of expanding preschool to low- and middle-income children.

Importantly, this proposal would require that public funds be used for programs that include quality standards linked to positive child outcomes, such as requiring teachers to have a bachelor's degree, a research-based curriculum, and small class sizes and adult-to-child ratios. Without requirements that public funding go to high-quality programs, taxpayers may not see a return on investment in the form of children being better prepared for school. Analysis commissioned by CAP shows that high-quality, universal preschool could reduce the school readiness gap between lower- and higher-income children by 41 percent for reading and 27 percent for math.[36]

These two proposals—the High-Quality Child Care Tax Credit and a universal preschool program—are complimentary in that they are designed to provide access to child care from birth to kindergarten entry. Under the High-Quality Child Care Tax Credit, families with preschoolers would be eligible for a smaller tax credit that would provide child care in the evenings and summer months. Combined, these two proposals would put high-quality child care and preschool within reach for today's middle-class families and provide children with a solid foundation for their own eventual economic security.

When leaders fail to make investments in early childhood, they compromise the financial stability of middle-class families and those working to get there.

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CHAPTER 4

Higher Education

By Ben Miller

Higher Education

Obtaining a postsecondary education is the best guarantee for entering and staying in the middle class. The unemployment rate for college-educated adults—at 2.8 percent—is less than half the rate for those who never finished postsecondary education.[1] Someone who has completed a bachelor's degree earns double the median wages of a high school graduate; for individuals who have completed an associate degree, wages are 39 percent higher.[2] Importantly, college-educated people are also more likely to have health insurance and retirement benefits—two pillars of middle-class economic security.[3] Postsecondary options other than traditional, four-year degrees—such as associate degrees and many certificate programs, including in electronics and computers—can provide similar returns.[4] For many, higher education is the key to a middle-class life.

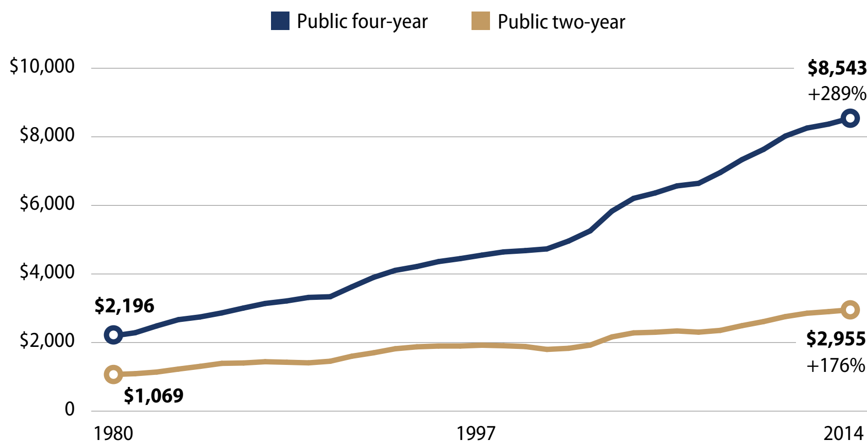
While higher education's importance has never been higher, families are struggling to cover the cost of college without taking on substantial amounts of student debt. Even at public, four-year colleges—traditionally high-quality, low-cost options for higher education—prices have risen substantially.

Second to buying a home, postsecondary education is now one of the most expensive purchases a family will ever choose to make. Tuition and required fees at a four-year public university averaged $8,543 per year during the 2014-15 academic year, reflecting a 289 percent increase in real terms since 1980.[5] But tuition and fees are just one part of the cost of higher education; students also have to pay for food, housing, transportation, books, and other living expenses. Including all of these factors, a student needed an average of more than $18,600 just to pay for one year at a public four-year institution during the 2014-15 school year—or a total of about $75,000 to earn a bachelor's degree over the course of four years.

FIGURE 4.1

Average tuition and required fees for in-state college students

Constant 2014-15 U.S. dollars based on the Consumer Price Index



Source: National Center for Education Statistics, *Table 330.10. Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting postsecondary institutions, by level and control of institution: 1963-64 through 2014-15* (U.S. Department of Education, 2015), available at https://nces.ed.gov/programs/digest/d15/tables/dt15_330.10.asp?current=yes.

Institutions, states, and the federal government often offer grant aid to help families cope with published prices for college. Even with this assistance, however, students still face significant out-of-pocket costs. During the 2013-14 school year, full-time students receiving federal aid still had to pay $12,700 on average for one year at a public four-year college in their state.[6] Students from families making between $48,001 and $75,000, meanwhile, had to pay nearly $15,000 per year.[7]

The increasing price of postsecondary education is partially due to drastic decreases in state funding for public higher education over the past three decades. Thirty years ago, public higher education was generally affordable thanks to state subsidies that kept prices low. Students and families paid modest tuition that accounted for only 25 percent of all spending on public postsecondary education.[8]

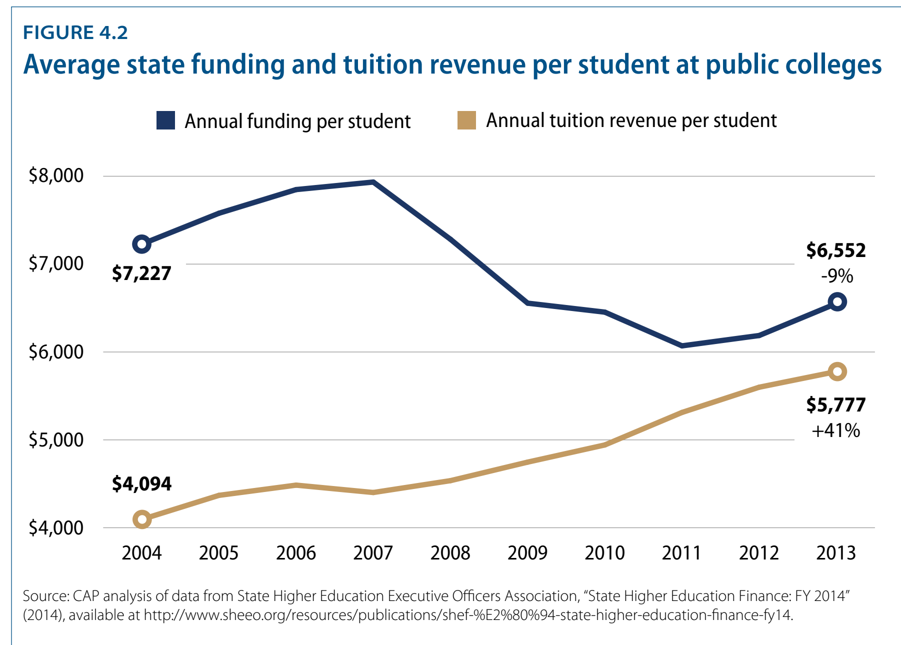
Robust public funding meant that a typical middle class family could pay for tuition at a public, four-year college using just 13 percent of their annual income.[9] Even those who had no familial support could still largely cover tuition at most institutions by working a full-time, minimum-wage job for just four months out of the year.[10] Today, working one's way through college is much

less viable. Someone trying to finance their education through minimum-wage employment would need to work full-time for almost seven months to cover tuition and fees at a typical four-year public college.[11]

By slashing public funding, states have forced families to pick up the costs of public education that states once covered. Nationally, public postsecondary institutions' revenue is essentially split 50-50 between the state and families. Over the past 10 years, the amount public colleges collect from tuition has increased $1,683 per student, while state funding has declined $1,382 per student after reaching a high during fiscal year 2008.[12] Those figures are only the average. In some states, such as Vermont and New Hampshire, state subsidies for higher education are so meager that tuition makes up approximately 80 percent of schools' revenue.[13]

FIGURE 4.2

Average state funding and tuition revenue per student at public colleges



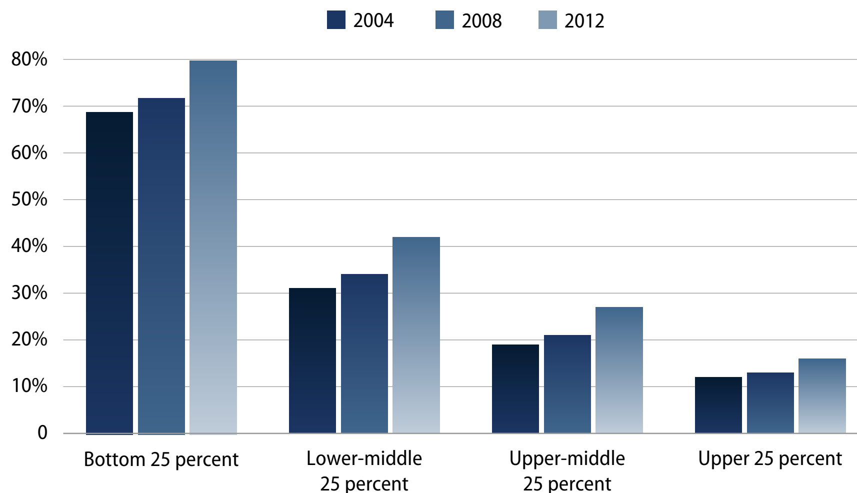
Source: CAP analysis of data from State Higher Education Executive Officers Association, "State Higher Education Finance: FY 2014" (2014), available at http://www.sheeo.org/resources/publications/shef-%E2%80%94-state-higher-education-finance-fy14.

Never-ending tuition increases in the midst of wage stagnation have caused the price of college to eat up an increasingly large share of middle-class family income. During the 2011-12 school year, families whose income fell between the 25th and 50th percentiles of people in higher education faced net college prices equal to 42 percent of their income. That is an 11 percentage point jump from 2004. Given the importance of higher education, the current trajectory of rising prices and public divestment is unsustainable for middle-class families.

FIGURE 4.3

Net price of public four-year colleges as a percent of income

By income quartile among college students



Note: Net price measures the full cost of attendance minus grant aid from any source. The income percentiles are calculated based on students' dependency status, meaning the income of those in the bottom 25 percent for independent students may be different than the income of those in the bottom 25 percent for dependent students.

Source: National Center for Education Statistics, *Table 330.10. Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting postsecondary institutions, by level and control of institution: 1963-64 through 2014-15* (U.S. Department of Education, 2015), available at https://nces.ed.gov/programs/digest/d15/tables/dt15_330.10.asp?current=yes.

Current policy solutions are insufficient

With prices rising and incomes stagnating, middle-class families increasingly rely upon federal student loans to finance higher education. Today, nearly 70 percent of students earning a four-year degree borrow for college, and those with debt owe nearly $29,000 on average.[14] Cumulatively, Americans owe approximately $1.3 trillion in student loans—more than credit card debt—making student loans the second largest source of individual debt in the United States after mortgages.[15]

Student debt hits lower- and middle-income borrowers particularly hard. According to U.S. Department of Education data, these individuals are far more likely to borrow for college than their more affluent peers, and their debt levels are as much as 37 percent higher than the wealthiest graduates.[16] Using student loans to finance education that does not sufficiently increase future earnings can leave the borrower in significant financial distress. Individuals who manage to stay current on their debts may still struggle as loan payments compete against

other necessary expenditures such as rent, transportation, and health care. Borrowers who default on a federal student loan, meanwhile, can have their wages garnished, tax refunds seized, and their credit ruined.[17]

Even as student debt has mounted, financial aid products have helped avoid devastating consequences in terms of postsecondary access for American families. In the wake of continued state cuts, the availability of federal loans have provided families with a critical source of financing to cover the ever-increasing costs of higher education.

Student loans, however, only treat the symptoms of rising tuition and unaffordability; they cannot fix the underlying disease. To do that will require policy solutions that change the dynamics between states, the federal government, institutions of higher education, and students. These changes should arrest state disinvestment in higher education and provide more guarantees for families that they can and will be able to afford college through a combination of out-of-pocket contributions, grant aid, and loans with reasonable terms that are easy to repay.

FIGURE 4.4

Low- and middle-income students borrow the most to pay for college

Average cumulative amount borrowed by graduates of public four-year colleges and share of students who borrow by poverty level, 2011-12

Income by percent of federal poverty level	Average cumulative amount borrowed	Share who borrow
0 to 133	$17,568	66%
134 to 200	$15,566	63%
201 to 400	$14,714	60%
401 to 600	$13,400	55%
601 and above	$12,858	43%

Source: CAP analysis of National Center for Education Statistics, *2011-12 National Postsecondary Student Aid Study* (U.S. Department of Education, 2013), available at http://nces.ed.gov/surveys/npsas/.

Policy recommendations

Increasing higher education affordability for the middle class needs to start with reshaping the federal financial-aid system. It also requires encouraging state investment in public universities and improving accountability so that students know their education provides a good value.

Reshape the financial aid system through College for All

An improved financial aid system must guarantee that families will receive enough assistance such that they can afford postsecondary education with nothing beyond a reasonable family contribution determined by income. It must recognize the importance of covering all of the costs associated with higher education—not just those for direct academic expenses—and ensure that loans have generous terms and sufficient protections.

Ensure that students have high-quality options

Even an affordable education may not be worthwhile if it lacks quality. Strong accountability is necessary to ensure that student and taxpayer dollars will be spent at institutions that justify the investment, providing graduates with the ability to enter and stay in the middle class. To improve postsecondary accountability, Congress or the Department of Education should create better measures to judge loan outcomes, such as a repayment rate and a stronger measure of student loan default rates. This information can be used to empower students and hold schools accountable, especially ones that are heavily dependent on federal financial aid.

College for All

In 2015, the Center for American Progress released College for All—a proposal to reshape the federal financial aid system.[18] To fully implement this plan, Congress should make the following changes to the federal student aid system.

Simplify the federal financial aid application to make it easier to apply for grants and loans from the U.S. Department of Education. The current application for federal financial aid contains more than 100 questions and requires students and their parents to provide complicated data on income and assets that can be hard to track down.[19] To make the aid application process easier, Congress should eliminate unnecessary questions and experiment with allowing students to apply as early and infrequently as possible. This includes testing the effectiveness of giving ninth graders promises of future federal aid to see if early aid commitments increases the likelihood of a student applying to and enrolling in college. College for All would also include a trial that allows low-income students to fill out the application only once instead of every year to see if this would reduce the odds of students losing their financial aid because they forgot to resubmit an application. This can have an important impact on costs because failure to obtain financial aid can be devastating for a lower-income family. Should a student leave before they have secured a degree, the debt burden remains, saddling the family with even greater costs. Finally, reform should make it easier for students who already receive other means-tested federal benefits to get financial aid. Someone who receives an Earned Income Tax Credit, for example, should automatically qualify for the maximum Pell Grant.[20]

Make the expected family contributions binding. When students and families apply for federal financial aid, the U.S. Department of Education gives them an estimate of how much they are likely to contribute out of pocket. Currently, this estimate is nonbinding—families can and do end up paying substantially more. College for All would make this expected contribution number binding for attendance at public colleges in families' home states. To make this work, the federal government would increase grant aid to cover the gap between a family's expected contribution and a student's living expenses. The federal government would then require states to meet spending targets for providing sufficient funding to keep tuition prices low enough that middle-income students could afford tuition with a reasonable amount of debt.

Guarantee affordable debt and increase loan generosity. While loans can be a useful financing tool that increases access to higher education, Congress should enact two legislative changes to increase benefits and protections for borrowers. First, borrowers should have a guarantee that their loans will be sufficient to cover direct academic charges that remain after subtracting all nonfederal grant aid. Second, loan terms should be made more generous by reducing interest rates to the rate charged on U.S. Treasury debts and allowing them to be repaid over a similar timeframe, as well as by eliminating origination fees.

In addition to congressional action, College for All would require the U.S. Treasury and the U.S. Social Security Administration to make changes that help borrowers pay their loans back based on their income. In particular, borrowers should be able to automatically reenroll in an income-driven repayment plan for several years in a row. This change would reduce the odds that borrowers might be locked out of these plans due to paperwork issues.

Endnotes

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LGBT People Face Significant Barriers to Middle-Class Security

By Ashe McGovern

There are several ways in which the current legal and social landscapes make lesbian, gay, bisexual, and transgender, or LGBT, people's access to and permanence in the middle class precarious.[1] Congress has yet to pass a federal law that would explicitly protect all LGBT communities in the United States from discrimination in employment, housing, access to credit, and access to health care. As a result, LGBT people are still at risk of being legally fired, denied housing, or denied access to public services because most states lack comprehensive legal protections on the basis of both sexual orientation and gender identity in these areas.[2] Nationally, transgender people can also be denied access to medically necessary health care because of discriminatory health insurance policies and a lack of culturally competent health care providers.[3] Vulnerability in these important areas means that LGBT people are often unable to maintain the economic stability that makes security in the middle class possible.[4]

Workplace discrimination and economic security

LGBT people experience unacceptably high rates of employment discrimination, harming their ability to plan for the future, save for retirement, and maintain access to employment-based benefits. In some cases, this discrimination means being passed over for promotions; in others, it results in being fired outright. Between 11 percent and 28 percent of lesbian, gay, and bisexual, or LGB, workers report being denied or passed over for a promotion because of their sexual orientation—with even higher rates of discrimination among transgender people generally and LGBT people of color.[5] As many as 47 percent of transgender people reported being fired, not hired, or denied a promotion because of their gender identity—with even higher rates for transgender communities of color.[6] These experiences of discrimination and resulting unemployment contribute to documented wage gaps.[7]

Housing instability and discrimination

Outside of the workplace, LGBT people often struggle to find stable, affordable housing. While some federal protections exist for LGBT people in public housing and federal mortgage programs, no explicit federal statute legally prohibits an individual or company from evicting, refusing to rent to, or refusing to make a loan to someone because of their sexual orientation or gender identity.[8] As a result, LGBT people may be less likely than their non-LGBT peers to own a home and reap the associated benefits. One study in Michigan found that LGBT people may be quoted higher prices than non-LGBT people when applying for housing and that they are also more likely than their non-LGBT peers to experience discrimination when buying a home or securing a mortgage, even when compared directly with similarly situated yet less financially qualified candidates who are applying

for the same home.[9] Furthermore, the Equal Credit Opportunity Act, or ECOA—which prohibits discrimination in credit access and distribution—does not provide explicit protections on the basis of sexual orientation and gender identity.[10]

Health care disparities and out-of-pocket costs

Well-documented disparities in health among LGBT communities compared with their non-LGBT peers—as a result of many factors, including lack of cultural competency among health care providers, stress associated with systemic discrimination, and a lack of insurance generally, among others—mean that many LGBT people may have to pay higher out-of-pocket costs to ensure that they are able to access adequate health care and health providers.[11] In addition to these costs, many transgender people must pay out of pocket for medically necessary treatment because most insurance plans have categorically or partially prohibited coverage of any transition-related health care.[12]

Policy recommendation: Pass the federal Equality Act

The Equality Act is a federal bill that, if passed, would amend federal nondiscrimination laws, including the Civil Rights Act of 1964 and the Fair Housing Act, to include sexual orientation and gender identity—and where currently lacking, sex—as protected categories for nondiscrimination purposes in employment, housing, public accommodations, public education, federal funding, access to credit, and the jury system. Passage of the federal Equality Act would make a significant difference in ensuring a more stable economic future for LGBT people.[13] Recently, the federal U.S. Department of Health and Human Services, or HHS, promulgated regulations clarifying that Section 1557 of the Affordable Care Act explicitly protects LGBT people. Comprehensive implementation and enforcement of these new regulations would help ensure more fair, equal, and less expensive access to medically necessary health care for LGBT community members.[14]

Endnotes

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CHAPTER 5

Health Care

By Maura Calsyn and Thomas Huelskoetter

Health Care

Access to affordable health care coverage is a critical element of middle-class security. Affordable, comprehensive coverage improves both health outcomes and personal financial wellness, and health care is directly linked to workplace productivity. Quality coverage enables middle-class households to earn income and expand wealth.[1]

Moreover, health insurance protects individuals and families from uncertain and high medical costs, which can lead to medical debt and threaten the economic security of many middle-class families.[2] In fact, studies have shown that more than half of all bankruptcies are related to medical bills.[3] In 2016, about one-quarter—or 26 percent—of U.S. adults ages 18 to 64 said that "they or someone in their household had problems paying or an inability to pay medical bills" in the past year.[4] Even among those with employer-sponsored insurance, about 1 in 5 reported having trouble affording their medical bills over the same period.[5]

For example, health care costs paid by a family of four with an average employer-sponsored preferred provider organization, or PPO, plan were $24,671 in 2015—double what they were in 2005.[6]

How high health care costs squeeze middle-class family budgets

In recent years, health care cost growth has moderated, and the Affordable Care Act, or ACA, has expanded coverage to an estimated 20 million people.[7] But spending is still rising, and for millions of middle-class Americans, health care costs continue to squeeze their household budgets.

The ACA is not the reason why employees are seeing their health care costs continue to go up. In fact, the law largely left the employer-based health care system alone, and many employers report that the ACA has had a negligible effect on their health care costs.[8]

Health care benefits are part of a worker's total compensation. Employers that offer health insurance as an employee benefit typically pay the majority of their employees' health insurance premiums. Employees pay a portion of the premium, but that amount can vary significantly across employers.

Due to high health care costs, employers have shifted greater responsibility for health care costs to their employees over time. Some employers are paying smaller portions of their employees' health care premiums; others are shifting expenses to their employees in the form of higher deductibles, higher copayments, and higher coinsurance—a practice that began long before the passage of the ACA.[9] Yet, employers have been passing on a greater share of health care costs to their workers and have not been compensating them with higher wages.

Not only are total premiums continuing to grow, but the share that employees typically pay is also increasing. From 2007 to 2014, the average employee premium contribution increased 3 percent per year compared to an increase in the average employer premium contribution of 2.3 percent per year over the same period.[10]

Increased employee cost-sharing through higher deductibles, coinsurance, and copayments has also been a clear trend over the past decade and is projected to continue in future years. For example, the percent of private-sector employees who were enrolled in a plan with a deductible increased from 48 percent in 2002 to 84 percent in 2014.[11] Furthermore, in 2012 and 2013, 77 percent of companies reported that they planned to increase cost-sharing using deductibles and copayments.[12] Between 2007 and 2014, U.S. employees' average out-of-pocket costs increased by an average of 3.1 percent per year. This has also resulted in an increase in the number of high-deductible plans. In 2015, 19 percent of covered workers were in plans with high deductibles of $2,000 or more compared with only 3 percent in 2006—and employers plan to increase the use of these plans even further.[13]

High deductibles target first-dollar expenditures, meaning that patients who have chronic conditions, require prescription drugs, or have other reasons for needing more care are responsible for significant out-of-pocket expenses in the early part of the benefit year or at the onset of treatment for an illness. Young children tend to use more primary care than other patients, so families with young children are also particularly affected by high deductibles and other cost-sharing.[14]

FIGURE 5.1

Change since 2007 in employees' and employers' health care costs per enrolled employee, in 2014 dollars

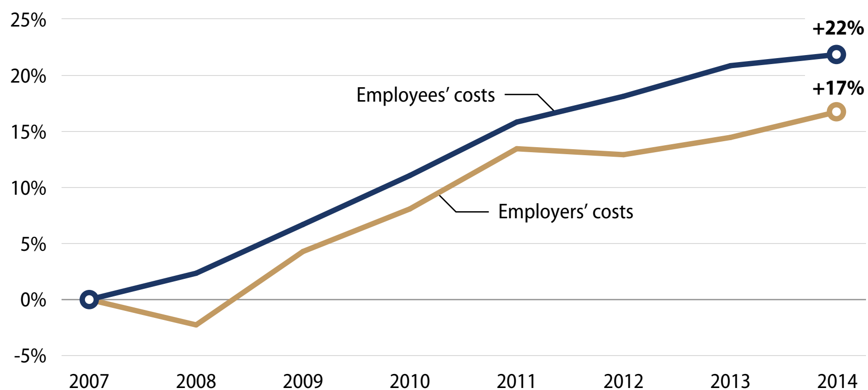

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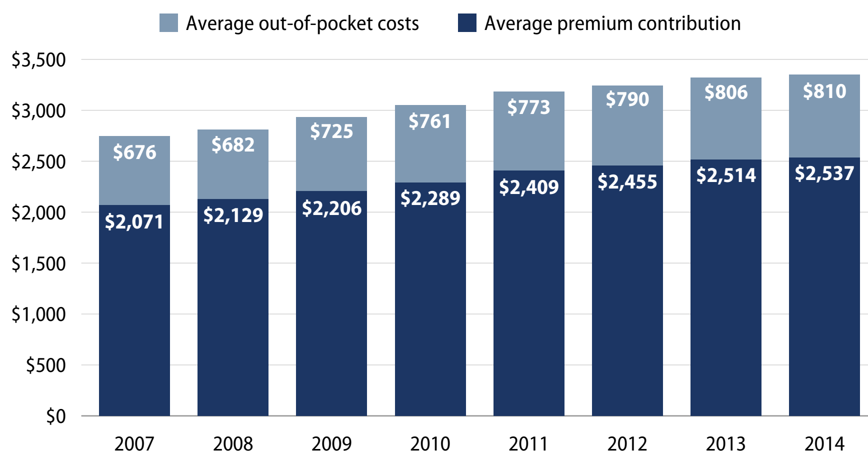
FIGURE 5.2

Health care costs for employees with employer-sponsored insurance, in 2014 dollars



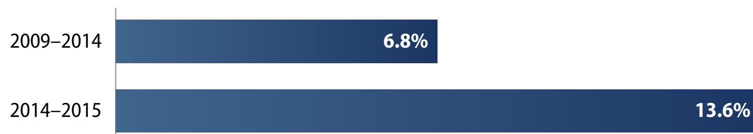
Sources: Authors' calculations based on Health Care Cost Institute, "Out-of-Pocket Spending Trends (2013)" (2014), available at http://www.healthcostinstitute.org/files/IB%209%2010-28-14.pdf; Health Care Cost Institute, "2014 Health Care Cost and Utilization Report" (2015), available at http://www.healthcostinstitute.org/files/2014%20HCCUR%2010.29.15.pdf; personal communication from Amanda Frost, senior researcher, Health Care Cost Institute, Washington, D.C., October 28, 2014; Agency for Healthcare Research and Quality, "Medical Expenditures Panel Survey: Insurance/Employer Component," available at http://meps.ahrq.gov/mepsweb/survey_-comp/Insurance.jsp (last accessed March 2016).

When combined, these trends meant that employees' per capita costs—premiums plus average out-of-pocket costs—grew 22 percent between 2007 and 2014 compared to 17 percent growth in employer's costs per enrolled employee. In 2014, an average employee with employer-sponsored health insurance was responsible for more than $3,300 in health care costs.[15]

Spending on prescription drugs has also increased in the past few years.[16] Not surprisingly, prescription drug costs are contributing to higher health care costs for middle-class families. For a typical family of four, drug spending accounted for 15.9 percent of total health care spending in 2015.[17] The cost of prescription drugs is also growing significantly: Between 2014 and 2015, it grew by 13.6 percent, compared with average growth of 6.8 percent over the previous five years.[18] For instance, the price of one commonly prescribed arthritis drug increased more than 126 percent over the past five years.[19]

FIGURE 5.3

Annual increase in prescription drug costs



Source: Milliman, "2015 Milliman Medical Index" (2015), available at http://www.milliman.com/uploadedFiles/insight/Periodicals/mmi/2015-MMI.pdf.

Americans have taken note of these rising costs. According to a recent poll from the Kaiser Family Foundation, 72 percent of Americans said prescription drug prices are unreasonable, while 74 percent said pharmaceutical companies "put profits before people."[20] Meanwhile, drug companies had average net profits of almost 20 percent in 2012—twice the 9 percent average profit margin of the S&P 500 companies.[21] And 9 of the 10 largest pharmaceutical companies spend more on marketing than on research and development.[22]

Patients often have to choose between spending large amounts of money on their medications, changing medications, or forgoing them entirely. Cost-sharing requirements can discourage patients from purchasing costly medications, which can negatively affect their health and increase long-term costs.[23] In

one particularly egregious example, a social worker in Arkansas reported that she was unable to afford the coinsurance for medication to treat her lupus, even though she is employed and has health insurance. Her medication is so expensive that she would have to pay $450 at least once a month for the drug—on top of her $770 monthly insurance premium.[24] But it is not just the patients who need these products who pay these costs. Rising drug costs also increase premiums, deductibles, and cost-sharing for all consumers.[25]

Policy recommendations

The ACA made monumental steps toward protecting all Americans from the risk of high health care costs through features that include coverage expansion, health insurance subsidies, requiring that insurers cover all pre-existing conditions, and free preventive care. Policymakers should now build on these fundamental protections to make care more affordable.

For example, out-of-pocket costs are still too high for many Americans. Even though the ACA put limits on out-of-pocket spending—$6,850 for an individual and $13,700 for a family in 2016—these totals still strain most middle-class budgets.[26] This means, as discussed above, that people who require prescription drugs for chronic conditions may end up paying thousands of dollars per year because of sky-high and rising drug prices.

Yet more needs to be done. The Center for American Progress has previously outlined several policies to lower health care costs for middle-class families.[27] These reforms, designed to lower the growth rate of health care costs and bend the cost curve, include:

- Accelerating the use of alternative payment models, especially bundled payments, to transition from paying for the quantity of care toward paying for the quality of care;

- Leveraging the new insurance marketplaces—through active purchasing, requiring insurers to offer tiered insurance plans, and standardizing and publicizing cost and quality measures—to further lower costs and improve the quality of available plans;

- Increasing price transparency to enable consumers to choose high-quality, lower-cost providers and services;

- Reforming restrictive state scope-of-practice laws to maximize the use of non-physician providers and allow them to practice to the full extent of their training.

Policymakers have made progress on the first recommendation. In early 2015, the U.S. Department of Health and Human Services made its first public commitment to making a certain percentage of Medicare payments through alternative payment models—50 percent by the end of 2018.[28] The Center for Medicare and Medicaid Innovation is also testing several different types of alternative payment and service delivery models—including a mandatory bundled payment model for hip and knee replacements—in an effort to lower health care costs and improve quality. Policymakers should continue these efforts and adopt CAP's other past proposals as well.

Because lowering overall health care costs is only the first step toward easing health care expenses for middle-class families, further reform efforts should focus on decreasing cost shifting to employees and ensuring that employers pass along savings in the form of lower premiums or reduced cost-sharing.[29] Policymakers should also focus on drug prices because they are rising at a fast enough rate that they are affecting the overall rate of growth of health care costs.[30]

Address cost shifting with increased transparency and shared savings

Increase transparency on annual costs for employees and employers

The average employee's health care costs continue to grow at a faster rate than employers' costs. There is also an information gap between employees and employers. Employees know when their own costs are going up because they can feel it in their paychecks, but it is much harder for them to know if and why their employers' costs are also increasing. Greater transparency about the health care costs of employees and employers can illuminate and discourage cost shifting; it would also allow employees to better understand their costs.

For these reasons, policymakers should require employers to provide their employees with this information each year during the open enrollment period through a notice that describes any changes in the distribution of premium contributions. The notice would also provide information about changes to the actuarial value of each employee's insurance plan—a calculation that determines the value of a specific plan and can be used to compare different health care benefit designs and their relative generosity.[31]

The notice should outline how much the employer expects to pay, on average, for health care benefits per employee over the next year, as well as how much the employer expects the employee will spend on health care benefits. The same information for the previous year should be provided so that employees can easily compare how the distribution of costs may have changed. This greater transparency would discourage employers from cost shifting to their employees and provide employees with helpful information on their health care costs.

In more dramatic cases of cost shifting, more aggressive reforms are needed to protect consumers. Policymakers should require large employers, as defined by the ACA, to share savings with employees in the most egregious cases of cost shifting. These cases would be limited to situations in which an employer's average health care costs per enrollee were lower and the average enrolled employee's costs were higher than the state's trend in average health care costs per enrollee in other large employer plans. In these situations, the employer would have to share half of its savings on health care costs beyond the state's trend. Some employers may significantly change their benefit designs—by transitioning employees to high-deductible plans, for example—but not compensate employees in any way for the risk of higher out-of-pocket costs.

A buffer zone should also be built in so that the rebates would apply only in the most egregious situations: those in which the average costs for employers are at least 1 percentage point lower and the average costs for employees are at least 1 percentage point higher than the state's trend. This rebate structure would still allow employers to experiment with methods to control health care costs and retain savings but would ensure that employees share in any savings.

Reduce cost-sharing for primary care visits

New legislation should require that all health care plans include three free primary care visits for each enrollee each year. This added benefit will make health care more affordable for all consumers, but it will likely be particularly helpful for middle-class families with young children, who are more likely to need additional primary care services. This proposal builds on the ACA's requirement that health plans provide a range of preventive services to enrollees with no cost-sharing.

Combat excessive drug prices

In addition to reduced cost-sharing, consumers need greater protection from excessively high drug prices. High prices may be appropriate for certain truly innovative, lifesaving drugs, but policymakers must adopt reforms that pay for these drugs without shifting too much of the burden onto individuals. Successful reforms must lower overall drug costs instead of simply changing who pays them. For example, limiting cost-sharing amounts without also adopting reforms to lower the overall cost of prescription drugs just masks the larger issue by shifting costs from patients with high-cost prescriptions to employers and insurers, who will in turn restructure benefits or raise premiums to account for added costs.

Categorize new drugs by their comparative effectiveness and develop payment recommendations

All new drugs should be categorized by their comparative effectiveness. Comparative effectiveness research, or CER, compares new treatments with existing options and provides evidence on the effectiveness, benefits, and harms of different options in order to inform health care decisions.[32] The secretary of health and human services should designate research-based independent organizations to serve as clearinghouses for all CER data and to conduct additional CER for new drugs. These CER data should then be used to categorize each new drug in terms of whether it provides no added benefit, minor added benefit, or significant added benefit compared with existing drugs. Added benefits should include measures such as improved health status, shortened disease duration, extended life expectancy, reduced side effects, and improved quality of life.

Each independent organization should then develop voluntary payment ranges for new drugs based on these findings. Drugs with zero added benefit, for example, would have a recommended price of no greater than the price of existing drugs used to treat the same disease or condition. These payment ranges can inform price negotiations between insurance or government payers and drug companies and make sure that payers—and, ultimately, patients—are getting a value-based price for the drug.

Require drug companies to justify prices outside of the recommended payment range

Policymakers should incentivize drug companies to charge reasonable prices. If a negotiation between a drug company and a payer were to result in a price that fell outside of the recommended range, the drug company would need to submit the final price along with a detailed justification for its decision to independent organizations, which would then publicly post the information. If the drug company insisted on a price that was 20 percent higher than the highest price recommended by one of the organizations, then the payer could require arbitration. The U.S. Government Accountability Office would present a list of approved arbitrators to the parties.

Require drug companies to invest more in research and development

The ACA's medical loss ratio policy requires insurers to spend most of their revenue from premiums on medical expenses for consumers. To ensure that public support for pharmaceutical research and development is a sound investment of taxpayer dollars that leverages additional research spending by drug companies, drug companies should invest a minimum percentage of their annual revenue in research and development. If a company does not meet the minimum investment over a five-year period, the company should be required to refund a portion of the revenue derived from public programs, up to the shortfall amount. The refund would be dedicated to a new Research Incentive Fund to support the National Institutes of Health.

Lower out-of-pocket prescription drug costs for individuals

Lowering overall spending for prescription drugs will do little to improve the health or financial well-being of patients if payers continue to pass costs on to consumers through higher cost-sharing amounts. For this reason, a number of states have passed legislation to limit out-of-pocket spending on prescription drugs. The ACA out-of-pocket limits still apply, but these state laws further cap spending on prescription drugs within those total amounts.

California law, for example, limits cost-sharing for prescription drugs in two ways. First, it mandates that all health insurance plans include a separate $250 deductible for pharmacy benefits.[33] Second, consumer cost-sharing for drugs is then generally limited to $250 per month after the consumer reaches the deductible limit.[34] Together, these limits cap cost-sharing for drugs at $3,250 per year, giving patients with chronic conditions greater predictability about their health care expenses and protection from extraordinarily high cost-sharing at the beginning of the year or when they first need treatment.[35]

Policymakers should adopt similar requirements at the federal level to protect all consumers. First, the secretary of health and human services should adopt similar requirements for silver-level plans in all exchanges. Second, Congress should extend these limits to individuals with employer-sponsored insurance. This yearly limit is higher than the current average out-of-pocket maximum for prescription drugs for individuals covered by employer-sponsored plans. However, it will provide important financial protections for employees with high prescription drug costs whose expenses far exceed those of average employees.[36]

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A Fair Shot for Families with Disabled Workers, Children, and Dependents

By Rebecca Vallas and Jackie Odum

Disability is both a cause and consequence of economic insecurity. It is a cause because a disability or illness can result in job loss and meager employment opportunities, reduced earnings, increased living expenses, and other challenges that take a toll on family balance sheets. It is a consequence because economic insecurity increases the likelihood that a person will live and work in an environment that may adversely affect one's health.

For the nearly 57 million Americans living with a disability—as well as their families and those caring for a loved one with a disability or serious health condition—maintaining a middle class standard of living can be a difficult feat.[1] The pillars of middle-class security—including child care, higher education, health care, housing, and retirement—can be even further out of reach for these people and their families because the bar to economic security is even higher.

Disability or illness can add significant costs to a family budget. Home modifications, personal attendant care, day-to-day adaptive equipment for the home and car, and special clothing and shoes are only a handful of expenses that families with a disabled member can face. And often, many of these costs are not covered by health insurance.[2] Furthermore, covering these and other expenses can be especially challenging for the roughly 2.7 million U.S. households that have more than one child with a disability.[3]

Today, nearly 1 in 5 Americans live with a disability of some kind, and approximately 1 in 10 live with a significant disability.[4] The United States is home to 5.2 million children aged 14 and younger with a disability.[5] While landmark legislation—such as the Americans with Disabilities Act, or ADA, and the Individuals with Disabilities Education Act, or IDEA—has helped to achieve meaningful progress, many Americans with disabilities and their families continue to face significant barriers to opportunity and an even deeper financial strain.[6]

The Center for American Progress' previous issue brief, "A Fair Shot for Workers with Disabilities," shows how the right public policy choices can help mitigate the consequences of these barriers and boost economic opportunity for workers with disabilities, as well as families with a disabled member.[7]

Jobs and wages: Unemployment and income insecurity

While some people live with severe disabilities and health conditions that preclude employment, millions of individuals can and do work despite their disabilities. Almost 5.5 million workers have a serious disability.[8] However, workers with disabilities are more than twice as likely to be unemployed as their nondisabled counterparts.[9] Labor force participation for people with disabilities is also substantially lower.

Workers with disabilities are also more likely to work in part-time and low-wage jobs, which often provide little-to-no employer sponsored benefits such as health insurance, retirement plans, and paid leave and sick days. Among employed workers with a disability in 2015, 32 percent worked part-time, compared with 18 percent of their nondisabled counterparts.[10]

Workers with disabilities—most of whom want very much to work or to work more than they currently do—face elevated rates of joblessness and economic precarity for several reasons. Even with the tremendous progress made through civil rights legislation such as the ADA, stereotypes and myths endure, and many employers remain reluctant to hire jobseekers with disabilities. Moreover, those who are working often struggle amid lower earnings potential. In 2014, median earnings for a disabled worker were $21,232—about one-third less than that of the typical worker without a disability.[11] Indeed, workers with disabilities face a steep pay gap, earning only 64 cents on average for every dollar paid to workers without disabilities.[12]

Between higher costs of living and reduced earnings potential, building even modest precautionary savings can be difficult for individuals with disabilities. Additionally, counterproductive asset limits in aid programs can present another barrier to saving. As a result, people with disabilities are nearly twice as likely to lack even modest emergency savings—with 70 percent reporting that they certainly or probably would not be able to come up with $2,000 to meet an unexpected expense.[13]

Raising the federal minimum wage to at least $12—and phasing out the lower subminimum wage—would improve economic security for people with disabilities and their families and help to close the disability pay gap. Additionally, expanding the Earned Income Tax Credit for childless workers would benefit more than 1 million workers with disabilities, who are especially likely to work in low-wage jobs and less likely to have children. Ensuring access to paid leave and paid sick days would be especially beneficial for workers with disabilities who may experience sporadic health flare-ups or need time off for medical appointments. In addition, strengthening the Child Tax Credit would help families shoulder the costs of caring for children with disabilities.[14]

Barriers to affordable, accessible housing

Safe and stable housing is a cornerstone of family economic security and a prerequisite for employment. Unfortunately, people with disabilities often face significant barriers to securing affordable, accessible housing—particularly those with physical disabilities who may require specific features or accommodations such as hand rails, grab bars, or ramps, as well as those

with intellectual disabilities who may require specialized living arrangements such as a group home.[15]

Moreover, people with disabilities are especially likely to live in precarious housing situations—that is, under conditions that are either subpar or unaffordable. A 2015 report by the U.S. Department of Housing and Urban Development showed that nonelderly disabled households made up 1.1 million of the 7.7 million U.S. households with worst-case housing needs.[16] Increasing funding to federal, state, and local housing initiatives—including the Section 811 Supportive Housing for Persons with Disabilities program—would go a long way toward ensuring the availability of affordable, accessible housing.[17]

Lack of access to needed supports and services

People with significant disabilities and serious health conditions often require long-term services and supports, or LTSS—such as personal attendant care—in order to work and live independently. These costs are typically not covered by health insurance and are generally unaffordable for all but the highest earners. While private, long-term care insurance may provide partial coverage for some of these services, such insurance is often too costly for most families to afford, or it provides insufficient coverage to meet particular needs. As a result, the only option within reach for adequate LTSS for many people with disabilities is Medicaid.

While some states have expanded access to LTSS for moderate-income earners through Medicaid buy-in programs, many maintain restrictive financial eligibility requirements that limit coverage to individuals with very low incomes and limited resources. Additionally, variation in state eligibility rules and services can make it impossible for workers to move across state lines for employment opportunities.[18]

Additionally, the federal-state vocational rehabilitation program—which assists people with disabilities in preparing for, obtaining, and remaining at work—has long been underfunded, leading to both lengthy waiting lists and delays in receiving services in many states.[19]

Expanding Medicaid—as 19 states continue to refuse to do—would increase access to preventive care, helping to break the link between economic insecurity and poor health. And ensuring access to LTSS for workers with disabilities through a national Medicaid buy-in program with generous income and asset limits would remove a major barrier for individuals with disabilities and their families who are struggling to achieve or maintain economic security. Additionally, adequate funding for the vocational rehabilitation system is needed to ensure that all eligible individuals are able to access services when they need them.

Early childhood: Lack of access to high-quality, inclusive early childhood programs

Securing affordable, high-quality child care can be especially challenging for parents raising children with disabilities. Recent estimates show that about 1 in 6 U.S. children between the ages of 3 and 17 have at least one developmental disability.[20] Among young children aged 2 to 8, 15.4 percent had at least one diagnosed mental, behavioral, or developmental disorder.[21] And while the ADA prohibits child care providers from categorically turning away children

with disabilities, child care providers may still lawfully outright decline to serve children with disabilities on an individual case-by-case basis if such necessary accommodations would impose a "fundamental alteration or undue burden" on the center's program.[22] As a result, many families continue to be refused service because of their child's disability.[23]

In addition to notable cost barriers, high-quality early childhood programs that offer meaningful inclusion—that is, programs that include children with disabilities together with their nondisabled peers—can be incredibly difficult to find. Inclusion in early childhood programs is beneficial to both children with and without disabilities across a range of developmental keystones.[24] For children with disabilities in particular, inclusion has been linked to greater improvements in both cognitive and communicative development, as well as higher test scores in math and reading.[25] However, barriers to access persist, including a lack of comprehensive services, inadequate expertise among the early childhood workforce, and negative attitudes and stereotypes, among others.[26] Ensuring access to high-quality affordable programs that are inclusive can play a critical role in assuring that children with disabilities reach their full potential while further improving their life chances.

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CHAPTER 6

Housing

By Sarah Edelman and Shiv Rawal

Housing

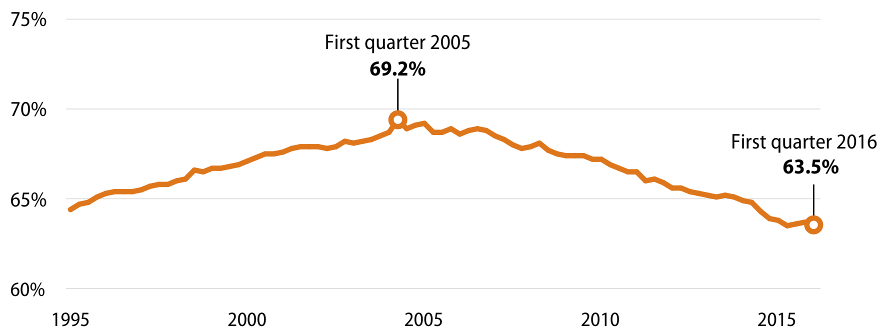
Owning a home is a key means of building wealth in the United States,[1] and stable housing can help middle-class families access important opportunities, such as good health and education, that contribute to economic stability.[2] Across the country, however, both middle-class and aspiring middle-class families are unable to find stable, affordable housing. Homeownership—a staple of middle-class economic security—remains out of reach for many households, and the broader housing recovery since the subprime housing meltdown in 2006 and subsequent collapse of U.S. home prices has left behind many communities that remain mired in negative equity. At the same time, renters across the income spectrum face increasing costs.

The homeownership rate for the United States has fallen over the past decade, and almost every age group shows lower rates of homeownership in 2015 compared to 1994.[3] While Baby Boomers—those born between 1946 and 1964—have now entered age groups with relatively higher homeownership rates, those under age 45 have homeownership rates much lower than the national rate of 63.5 percent.[4] These low rates are not due to families forgoing homeownership in favor of more affordable options: Owning a home is cheaper than renting in almost 60 percent of housing markets across the country.[5]

Rather, stagnant incomes, rising home prices in some markets, and an extremely tight credit market are restricting families' access to homeownership. Saving for a down payment remains an obstacle for families seeking to own a home. In July 2016, the average down payment made on a home purchase was 14 percent.[6] A Center for American Progress analysis estimates that it takes a typical household about 15 years to save for a 14 percent down payment.[7]

FIGURE 6.1

Homeownership rate



Source: Bureau of the Census, "Current Population Survey/Housing Vacancy Survey, Series H-111," Quarterly Seasonally Adjusted Homeownership, available at http://www.census.gov/housing/hvs/data/histtabs.html (last accessed June 2016).

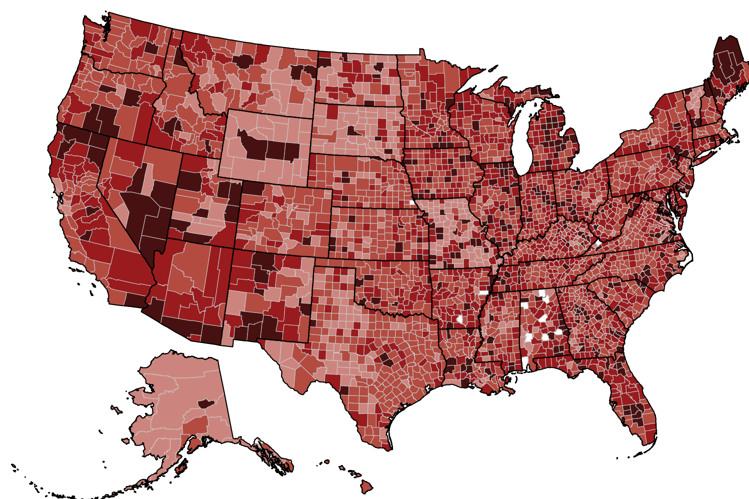
Alongside the challenge of saving for a down payment, many creditworthy people face excessively high standards for obtaining a mortgage. The Urban Institute found that tight credit standards led to 5.2 million “missing mortgages” between 2009 and 2014. Not only were credit standards stricter in 2014 than they were in 2005—when the housing bubble was at its peak— they were also stricter than in 2001, well before the housing crisis. Had standards been at the reasonable 2001 level, millions of creditworthy people would have been able to obtain a mortgage.[8] An excessively tight credit market has dampened the housing recovery and prevented creditworthy borrowers from being able to purchase a home—an important means for building wealth.[9]

While some parts of the country are experiencing a strong housing recovery, many neighborhoods have yet to fully recover from the housing crisis, which drained the wealth of middle-class and lower-income households.[10] The instability of these neighborhoods leaves households struggling and inhibits the size and strength of today’s middle class. In the fourth quarter of 2015, more than 6 million homeowners were still underwater, mired in negative equity—meaning that they owed more on their mortgage than the market value of their home.[11] Moreover, negative equity rates either did not improve or got worse in about 1,000 counties across the country between 2011 and 2015.[12] (see Figure 6.2)

FIGURE 6.2

Negative equity by county

Fourth quarter, 2015



0-5.00% | 5.01-13.08% | 13.10-20.00% | 20.01-100% | No data

Note: The national average is 13.09 percent.

Source: CAP analysis of Zillow's negative equity data, available at http://www.zillow.com/research/data/ (last accessed May 2016).

Counties struggling with worsening negative equity rates tend to be located in nonmetropolitan and rural parts of the country, where certain measures of economic recovery, such as job growth, may remain depressed.[13] Negative equity in metropolitan areas tends to concentrate most sharply in communities of color and low-income neighborhoods, creating obstacles for aspiring middle-class families.[14] Access to housing options in strong neighborhoods that can help families enter and stay in the middle class varies sharply by race and ethnicity.[15] Moreover, neighborhoods with concentrated poverty lack the investment they need to build strong, middle-class communities.[16]

Finally, across the income spectrum, families who do not own a home face a growing rental affordability crisis. In 2014, nearly half of all U.S. renters paid more than 30 percent of their income for housing—a commonly used metric to judge housing affordability[17]—and more than one-fourth of renters had to pay more than 50 percent of their income for housing in the same year.[18] The trend of increasing cost burdens cuts across most socioeconomic levels and significantly affects

middle-class households: The share of renters making at least $45,000 and less than $75,000 per year who pay more than 30 percent of their income for housing increased by 9.4 percent between 2001 and 2014.[19] Between those same years, the share of renters making at least $30,000 and less than $45,000 per year who pay more than 30 percent of their income for housing increased by 11.5 percent.[20] (See Figure 6.3)These cost burdens force families to sacrifice other pillars of economic security, such as retirement savings.[21] For those struggling to reach the middle class, they can compromise basic needs, including food and health care.[22]

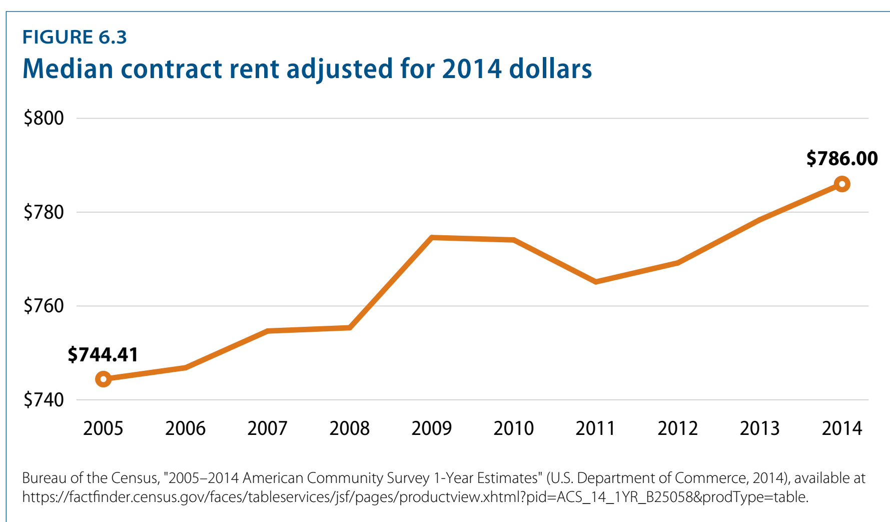


FIGURE 6.3

Median contract rent adjusted for 2014 dollars

Bureau of the Census, "2005–2014 American Community Survey 1-Year Estimates" (U.S. Department of Commerce, 2014), available at https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_14_1YR_B25058&prodType=table.

Part of the challenge is that the supply of affordable housing and rental assistance is not keeping pace with the needs of middle-class and aspiring middle-class families. According to analysis by the National Low Income Housing Coalition, households that made at or less than 30 percent of area median income faced a shortage of 7.2 million affordable and available rental units in 2014.[23] More than 1 million of these households live in housing units that charge rents unaffordable to them but that would be affordable for moderate- or higher-income families. Creating a greater supply of affordable housing for lower-income households would therefore not only relieve their cost burdens—it could also free up units for families a bit higher up on the income scale.[24]

In today's housing market, the units that get built tend to be priced for higher-income renters. The Harvard Joint Center for Housing Studies found that the median asking rent for multifamily rental units was $1,381 in 2015—close to half of the monthly household income for the median renter.[25] Given these costs, 21.3 million renting households paid more than 30 percent of their income for housing in 2014.[26]

Why we are here

The housing market has not fully healed from the foreclosure crisis triggered by predatory lending, which left millions of foreclosures and millions of underwater homeowners in its wake.[27] After the financial crisis, the federal government took steps to stabilize the economy and the housing market. Congress passed the Housing and Economic Recovery Act, or HERA, in 2008,[28] allowing the government to help restore the financial soundness of Fannie Mae and Freddie Mac, the two large financial institutions that provide liquidity to the housing market by purchasing mortgages and packaging them into securities.[29] HERA also required Fannie and Freddie to facilitate affordable housing in certain underserved housing markets.[30]

In 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, establishing critical protections for American consumers, including a requirement that mortgage lenders consider a borrower's ability to repay before awarding the mortgage.[31] The legislation established the Consumer Financial Protection Bureau—a critical federal agency that protects consumers—including those in the mortgage market.[32] These policies put guardrails in place that protect consumers and that remain critical today in order to prevent another housing crisis.

Policies such as HERA and the Dodd-Frank Act were critical steps to addressing the housing and financial crises. Today, the evolving housing market demands further policymaking to expand affordable homeownership, combat high levels of negative equity, and increase rental affordability. The housing market is changing rapidly, and policies need to keep abreast of the changing demographics of renters and homebuyers in order to set the future housing market on a firm foundation.

Homebuyers in the coming decade may face more challenges saving for a down payment than in recent decades. Millennials, a primary engine of the future housing market, face certain burdens—such as growing student loan debt[33] and increasing rent[34]—that make it difficult to save for a down payment on a home. Moreover, research projects that racial minorities, who tend to have less family wealth, will account for 75 percent of household growth over the next decade.[35]

The nation has gained 9 million renters since 2005 and is projected to gain another 4.4 million by 2025.[36] The supply of affordable rental housing has not kept pace with rising demand in recent years, as current low vacancy rates indicate,[37] pushing up rent prices. Furthermore, projections from Enterprise Community Partners and Harvard Joint Center for Housing Studies indicate that, in a baseline scenario where both rents and incomes grow in line with inflation, the number of severely burdened renting households—those paying more than 50 percent of their income for housing costs—is likely to increase by 11 percent, from an estimated 11.8 million in 2015 to 13.1 million in 2025.[38] The nation's affordable rental housing supply is not prepared to keep pace with the projected increase in renting households.[39]

People cycle in and out of poverty, and between the ages of 25 and 60, almost 40 percent of Americans will spend a year or more below the poverty line.[40] Ensuring a robust middle class means helping people who fall out of the middle class to re-enter it. Many affordable housing programs, however, fail to reach enough low-income people due to their scale or cuts in funding from Congress.

Federal resources have not kept pace with the increased need for housing assistance since the housing crisis. During the crisis, instead of expanding vouchers to meet the needs of lower-income households, sequestration reduced the Section 8 Housing Choice Voucher Program, which served 85,000 fewer households in December 2014 than in December 2012.[41] Today, 3 out of 4 households who need and qualify for rental assistance do not receive it.[42]

Policy recommendations

Strategic, targeted investments can address the affordability crisis facing prospective homebuyers and renters, as well as promote a fairer, more inclusive mortgage market. Policymakers should focus their efforts in three key areas: increasing access to mortgage credit; stabilizing neighborhoods struggling to recover; and addressing the rental affordability squeeze facing families across the income spectrum.

Mortgage credit

Policymakers should take steps to increase access to mortgage credit for creditworthy borrowers, and there are several ways to do so.

Modify fees that FHFA-regulated entities charge for borrowers with good credit

Policies at Fannie Mae and Freddie Mac are critical because the two entities provide liquidity to the U.S. mortgage finance system and have a huge effect on the products and policies that are available to homeowners. Because Fannie and Freddie are currently under conservatorship—which in part means that the U.S. Department of the Treasury accepts the risks and rewards of the two entities' operations—taxpayers are also affected by the choices that Fannie and Freddie make.[43] Currently, Fannie and Freddie charge higher fees to middle-class borrowers unless they have extraordinarily high credit scores.[44] These fees make mortgages more expensive for middle-class borrowers who have suitable credit but do not fall in the highest credit classifications. The Federal Housing Finance Agency, or FHFA, has the power to adjust fees to ensure that Fannie Mae and Freddie Mac are protected from the risks they are taking while also supporting additional opportunities for homeownership.[45] The FHFA should carefully reduce Fannie's and Freddie's fees in a way that appropriately and not excessively covers risk at Fannie and Freddie.

Support and expand low down payment lending

Both Fannie Mae and Freddie Mac have developed products with low down payments and strong underwriting for moderate- and low-income borrowers.[46] Policymakers should support programs such as these by facilitating outreach so that borrowers and lenders actually participate in them.

Additionally, mortgages insured by the Federal Housing Administration, or FHA, remain a major source of low down payment lending for lower-wealth borrowers.[47] The FHA should engage with lenders to build on recent progress the agency has made in clarifying its certification processes[48] and should consider decreasing its insurance premiums as the health of its insurance fund improves.

Help prospective borrowers save for a down payment

Policymakers should ease the process of saving for a down payment toward a mortgage. Federal and state lawmakers can establish matched savings programs, which match potential homeowners' savings with either private funds, public funds, or tax incentives in order to help them save for a down payment.[49] Many housing finance agencies at the state level coordinate programs that help borrowers with their down payment and the closing costs of a mortgage. These programs provide either grants or loans to help bring down the homebuyer's down payment and closing costs.[50] Ensuring that these programs have robust standards for consumers and then leveraging federal and private sector support for them can be a powerful way to support affordable down payment options for families.

Finalize a strong Duty to Serve rule

The Duty to Serve rule, once finalized by the FHFA, will govern how Fannie Mae and Freddie Mac meet their statutory duty to promote mortgage liquidity for moderate-, low-, and very low-income families in affordable housing preservation, manufactured housing, and rural housing markets.[51]

CAP recently submitted official comments to the FHFA on how the proposed rule can be most effectively modified in order to facilitate a fair, inclusive, and affordable housing market, especially in underserved areas.[52] CAP's proposals included provisions that would encourage Fannie Mae and Freddie Mac to invest in ways

that increase access to neighborhoods that promote economic mobility, protect manufactured housing community residents—who often face predatory or harmful practices—and create a market for certain shared equity homeownership programs, which ensure the affordability of a home for successive homebuyers.

Support shared equity programs run by local governments or nonprofits

Shared equity homeownership programs create a portfolio of homes that are affordable for low- and moderate-income buyers and are kept affordable for subsequent qualifying purchasers through resale restrictions.[53] One longitudinal study found that more than 93 percent of households under shared equity programs sustained homeownership for five years or more.[54] With the proper incentives—for example, through the Duty to Serve rule—Fannie Mae and Freddie Mac can help boost the market for shared equity homeownership. By purchasing mortgages for homes in shared equity programs, Fannie Mae and Freddie Mac can help this promising alternative between renting and traditional homeownership gain more ground.[55] This could become a powerful tool for making affordable housing accessible to more prospective homebuyers.

Neighborhood stabilization

Policymakers can also strengthen the housing market by promoting neighborhood stabilization efforts in communities still suffering from the widespread foreclosures during the Great Recession.

Prioritize home retention and tighten reporting standards for purchasers of nonperforming loans

Many homeowners in middle-class communities remain underwater on their mortgages, and many live in or near distressed neighborhoods.[56] When the FHA, Fannie Mae, or Freddie Mac sell distressed mortgages, ensuring that buyers prioritize home retention and manage unavoidable foreclosures responsibly is critical to minimize negative effects on the neighborhood. The FHA and the FHFA, which regulates Fannie and Freddie, announced policy changes this year that help ensure that investors who purchase nonperforming loans from Fannie, Freddie, or the FHA consider borrowers for principal reduction; take responsibility for vacant properties; and refrain from offering certain predatory loan modifications.[57]

Changes such as these have faced pushback from some lawmakers,[58] but these changes are vital to ensuring that nonperforming loan sales by Fannie, Freddie, and the FHA do not destabilize neighborhoods still in the process of recovering from the economic crisis. Policymakers should not obstruct these changes; they should allow Fannie, Freddie, and the FHA to implement the policy improvements to their sales efficiently and effectively. The FHA and the enterprises should have strong reporting standards in place so that they can closely monitor program performance.

Support rural communities through a progressive agenda for rural housing finance

In addition, progressive housing policies for rural communities can help address the trends of negative equity, depopulation, and maturing affordability that those communities face today. Policymakers should support key loan programs from the U.S. Department of Agriculture, or USDA, such as the Section 515 program, which helps build affordable multifamily housing,[59] and the Section 521 Rural Rental Assistance program, which provides an additional subsidy on behalf of low-income tenants for properties financed by certain USDA programs.[60]

Policymakers should also ensure that tenant protections are in place for residents of manufactured housing communities. Manufactured homes, which are built in factories and transported to their sites, are a major source of housing in rural areas and are sometimes arranged into communities.[61] Residents of manufactured housing communities, however, often face certain problems, including rent hikes, park closures, and poor management.[62] By promoting resident ownership of manufactured housing communities and supporting tenant protections for community residents, policymakers can make an important source of affordable housing safer for rural residents.

Finally, the FHFA should ensure that Fannie Mae and Freddie Mac support the hardest-hit populations and regions in rural America, such as Native American communities, through properly structuring the Duty to Serve rule. The FHFA can encourage Fannie and Freddie to purchase loan programs that service Native American communities and conduct outreach and technical assistance to help Native American nations build the internal capacity for community development. Steps such as these would support existing middle-class renters and homeowners in rural communities while easing the path of lower-income people striving to enter the middle class.

Rental housing affordability

Policymakers also should preserve and expand the supply of affordable rental housing, particularly in areas with good jobs, schools, health services, grocery stores, and other indicators of economic opportunity.[63]

Expand the Low Income Housing Tax Credit program

Congress should expand the Low-Income Housing Tax Credit, or LIHTC, which allows for the private market to support the creation and preservation of affordable housing for the aspiring middle class. State and local agencies allocate LIHTC funds provided by the federal government to investors who seek to acquire, rehabilitate, or construct housing for low-income households. Investors must maintain the affordability of the housing for at least 15 years.[64] The Bipartisan Policy Center estimates that expanding the LIHTC program by 50 percent would preserve or generate 350,000 to 400,000 affordable units over the course of a decade.[65]

Ensure funding for HOME and the National Housing Trust Fund

The HOME Investment Partnerships Program, or HOME, and the National Housing Trust Fund are two critical programs to help create and preserve affordable housing. HOME is a federal grant program that helps state and local governments buy, build, or rehabilitate affordable housing.[66] The National Housing Trust Fund is capitalized from a sliver of Fannie Mae's and Freddie Mac's earnings and provides money to help states create and preserve affordable housing for some of the most vulnerable families.[67] The U.S. Department of Housing and Urban Development, or HUD, allocated trust fund money to each state for the first time this year.[68] However, Congress has often threatened to imperil the funding streams for both HOME and the National Housing Trust Fund.[69] Congress should allow Fannie and Freddie to continue capitalizing the trust fund, and it should stop attacking the HOME program as well.

Confront restrictive zoning policies

The Brookings Institution has shown that about 38 percent of the country's 50 largest metropolitan areas include zoning policies that restrict density to less than 8 dwellings an acre.[70] Other restrictive zoning policies include minimum sizes

for lots and rules against constructing multifamily housing in certain areas.[71] As Chairman of the Council of Economic Advisers Jason Furman noted in remarks at the Urban Institute in November 2015, such restrictions can constrain supply, drive up home prices, and reduce affordability.[72] They can also exacerbate racial segregation and income inequality.[73]

By changing such codes, policymakers could decrease the cost of housing, which would result in greater rental affordability across the income spectrum. Eliminating restrictive codes would also remove a significant barrier facing families who try to move to low-poverty neighborhoods that can help them enter and stay in the middle class.

Strengthen and expand the Section 8 housing choice voucher program

HUD administers the housing choice voucher program, which helps very low-income, elderly, and disabled people afford housing. Local public housing agencies administer vouchers and pay a subsidy to a landlord that leases to a voucher recipient. The participating family then pays the difference between the actual rent and the subsidy paid to the landlord.[74] Budget cuts due to sequestration led to 85,000 fewer households receiving vouchers as of December 2014 compared to 2012 levels, leaving affected families to use more of their income for housing instead of other basic needs or investments that could help them join the middle class.[75] Congress lifted the sequestration caps for the federal budget of 2016 and 2017 in a bipartisan budget agreement passed in November 2015.[76] It is now time to increase funding for the voucher program.

In addition to increasing its funds, policymakers can take steps to help the voucher program expand opportunity for renting households. For example, policymakers should fund mobility counseling for voucher holders wanting to move to more diversified middle-class neighborhoods and prevent landlords from discriminating against voucher holders because of the source of their income.[77] Increasing voucher holders' ability to move to low-poverty neighborhoods can help their families climb the economic ladder into the middle class.[78]

Access to affordable housing—whether through owning or renting—is critical for families to enter or stay in the middle class. Policymakers should address the fault lines in the nation's housing in order to create the fair, inclusive, and affordable housing market families across America need today.

Endnotes

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The Racial Wealth Gap as a Barrier to Middle-Class Security

By Danyelle Solomon and Jamal Hagler

Buying a home, putting a child through college, and saving for retirement—all hallmarks of the middle class—are now out of reach for many American families and, in particular, African American and Latino families.[1]

The wealth gap between white families and African American and Latino families is astonishing. In 2013, the average wealth of the middle 60 percent of white families was almost five times as much as the average wealth of the middle 60 percent of Latino families and an astounding 25 times more than the middle 60 percent of African American families.[2]

Income gap and wages

One reason for the racial wealth gap is the income gap. The average income of the middle 60 percent of African American or Latino families in 2013 was less than half of the average income of the middle 60 percent of white families.[3] These income disparities make it more difficult for African American and Latino families to accumulate savings, which in turn creates barriers to homeownership and retirement. At the same time, lower incomes also make it harder for families to afford necessities such as quality child care and health care.

Wages are the primary source of income for African American and Latino families. However, these groups have historically had higher rates of unemployment compared with their white counterparts. For the past six decades, unemployment rates for African Americans have been twice the rates for whites.[4] In July 2016, the unemployment rate for African Americans and Latinos was 8.4 percent and 5.4 percent, respectively, compared with 4.3 percent for whites.[5]

Not only are both African Americans and Latinos less likely to obtain work, but they are also less likely to be paid as much as their white counterparts.[6] Starting at the bottom of the 2015 hourly wage distribution—or the 10th percentile—African Americans and Latinos earned just $8.20 and $8.49 per hour, respectively, while white workers earned $9.25 per hour.[7] The disparity is even higher at the 50th percentile: African Americans earned $14.22 per hour, Latinos earned $13.48 per hour, and whites earned $19.01 per hour.[8] And the wage gap between the 50th percentile for whites and the 50th percentile for African Americans was larger in 2015 than it was in 2000.[9] In fact, wages for African Americans in the 10th to 60th percentiles have fallen between 2000 and 2015, while white and Latino workers have seen minute wage gains during that same period[10].

Employment benefits

In addition to lower wages and less access to employment, African American and Latino workers are also less likely to receive employment benefits such as employer-sponsored health plans, retirement programs, paid sick leave, and vacation time.[11] In the absence of these employer-sponsored benefits,

African American and Latino workers are forced to pay for these benefits themselves, which in turn reduces the share of their income that is available for saving.[12] This lack of access also increases the number of African Americans and Latinos who are uninsured in America. The current uninsured rate for Latinos and African Americans is 21 percent and 13 percent, respectively, compared with just 9 percent for whites.[13]

The overall impact of the racial employment, wage, and benefit gaps for African American and Latino families resonates in other aspects of their daily lives. For example, every additional dollar of income earned by a white family returns $19.51 in wealth, compared with $4.80 for African American families and $3.63 for Latino families.[14] The disparity in return on income yields additional negative effects on African American and Latino workers, such as lower rates of homeownership and lack of retirement savings.

Home ownership

The inequities in employment and wages are compounded with historic discriminatory policies in home ownership. In 1934, Congress passed the National Housing Act, which allowed mortgage lenders to draw lines—also known as redlining—around areas they deemed risky and where they did not want to make loans.[15] This happened in the majority of African American neighborhoods across the country. In addition to being excluded from white neighborhoods, African Americans were systematically prevented from purchasing homes even within their own communities because they were denied access to loans.[16] It was not until 1968—after the passage of the Fair Housing Act—that redlining was made illegal, but the remnants of this discrimination are still relevant today.[17] The disparity in homeownership is stark: Approximately 73 percent of white families in the United States own their home, while only 47 percent of Latinos and 45 percent of African Americans do, according to data from the most recent iteration of the 2008 Survey of Income and Program Participation, or SIPP.[18]

In cases where African American and Latino families have the money to purchase a home, they still incur higher costs and ultimately face greater risks of foreclosure or losing their home than their white counterparts. African American and Latino borrowers are also still more likely to face discriminatory lending practices: Mortgages they are able to secure are often at higher interest rates.[19] A recent study revealed that even when African Americans and Latino families are able to purchase homes, the homes are more likely to be in low-income neighborhoods than the homes of their white middle-income and low-income counterparts.[20]

The impact of the 2006 subprime mortgage crisis—continues to depress the wealth of African American and Latino families. For homeowners with loans originating between 2004 and 2008, 9.8 percent of African American homeowners and 11.9 percent of Latino

homeowners had their homes foreclosed, compared with only 5.1 percent of non-Hispanic white homeowners.[21] The consequences of these foreclosures extend beyond the owner of the foreclosed home, as a foreclosure affects the housing values of the surrounding neighborhood, leaving many with less home equity. In fact, as of 2013, nearly $1.1 trillion in home equity had been lost in neighborhoods during the crisis from 2007 to 2012 that were predominately made up of people of color.[22]

In addition to the challenges of purchasing a home, African Americans and Latinos face a disparity in the amount of equity accumulated in the home. For example, the median home equity amount for white home owners is $86,800, compared with $50,000 for African Americans and $48,000 for Latinos, according to 2008 SIPP data.[23] This disparity puts African American and Latino families at a great disadvantage when it comes to wealth accumulation, as home ownership has long been a tool for families to grow their wealth.

Credit

This disparity also speaks to larger inequities in how African American and Latino families are treated in credit markets: They are more likely than their white counterparts to be considered credit invisible or to possess underscored credit reports, meaning that they have little or no credit history. According to a report by the Consumer Financial Protection Bureau, 15 percent of both African Americans and Latinos were credit invisible, and 13 percent and 12 percent of African American and Latinos, respectively, were underscored; whites, on the other hand, were only 9 percent credit invisible and 7 percent underscored.[24] As a result, many African American and Latino families have limited access—if any at all—to credit markets. These families may be pushed into expensive—and at times exploitative—credit products that can trap them in perpetual debt, making it difficult to accumulate wealth.[25]

Retirement

The combination of low wages, lack of available jobs, obstacles to accessing and participating in retirement savings vehicles, as well as other debts makes it harder for middle-class African American families to save for retirement. In 2013, according to an analysis conducted by the Urban Institute, white families had $130,472 in liquid retirement savings, compared with $19,049 for African American families and $12,329 for Latino families.[26] In that same year, African Americans participated in employer-sponsored retirement plans at a rate of 40 percent, compared with the 47 percent rate for white workers participating in similar retirement plans.

In addition to lower wage rates and participation in employer-sponsored retirement plans, African Americans and Latinos have less access to retirement vehicles. Fifty-six percent of African American workers and 38 percent of Latino workers have access to an employer-based retirement plan, while approximately 63 percent of white workers have access to similar plans.[27] Furthermore, African American families are more likely to carry student loan debt—another challenge to accumulating retirement savings. Due to less family wealth, African Americans and Latino families are more likely to take out loans to pay for college than their white counterparts. For example, 42 percent of African Americans aged 25 to 55 have student loan debt, compared with 28 percent of their white counterparts.[28]

Racial inequality in the economy perpetuates wealth inequality, leaving many African American and Latino families struggling to make ends meet.

Endnotes

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CHAPTER 7

Retirement

By David Madland and Alex Rowell

Retirement

The promise of a secure, comfortable retirement is a crucial tenet of middle-class security. After decades on the job, workers should be able to retire without facing a decline in their standard of living. Weak income growth and rising costs, however, have made it difficult for workers to save for retirement, putting the futures of many middle-class Americans in jeopardy.

In 2015, 46 percent of households reported that they could not afford an emergency expense of $400 or would have to pay for it by selling something or borrowing money.[1] Three in ten nonretired households reported not saving at all.[2] And households who do save often have other more urgent priorities: When households were asked what they saved for, only 57 percent of savers reported putting money away for retirement.[3]

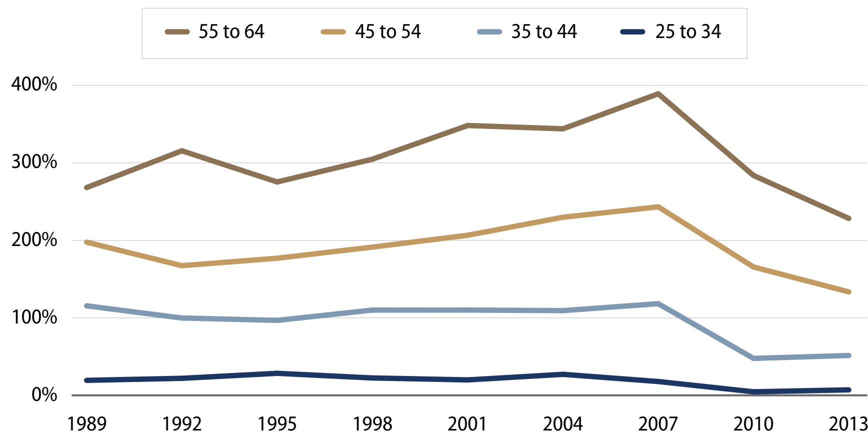
Data show that a large number of households simply lack the financial means to set money aside for retirement. Households are building up fewer assets relative to their incomes than they did in the past, as measured by the Federal Reserve's Survey of Consumer Finances, or SCF.[4] This is especially concerning for several reasons. Today's households will need more in savings in order to maintain their standard of living in retirement as a result of increased life expectancy; a Social Security full retirement age of 67 for those born after 1960; rising health-care costs; and low real interest rates.[5] Additionally, measured assets for families should actually be rising since companies are moving from defined-benefit, or DB, pensions, which are not counted as assets by the SCF, to defined-contribution, or DC, pensions, which are.[6]

Academics and policy experts disagree on how to precisely measure Americans' readiness for retirement.[7] No matter which metric is used, however, too many Americans risk facing a lower standard of living upon exiting the labor force. According to the Center for Retirement Research's highly regarded National Retirement Risk Index, or NRRI, more than half of U.S. households have insufficient assets to maintain their standard of living in retirement.[8] The number of at-risk households has grown dramatically over time: 30 years ago, only 31 percent were unprepared.[9]

FIGURE 7.1

Households are not building up additional assets relative to their incomes, even as retirement needs increase

Median wealth-to-income ratios, by age and year



Note: The sample includes all households younger than age 65 who indicate they are not yet retired. The sample does not include vehicle wealth.

Source: CAP's calculations based on several years of data from Board of Governors of the Federal Reserve System, "2013 Survey of Consumer Finances," available at http://www.federalreserve.gov/econresdata/scf/scfindex.htm (last accessed November 2014); Keith Miller, David Madland, Christian E. Weller, "The Reality of the Retirement Crisis" (Washington: Center for American Progress, 2015), available at https://www.americanprogress.org/issues/economy/report/2015/01/26/105394/the-reality-of-the-retirement-crisis/.

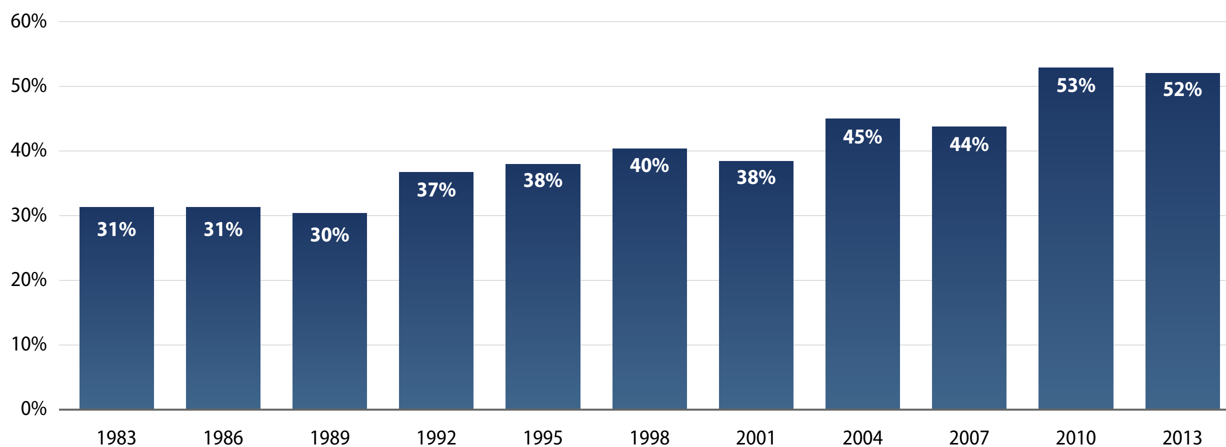
Although estimates vary, even optimistic studies show that approximately 1 in 4 retired Americans in 2004 did not have enough retirement income to maintain their standard of living, with each generation of retirees faring worse.[10] Even under this best-case estimate, far too many Americans will struggle to maintain a secure retirement.

That such a large percentage of households are at risk is not surprising considering that millions of Americans lack access to retirement plans at work,[11] which—alongside Social Security benefits—can provide a major source of retirement income. Having a workplace retirement account is crucially important to saving for retirement: Payroll deductions make it easy to save, and plan features, such as auto-enrollment and employer contributions, boost savings.[12] More than 30 percent of American workers lack access to a retirement plan at work, and only just more than half of all civilian workers participate in a workplace retirement plan, according to the National Compensation Survey.[13]

FIGURE 7.2

The increasing risk of having insufficient money during retirement

Share of working-age households at risk of not having enough money to maintain their standard of living over time



Source: Alicia H. Munnell, Wenliang Hou, and Anthony Webb, "NRRI Update Shows Half Still Falling Short" (Chestnut Hill, MA: Center for Retirement Research at Boston College, 2014), available at http://crr.bc.edu/briefs/nrri-update-shows-half-still-falling-short/.

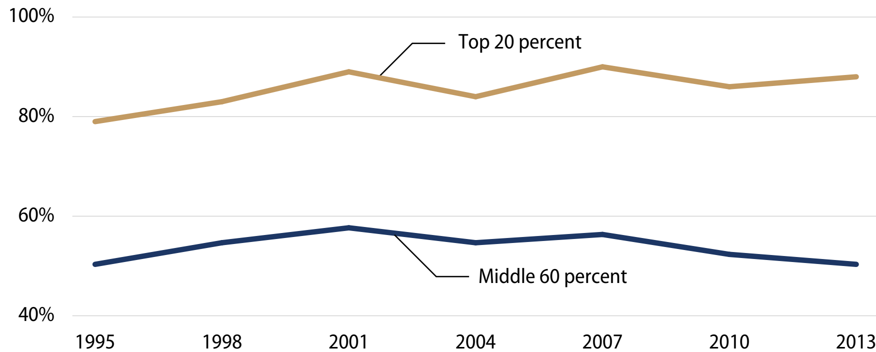
Participation in workplace retirement plans has fallen since 2001, making it even harder for workers to build up the assets necessary to maintain their standard of living in retirement.[14] And too many Americans who do have the resources to save face high fees in their retirement accounts that make it difficult to build up assets.[15] While fees may look small on paper—if savers notice them at all—previous CAP research has shown that even a 0.75 percentage point difference in annual fees can cost a typical worker almost $100,000 in his or her lifetime.[16] Until recently, many workers risked paying high fees because not all retirement advisers were required to act in their clients' best interest.[17] Instead, advisers could direct savers to more expensive funds that padded their profit margins, which led to savers losing an estimated $17 billion each year.[18]

While those without an employer-provided account have the option of seeking out and saving in an individual retirement account, or IRA, the vast majority do not.[19] As a result, the overall picture is bleak: Nearly one-third of nonretired Americans have no retirement savings or pension at all.[20] The median household nearing retirement, or age 55 to 64, with retirement savings has saved just $104,000—only enough to afford a $400 monthly payment from a lifetime annuity and well below what a typical household would need in retirement.[21] Factoring in households who lack accounts altogether, the median near-retirement household has only $14,500 saved for retirement.[22]

FIGURE 7.3

Middle class households are far less likely to have retirement savings than wealthy households

Share of families ages 32 to 61 with savings in retirement accounts, by income group



Note: Retirement accounts include 401(k)s, individual retirement accounts, and Keogh plans; Families include single/no kids households. Ages for families are based on the male in a mixed-sex couple or the older spouse in same-sex couple.

Source: Author's calculations based on Monique Morrissey, "The State of American Retirement: How 401(k)s have failed most American workers" (Washington: Economic Policy Institute, 2016), available at http://www.epi.org/publication/retirement-in-america/.

These figures reflect the reality that, too often, middle-class Americans are not able to save for retirement in the same way as their wealthier peers. Eighty-eight percent of households age 32 to 61 in the top income quintile had a retirement account in 2013—virtually unchanged from 89 percent in 2001—compared to only 52 percent of middle-class households, down from 56 percent in 2001.[23] And wealthy households have by far the most assets in these accounts: The top 20 percent of households hold 74 percent of total retirement account savings, while the middle 60 percent hold the other 26 percent.[24]

Younger Americans are faring worse than their older counterparts. In 2014, a majority of American households age 18 to 29 had no retirement savings or pensions. Among households age 30 to 44, about 3 out of 10 have no retirement savings or pension.[25] The Center for Retirement Research's estimates that 45 percent of households age 50 to 59 are at risk of failing to meet their living standard in retirement; among younger households age 30 to 39, an even higher proportion—59 percent—are already at risk. There is also reason to believe that rising student debt levels may crowd out retirement savings and harm retirement readiness among younger generations. If today's households had the same amount of debt as do new college graduates, an additional 4.6 percent of households would be at risk.[26]

Absent changes in policy, millions of families will be unable to retire and maintain the standard of living they enjoyed during their working life. The human costs will be real: Americans will have to work longer than planned or cut back in an unexpected fashion after a lifetime of work. And the costs to the economy at large are also daunting: Struggling retirees will rely more heavily on government programs, and reduced personal spending from retirees could contribute to slower overall economic growth.[27]

How current policies fail retirees

When President Franklin D. Roosevelt signed the Social Security Act in 1935, he congratulated Congress for passing a law that "will give some measure of protection to the average citizen and to his family … against poverty-ridden old age."[28] Social Security was not designed to be the only source of income for retirees; private savings and pensions were intended to sustain workers after they left the labor force.[29] But as workplace retirement plans have become scarcer and labor, financial, and housing markets have become less stable,[30] Americans' retirement readiness has declined.[31]

In today's system, Americans who work at small- and medium-sized businesses are less likely to have access to workplace plans than those at large companies.[32] This is because small business owners lack a broad base of employees over which to spread fixed costs, making it more difficult and costly to start a company retirement plan. Unlike the increasingly rare DB pension plans, which are available to fewer than 1 in 5 private sector workers,[33] today's more common DC plans place individuals at risk during market downturns. Furthermore, under DC plans, workers bear the burden of choosing the proper portfolio and determining the appropriate amount to save. Smart plan design can help solve these problems: Auto-enrollment and escalation—as well as simple, low-fee plan investment options that automatically adjust based on one's expected retirement date—are very beneficial to savers. But building up sufficient assets is not the only challenge: Once individuals decide to retire, they face various risks, including longevity risk, or the risk of outliving their savings. To avoid this, individuals can purchase an annuity to convert their lump-sum savings into a lifetime stream of income. CAP's previous analysis has shown that low-cost annuities make it much easier for individuals to achieve a successful retirement, but unfortunately, in-plan annuity options are rarely available in the DC plan market.[34]

The federal government plays a large role in subsidizing private savings for retirement, forgoing more than $100 billion in tax revenue each year due to retirement savings incentives.[35] But these incentives are needlessly complicated, making it very difficult for a saver to maximize their tax benefit. More importantly, they are regressive, disproportionally helping the wealthy while leaving many lower-income Americans behind: The top 20 percent of households by income receive 66 percent of the benefits from the federal government's retirement tax expenditures.[36]

The Saver's Credit, introduced in 2001, is a tax credit designed to help low- and moderate-income Americans save for retirement. However, the credit falls short due to its size and structure. The $1.3 billion spent annually on the Saver's Credit pales in comparison to retirement tax incentives in total.[37] Also, the credit is non-refundable, which means that many working families with low or no tax liability receive little to no benefit from the credit.[38]

While President Barack Obama and many members of Congress have pushed for various proposals to help working Americans save for retirement—including an automatic IRA program to increase access to workplace retirement accounts and an expanded, refundable Saver's Credit[39]—Congress has not enacted these proposals into law. The Obama administration, however, has used executive action to establish myRA, a portable, starter retirement account with no fees and no minimum balance.[40]

Meanwhile, states such as California, Connecticut, Illinois, and Oregon are working to increase access to retirement savings accounts by automatically enrolling those without employer-sponsored retirement accounts into retirement plans.[41] While these state initiatives are worthwhile and will improve retirement readiness, many workers in states that do not offer these savings options will continue to fall behind. Solving our national retirement crisis will require national solutions.

Policy recommendations

In order solve today's retirement crisis, policymakers need to protect and strengthen the backbone of our retirement system, Social Security, and expand access to high-quality retirement savings options for workers—no matter their employer.

Social Security

Social Security was not designed to be the sole source of income for workers in retirement. But, today, 64 percent of households 65 or older receive more than half of their income from Social Security, and about one-third receive more than 90 percent of their income from Social Security.[42] Nonmarried beneficiaries are even more reliant on Social Security: Nearly half receive 90 percent of their income from the program.[43] Previous CAP research has demonstrated that while there is no fiscal imperative to cut Social Security,[44] there is a moral imperative to protect it from cuts that would harm the middle-class and low-income families that rely upon it.

Congress should expand Social Security benefits for those in need and modernize key benefits.

Increase the special minimum benefit

Social Security is an effective anti-poverty program, lifting nearly 15 million Americans age 65 and older out of poverty in 2013.[45] Because many seniors and disabled Americans remain in poverty,[46] the minimum benefit provided by Social Security and Supplemental Security Income should increase so that a worker with 30 years of covered Social Security earnings would receive a benefit of 125 percent of the monthly poverty level.

Modernize survivorship and divorce benefits

Survivorship and divorce benefits should also be updated. In today's Social Security system, dual-earner couples earn lower survivorship benefits than single-earner couples who paid the same combined Social Security taxes over their working lives.[47] For example, a dual-earner couple each earning $50,000 annually would pay the same payroll taxes as a single-earner couple with the working spouse earning $100,000 annually. However, the dual-earner couple would receive a lower survivorship benefit upon the death of their spouse. This disparity should be eliminated, and survivorship benefits should be improved to limit the benefit cut that survivors face upon the death of their spouse. In addition, today's divorce benefits for Social Security are only available for marriages lasting 10 years or longer, leaving many divorcees without benefits. Instead, divorce benefits should phase in over several years for those married at least five years.[48]

Institute a caregiver credit

Policymakers should also recognize the value of unpaid caregiving and help these workers in retirement by instituting a caregiver credit. Currently, workers who take time out of the labor force to care for their children or elderly relatives not only give up earnings but also may face reduced Social Security benefits in the future. With this credit, workers who leave the labor market or significantly reduce their paid work hours for caregiving would receive credit toward their Social Security benefits at half of national average earnings for up to five years.[49] Such a credit would be especially beneficial to women, who are both more likely to take time off for caregiving, as well as more likely to live in elderly poverty.[50]

Private savings

Strengthening Social Security is critical to shoring up retirement, but policymakers cannot stop there. Action must be taken to help workers privately save for retirement as well. This means both making sure that workers earn enough so that they are able to put money aside for the future and increasing access to high-quality retirement savings options.

Create a National Savings Plan to ensure all workers are able to save at work

All workers should be able to save for retirement at work, no matter their employer. To that end, policymakers should create to a high-quality, low-fee portable retirement plan such as CAP's proposed National Savings Plan, or NSP, which is based on the Thrift Savings Plan currently available to federal employees.[51] Workers without employer-provided retirement plans would be automatically enrolled in this plan by their employers; independent contractors and the self-employed would be also be eligible to join.

CAP analysis has found that a worker saving in the NSP would be more than twice as likely to have a secure retirement than a worker contributing the same amount to a typical 401(k) plan. And NSP savers would be more than five times as likely to have a secure retirement as workers saving in a high-fee 401(k) plan, such as those often offered to small businesses. The NSP would also be the ideal next step for savers currently saving in the Treasury Department's myRA program after they reach the myRA account maximum.[52]

Better protect savers from market risk through collective defined-contribution plans

Policymakers should also consider new ways to protect workers near retirement from the risk of market downturns that would dramatically lower their retirement income. States and the federal government should create plans such as CAP's Secure, Accessible, Flexible, and Efficient, or SAFE, Retirement Plan,[53] a collective DC plan that combines the benefits of DB pensions with 401(k)-type plans.

While employers would not have to guarantee returns with such a plan, the pooled, professionally managed investments would reduce risks for savers. This risk-pooling would smooth investment returns over time and keep market crashes from decimating savers. And elements of this plan could be instituted in the payout phase of the NSP, allowing workers to reduce their individual investment risk later in life.

Fully implement the conflict of interest rule

Even without creating new forms of retirement accounts, policymakers can take action to help savers in today's 401(k) and IRA market. Thanks to a newly finalized rule from the U.S. Department of Labor, Americans saving for retirement today are now better protected from advisers' conflicts of interest, which costs savers an estimated $17 billion per year through higher fees, lower returns, and inappropriate advice.[54] The rule updates a 40-year-old standard to protect savers in today's retirement market and ensures that retirement advisers put their clients' best interests before their own profits.

Special interest groups, however, are still fighting in Congress and the courts to have the rule overturned, claiming that it will reduce access to retirement advice.[55] These critiques are unfounded: The success of many current firms shows that it is possible to offer independent, nonconflicted retirement advice.[56] It is crucial that the conflict of interest rule is fully implemented, and lawmakers should stand on the side of savers and firmly against efforts to weaken or eliminate the rule.

Reform retirement tax incentives to help those who need it most

Finally, Congress should revamp retirement tax incentives to better target those who need the most assistance. Today's confusing and regressive mix of tax deductions results in most benefits flowing to the wealthy while failing to substantially incent retirement savings.[57] Policymakers should convert the Saver's Credit—which currently fails to reach many families—into a refundable tax credit that is deposited directly into savers' personal accounts, acting more directly as a government match.[58] This would help lower-income savers build the assets they need to make it to the middle class.

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CHAPTER 8

Conclusion

By Brendan Duke

Conclusion

The American middle class has had a rough 15 years—wage stagnation was followed by a global financial crisis that triggered a dramatic decline in middle-class wealth. Meanwhile, the costs of critical services have continued to grow. While jobs, wages, and wealth have all begun to recover, the middle class is still feeling squeezed. Americans are frustrated and feel the system is rigged against them.

But it does not have to be this way. After all, the rapid growth in real wages during the 1990s came after 20 years of wage stagnation. And the middle classes in countries such as Australia and Sweden have experienced robust market income growth over the past 15 years despite experiencing the same trends of globalization and automation that are often blamed for stagnant middle-class incomes in this country.

The power of public policy to deliver results for the middle class—and for those who seek to enter it—makes the actions of our elected officials that much more important. When the president and Congress can act together to rebuild middle-class wealth and raise incomes, progress can be achieved. Following the worst financial crisis and recession since the Great Depression, the federal government responded by investing in infrastructure, growing clean energy, and helping avoid another depression. The Affordable Care Act of 2010 provided relief for millions of American families and businesses, boosted consumer protections, and made health care a right for all. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 put in place critical reforms that were needed to restore stability to the financial system and protect consumers.

Sadly, in recent years, budget cuts and attacks on government have hurt the recovery. Fortunately, the president has used executive action to enact sound policies that make it easier for Americans to save for retirement, lower their student debt burdens, obtain paid sick leave, and earn overtime pay. The economy has also been helped by the steady hand of the independent leaders at the Federal Reserve, since monetary policy has done a great deal to counteract frequently unwise fiscal policies.

The country will elect a new president and Congress this November, which will create a window for policy change. Our leaders will need to focus on raising wages and boosting incomes. Full employment and tight labor markets can deliver robust wage growth, as we learned in the 1990s. But it is up to policymakers to help us get and stay there. New investment in infrastructure, a boost in long-term business investment, and progressive monetary policy will help generate the high-wage, high-pressure economy that working Americans deserve. Policies that prevent financial crises and help the country prepare for potential recessions—such as reforming unemployment insurance—will support the resilient economic growth that working Americans need.

We must also close the gap between wage growth and economic growth for middle-class workers. Restoring workers' bargaining power by enabling unions to bargain by sector; rebuilding labor standards, for example by raising the minimum wage; and expanding profit-sharing should help reconnect most workers' wages with productivity growth. Strong competition policy also has an important role to play in promoting productivity and ensuring it translates into shared prosperity. At the same time, policymakers must take steps to speed up productivity growth. Much of the recent slowdown is a result of a lack of aggregate demand combined with low wages. But enacting family-friendly policies, making investments in worker training, and eliminating barriers to formal employment would all help to raise productivity.

Rebuilding middle-class security will also require reducing the cost of many critical services, whose price has escalated rapidly over the past 15 years.

Child care, for example, has become a de facto requirement for two-income and single-earner families but is unaffordable for many of them. A High-Quality Child Care Tax Credit—as well as a federal-state partnership to provide universal preschool—would raise labor force participation today, boost human capital tomorrow, and provide relief to millions of working families. Higher education has never been more important for entering the middle class, and its price has never been higher. Reshaping the federal financial aid system to make it simpler and more generous would help millions of Americans afford college.

The growth in the cost of health care, which usually increases faster than overall inflation, has slowed down in the past few years, thanks in part to the Affordable Care Act. However, employers have not been sharing cost savings with their employees in the form of higher wages, lower premiums, or more generous plans.

In fact, employers are increasingly shifting the cost of health care to their employees. Policymakers must address this cost shifting by increasing the transparency of employers' health costs and, in some cases, requiring employers to share savings with their employees. And consumers need protection from excessively high drug prices, which can be accomplished by increasing price transparency, requiring drugmakers to invest in research, reducing out-of-pocket prescription drug costs, and categorizing drugs by their comparative effectiveness to inform and empower price negotiations.

The cost of owning a home—part of the American dream—is out of reach for millions of Americans, at the same time that the cost of renting one is skyrocketing. Policymakers need to increase access to mortgage credit by, for example, expanding low down-payment lending; helping prospective borrowers save for a down payment; and modifying fees that make mortgages more expensive for middle-class borrowers with suitable credit. At the same time, policymakers need to help communities still recovering from the housing crisis by prioritizing home retention and supporting key housing programs that can help mitigate the rental affordability crisis facing communities across the country.

A stable, comfortable retirement is supposed to be the capstone of a middle-class life, but it is not a reality for millions of Americans: The collapse of middle-class wealth directly reflects the lack of middle-class retirement readiness. Policymakers should expand and modernize Social Security benefits; create a National Savings Plan based on the Thrift Savings Plan; develop collective defined contribution plans to help workers better manage risk; and fully implement the Department of Labor's conflict of interest rule.

In the past few years, the middle class has begun to feel the benefits of our economic recovery. Much remains to be done, however, to restore middle-class economic security after the wage stagnation of the 2000s and the wealth devastation of the financial crisis and Great Recession. This report gives a roadmap for policies to do just that. Adopting policies that will raise wages and rebuild wealth can begin to restore the middle class' faith in their future and ensure that a middle-class life is attainable for every American who seeks it.

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A Progressive Agenda for Inclusive and Diverse Entrepreneurship

By Kate Bahn, Regina Willensky, and Annie McGrew October 2016

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Introduction and summary

Entrepreneurship is a key driver of U.S. economic dynamism and leadership in the world economy. While many of the academic and policy discussions around promoting entrepreneurship have focused on technology startups and other innovative small businesses, the vast majority of small businesses do not fit that stereotype. The overwhelming majority of small businesses are local shops, restaurants, and services, which play a significant role in building a strong foundation for local communities and national economic growth and development.[1] A sound economic policy is not just about finding the next Steve Jobs; it's also about creating Main Street jobs.

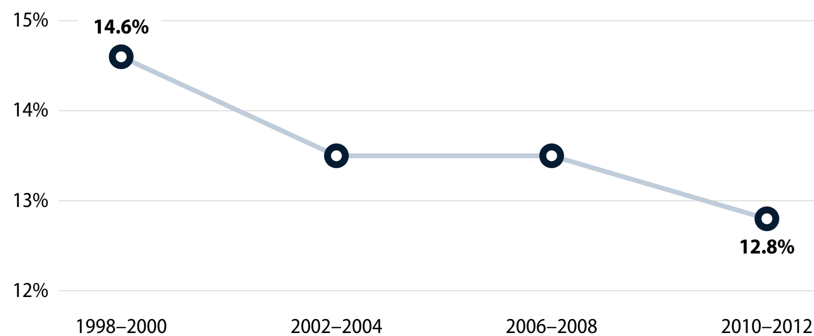
A growing body of research shows that the middle class plays a central role in forming and running these small businesses.[2] However, the reduced economic security of the middle class, which was magnified substantially by the financial crisis and the Great Recession, has meant that entrepreneurship has been largely the realm of upper-income and financially secure households. As the Center for American Progress demonstrated in its recent report, "Raising Wages and Rebuilding Wealth," middle-class economic security in the form of wages and wealth has begun to recover in recent years, but much more remains to be done to restore a high-pressure, full employment economy.[3] Entrepreneurship is an important part of the equation in both creating, and benefiting from, strong demand in the economy.

Similar to CAP's recent analysis on wages and wealth overall, previous CAP research has shown that entrepreneurship has been on a long-term decline since the early 2000s.[4] This report finds that this trend continues: Looking at all households who are earning income, business ownership steadily declined from 14.6 percent in the period from 1998 to 2000 to 13.5 percent in the mid-2000s to 12.8 percent by 2010 to 2012.[5]

FIGURE 1

Business ownership rates have decreased since the late 1990s

Business ownership rates in two-year periods, 1998–2012



Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

The overall lower rate of business startup since the 1990s is more than simply a statistic. It means that America is also losing out on untapped talent. CAP's report "1 Million Missing Entrepreneurs" found that there would be 1 million more entrepreneurs in the economy today if startup rates had kept up pace from the 1990s.[6]

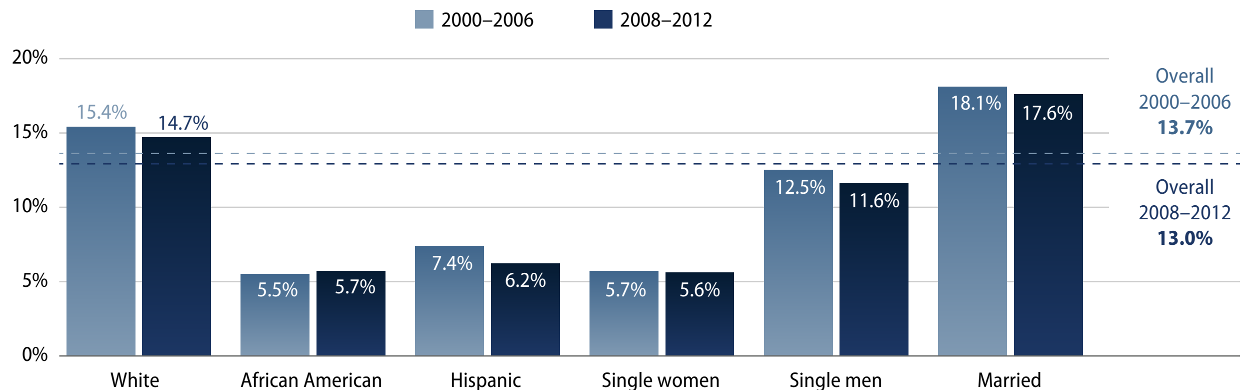
These challenges are even starker for many communities of color, for women workers, and for low-income families. The authors' analysis using the Panel Study of Income Dynamics, or PSID, shows that African American households and Hispanic households have lower rates of business ownership than white households. Single women have lower rates of business ownership compared with single men, and both have lower rates than married households.

We also find that African Americans are 5 percent less likely to have a business in their household compared with white households—even at the same levels of income, wealth, and education—and Hispanic households are 6.7 percent less likely. Single women are 3.9 percent less likely to have a business compared with single men. These losses are particularly painful, as entrepreneurship is an important strategy for economic development[7] in neighborhoods and cities, as well as for economic mobility for these workers and families.[8]

FIGURE 2

Business ownership rates are highest among whites, single men, and married households

Business ownership rates before and after the Great Recession, by race and marital status



Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

This report focuses on the challenges to entrepreneurship that people of color* and women face. It explores the role that lower levels of income and wealth play for people of color and women in their ability to start a business. It examines the structural barriers, such as lack of access to informal entrepreneurial training and networks, more difficulty securing startup capital and business loans, and other challenges to tapping the entrepreneurial spirit. In addition, the report also looks at broader economic factors, such as aggregate demand and competition, as well as gender inequity and other basic public policy challenges, which may also affect people of color and women more or differently. While this report is primarily focused on promoting people of color entrepreneurs and women entrepreneurs, it notes that any of the tools proposed would apply broadly to the small-business community.

This report also proposes policies to help people overcome the barriers to becoming entrepreneurs. These include: enhancing the State Small Business Credit Initiative to address the wealth gap and expand access to capital; developing apprenticeship programs to provide training and hands-on experience for future entrepreneurs; fostering early training and education to encourage entrepreneurship among young people; and creating "one stop shops" and Self-Employment

* This report's use of the term "people of color" includes the demographics of African Americans and Hispanics. Due to small sample sizes of Asian Americans and other racial and ethnic minorities in the PSID, statistically significant figures could not be calculated for these demographic groups.

Assistance Programs, or SEAPs, to help people start businesses. The report also promotes broad progressive policies that will help raise wages and rebuild wealth for all Americans both to support small businesses and to encourage others to start small businesses.

Of course, starting a business is no guarantee of success—only two-thirds of small businesses survive at least two years, and only half will survive past their first five years.[9] But this report finds that they present an important opportunity for middle-class economic security: Indeed, the authors' calculations with the PSID find that African American small-business owners weathered the Great Recession with a financial position seven times stronger than that of ordinary workers.

Overall, this report shows that progressive policies can help break down the barriers that people face in starting their own businesses and help them become successful business owners. Making entrepreneurialism a career choice open to all will help families build wealth; create opportunities for jobs and mobility in disadvantaged communities; and support a robust, inclusive, and growing economy.

The benefits of entrepreneurship

Throughout the nation's history, entrepreneurship has served a critical role in driving economic growth and securing the United States' position as a world leader.[10] Reduced entrepreneurial dynamism, with a declining business startup rate and difficulty maintaining and growing small businesses, has been a loss to the economy and to individual communities. Today, entrepreneurship is often associated with technology startups that launch into global companies, but the majority of U.S. entrepreneurs are small-business owners that employ zero to four people. In 2014, U.S. firms with four workers or fewer comprised 62 percent of all U.S. businesses, according to data from the U.S. Census Bureau.*

Indeed, small businesses are a critical component of a strong local economy, as they not only create jobs but also provide goods and services, generate sales tax revenue, contribute to the quality of life in neighborhoods, and attract potential new residents to help bolster a community.[11] A report from the Federal Reserve Bank of Atlanta found that local entrepreneurship has a significant positive effect on local economies. The report's findings indicate that the percentage of workers employed by locally owned businesses helped the local economy by having a more positive effect on local incomes and employment than larger businesses.

Additionally, locally owned businesses do a better job of recirculating money spent in the local economy than nationally owned businesses. For example, a study by the Maine Center for Economic Policy found that every $100 spent at locally owned businesses generates an additional $58 in local impact, while the same amount spent at a national chain store only generates $33 in local impact. The study indicates that local businesses generate 76 percent greater return to the local economy than larger nationwide chains.[12] Encouraging small local business growth across the United States can be a viable economic development strategy to increase income and employment growth and reduce poverty.[13]

* Authors' calculations of data from Bureau of the Census, "2014 SUSB Annual Data Tables by Establishment Industry," available at https://www.census.gov/data/tables/2014/econ/susb/2014-susb-annual.html (last accessed September 2016).

One of the most important benefits of these small businesses is their impact on employment. As of 2014, self-employed Americans made up 10 percent of the national labor force, according to a Pew Research Center analysis of U.S. Census Bureau data.[14] These microbusinesses are job creators, assets for households, and critical drivers of local economies.

For low-income families in particular, business ownership is a critical aspect of wealth building. Although low-income families often lack the resources needed to start a business, for those who do own businesses, business equity makes up a large percentage of their wealth. For business-owning families in the lowest income quintile, business equity makes up 20 percent of all nonfinancial assets, according to an analysis of Survey of Consumer Finances data by the Federal Reserve Board of Governors. The share of business equity for low-income households is much higher than for households in the middle three percentiles.[15] Further, the median net worth of business owners is nearly two and a half times higher than that of nonbusiness owners.[16] For particular groups, the ratio of business owners' median net worth to nonbusiness owners' median net worth is even greater than that of the general population. For Hispanic business owners, for instance, net worth is five times higher than that of nonbusiness owners, and for an African American woman, the difference is more than 10 times.[17] Such wealth building allows families to weather an unforeseen crisis, plan for the future, and pass wealth down to future generations. In addition, these households can spend more money and help strengthen local economies.

Perhaps most importantly, business ownership is an important wealth generator, which helps protect families during times of economic stress. To no small degree, that business owners tend to fare better than nonbusiness owners in both income and wealth is a self-reinforcing fact. A household is more likely to become an entrepreneur if it is higher income and has greater wealth, and business owners tend to earn more and generate more personal wealth if their businesses survive and are successful. Polling across the years before and after the Great Recession, we find that real median income and wealth declined for most households after the recession, but those who own a business have higher levels of income and wealth than those who do not, both before and after the recession.

This is not say that entrepreneurship has any guarantee of success. Business ownership is a risky profession, as only two-thirds of small businesses survive at least two years, and only half survive past their first five years. Nevertheless, for those that do make it, the benefits are significant and durable. Notably, the

benefits of business ownership held for people of color, women, and low- and moderate-income groups. According to calculations with the Panel Study of Income Dynamics, white households had $108,300 in wealth with equity, on average, from 2008 to 2012, while African American households had only $7,530, and Hispanic households had only $17,000. But those households who own businesses are doing comparatively better than their nonbusiness-owning household counterparts, with African American business-owner households having $52,174, while nonbusiness owners have $7,224, Hispanic business-owner households have $41,280, and nonbusiness owners households have $16,304. Table A3 in the Appendix gives the median levels of wealth with equity broken down by gender, marital status, and race, as well as by business owner and nonbusiness owner by those characteristics.

Low rates of entrepreneurship for people of color, women, and low- and moderate-income families

Despite the positive benefits of entrepreneurship, research has found a long-term decline in entrepreneurship in the United States beginning in the early 2000s. The CAP report "1 Million Missing Entrepreneurs"[18] found that the percentage of business-owner households dropped so considerably in the first decade of the century that the U.S. economy had 1 million fewer entrepreneurs than it would have had if it had kept pace from the 1990s.

In order for a household to start a business, it needs to have earned a sufficient enough income working and been able to generate wealth to finance a business or to use as collateral to get outside financing. Often this means that entrepreneurs are older, so that they have had time to experience income growth and build their wealth. Business owners also need skills and knowledge, and this is reflected in business owners tending to have more education, as found in the previous CAP report on "How Does Middle-Class Financial Health Affect Entrepreneurship in America?" Income, wealth, age, and education are some of the most significant predicators of whether someone will be able to start a business.

In "How Does Middle-Class Financial Health Affect Entrepreneurship in America?", Camilo Mondragón-Vélez found that the decline in business ownership is linked to the hollowing out and the decreased economic security of the middle class.[19] Mondragón-Vélez found that decreasing economic security has meant that new business owners are waiting longer—seven years longer than they used to—before starting a business and doing so with two to three times more wealth than the median worker, compared with less than two times the wealth in the 1980s and 1990s. Middle-class families account for more than half of all business creation in the United States, but their relative wealth compared with high-income families has declined precipitously, particularly during the Great Recession, and has yet to gain back ground.[20] These conclusions support Mondragón-Vélez's previous scholarly work demonstrating that the unavailability of money to start a business, including the amount someone can borrow, holds back potential entrepreneurs from making the transition to business ownership.[21]

The decline in business ownership is even more challenging for people of color, women, and low- and moderate-income workers. Not only do they face additional challenges in the labor market, but these challenges are mirrored in their relatively lower likelihood of starting a business compared with wealthier white men. Viewing entrepreneurship as an occupational choice and as part of the career ladder for those who want to transition to business ownership highlights the public policy imperative to address the barriers to starting businesses that certain demographic groups consistently face.

Business ownership and entrepreneurship for African American and Hispanic households

Using the Panel Study of Income Dynamics, we find that among households with positive income, African American and Hispanic households have significantly lower rates of formal business ownership than white households.

In addition to rates of business ownership, this report examines the rate of new business creation, which is the percentage of households who start a business between one survey and the next survey two years later, since the PSID is collected every other year. Overall, the business startup rate declined between the 2000–2006 period and the 2008–2012 period. However, the rate of business startup for white households was still higher than the rate for people of color households during those periods. Although sample sizes of all people of color who started new businesses in the PSID are too small to be conclusive, the available data do seem to suggest that African American households have lower rates of startup than white households and that this rate declined after the recession.

Business ownership and entrepreneurship for single women, single men, and married households

Business ownership is also much lower among households headed by single women compared with single-male-headed households and married households. Business ownership in female-headed households remained effectively constant when averaged from 2000 to 2006 and 2008 to 2012, whereas business ownership of single-male-headed households and married household business ownership both declined.

So few single households started new businesses in the PSID that we were unable to calculate the rate of startup. However, married households started new businesses at higher-than-average rates across the PSID. Both rates decreased in the 2008–2012 period.

Business ownership and startup by income level

Echoing the findings of previous CAP research, business ownership and formation rates are much lower by income level. Low-income and middle-income households lagged behind upper-income households above the 90th percentile in their business startup rates and the businesses' performance. Of particular note, the Great Recession appears to have had the largest effect on the ability of middle-income households to start a business.

Lower rates, but an increasing share of people of color- and women-owned businesses

While people of color and single-female households have lower rates of business ownership and appear to have lower rates of startup—based on their small sample size—surveys of business owners have found that these groups are an increasing share of all business owners.

According to the Census' Survey of Business Owners for 2012, between 2007 and 2012, the number of Hispanic-owned firms increased 46.3 percent and the number of African American-owned firms increased 34.5 percent. In contrast, the total number of firms in the United States increased only 2 percent.[22]

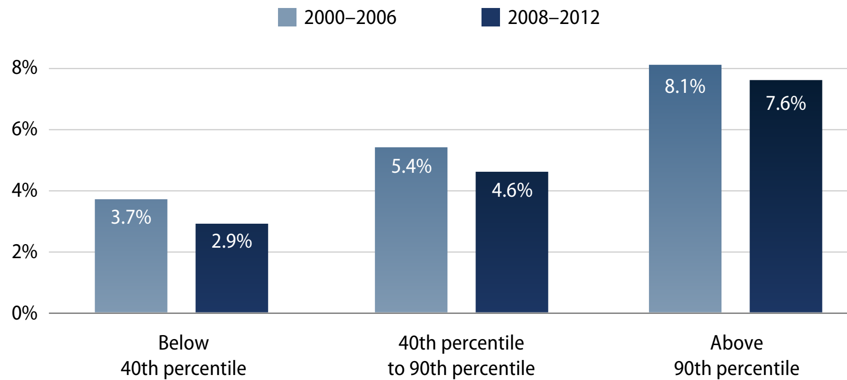
Additionally, women-owned firms now make up 30 percent of all U.S. businesses, according to a Womenable study using the 2012 Survey of Business Owners. Women-owned firms have also become more diverse. The study found that 33 percent of women-owned firms were owned by people of color in 2015.[23] And women-owned firms are also a fast-growing segment. According to the Survey of Business Owners for 2012, they increased 26.8 percent between 2007 and 2012, whereas male-owned firms increased only 6.8 percent.[24]

These rising rates of people of color and women entrepreneurship reinforce the importance of developing policies to help these people become successful entrepreneurs.[25]

FIGURE 3

Business startup rates are highest among the wealthiest households

Business startup rates before and after the Great Recession, by income level



Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

The ability of people of color and women to have a business

We know that people of color and women have lower rates of entrepreneurship—but not why this occurs. To better understand the impact of race and gender on entrepreneurship, this report analyzes the likelihood that a household has a business given the common factors that are correlated with business ownership, such as household income, wealth, education, age, and whether someone was unemployed or out of the labor force in the prior year. Wealth is one of the largest and most significant factors influencing the likelihood of starting a business, but income and age are also important and significant. Even when controlling for these factors, however, African American households, Hispanic households, and female-headed households are still less likely to own a business.

Table 1 below shows the relative probabilities of African American, Hispanic, and female-headed households of having a business compared with single white males. These calculations are predicted margins, which model the relative probability that each of these factors predict the likelihood of having a business in the household.

These numbers represent the structural barriers that women and people of color face in being entrepreneurs. This report also calculated the likelihood of entrepreneurship based only on demographics and age (as shown in the Appendix) and

TABLE 1

How much less likely are African Americans, Hispanics, and women to start a business?

Coefficients of regression analysis on business startup rates, controlling for age and demographic characteristics

Demographic	Relative probability of becoming an entrepreneur, compared with white males
African American households	-5.0***
Hispanic households	-6.7***
Female-headed household	-3.9***
Married households	1.0

*** $p < 0.01$

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

found an even lower likelihood of entrepreneurship for these groups. This demonstrates the interplay of demographic background with access to education, earning higher levels of income, generating wealth, and subsequently being able to start one's business. But even people of color- and female-headed households that have the same educational background and are able to earn the same level of income and wealth still have more difficulty starting their own businesses. This suggests the need for policies designed to target these communities.

Not only do these groups have lower rates of business ownership and startup, but when they do have businesses, the nature of their business also tends to be different than that of whites, men, and upper-income people. A report by the Kauffman Foundation found that women have lower ownership rates particularly in high-profit sectors.[26] People of color- and women-owned business growth tends to be largely in lower-earning sectors such as retail and service. Furthermore, they tend to have lower survival rates, meaning that their businesses are more likely to fail.[27]

In addition to the barriers imposed by income gaps, wealth gaps, and educational attainment gaps, people of color and women also face barriers in access to capital for business startup, often lack the networks that make starting a business easier, and are less likely to have business education. These barriers are discussed in detail in the following section and demonstrate that lack of spirit or innate ability are not the reasons why female-headed, African American, and Hispanic households are not becoming entrepreneurs. This also means that there is a role that policy can play to level the playing field.

Barriers to entrepreneurship for people of color, women, and low- and moderate-income groups

The lower rates of entrepreneurship among people of color and women are largely a result of long-standing and persistent structural wealth barriers, aggravated by challenges accessing the capital, skills sets, and networks needed to start and grow a business.

The wealth gap

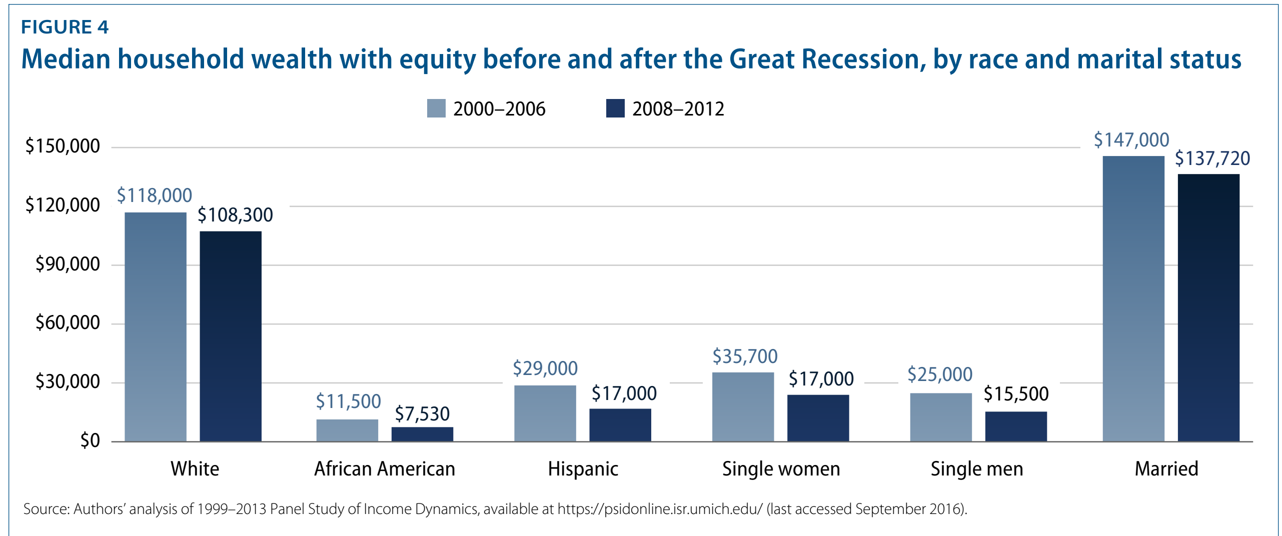
Household wealth is often the initial capital used by an entrepreneur to start his or her business. A lack of personal wealth can thus inhibit a would-be entrepreneur from starting a business. In "What Data on Older Households Tell Us About Wealth Inequality and Entrepreneurship Growth," CAP found a correlation between wealth inequality and entrepreneurship.[28] The report found that entrepreneurship was especially pronounced among older households and along demographic lines. This finding is correlated with wealth growing primarily for households that are white, married, college educated, and 50 years old and older.[29] Both people of color and women face income gaps and wealth gaps compared with whites and men, which makes it harder for them to start their own businesses.

The regression analysis available in the Appendix demonstrates that greater amounts of wealth are one of the largest factors that increases the likelihood of starting a business. This is also confirmed by the extensive research on capital access for people of color business owners and women business owners. One of the primary reasons behind the lower rate of business startup for women and people of color is the wealth gap these groups experience. Economist Robert Fairlie has found that asset level gaps are the single largest factor explaining the lower rate of business creation for African Americans compared with whites and a major factor in the lower rate for Hispanics.[30]

As the data below and in the Appendix show, these wealth gaps between women and men and whites and people of color are correlated with lower rates of business startup and ownership for women and people of color, respectively. Unfortunately, a persistent wage and wealth gap exists between white, male-headed households and households headed by single women and people of color.

FIGURE 4

Median household wealth with equity before and after the Great Recession, by race and marital status



Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

The wealth gap has a profound effect on the ability to start a small business and also on the ability of a small business to weather economic turmoil and small temporary setbacks. Almost every small business faces times of economic uncertainty, and the survival of the business is likely dependent on the entrepreneur's access to adequate financial resources. Household wealth is often a significant component of enabling the business to survive and thrive over the long term.

Access to capital

Access to capital is one of the most important factors in starting a business, and variations in access to capital by gender, race, and ethnicity can help us understand why business startup and ownership rates are lower for women, African American households, and Hispanic households. In addition to lower levels of wealth, African Americans, Hispanics, and women have a harder time securing business investment and financing and incur higher borrowing costs to start a business.

A report for the U.S. Small Business Administration, or SBA, found that people of color business owners and women business owners are more likely to finance their business with their own assets, which makes it harder to start a business given asset gaps by race and gender.[31] Financing with personal assets also means that these groups start with less capital and that they are at significantly more personal risk in starting a self-financed business. According to research from the Kauffman Firm Survey, female entrepreneurs face greater financial barriers and typically have less than half the amount of financing of their male counterparts. Initial disparities in financing startups do not go away as the business continues.[32] Economists Thomas Astebro and Irwin Bernhardt found that personal loans—from friends, family, and former business owners—are correlated with a greater likelihood of business success, demonstrating the importance of personal networks in one's ability to start a business. Of those business owners who had some kind of loan, highly qualified owners—as defined by Astebro and Bernhardt as those with high levels of human capital and wealth—appear to self-select noncommercial loans.[33]

In addition to being more likely to fund a new business venture with one's personal assets, people of color and women are also less likely to apply for business loans because of fear of denial.[34] This is not unfounded, since these groups are also more likely to be denied a loan or to pay higher interest rates compared with equally qualified white business owners applying for business loans.[35] Using data from the Kauffman Foundation, economist Alicia Robb found that people of color and women say they do not apply because of fear that they will be denied a loan and because they are in fact denied loans more often.[36] However, when controlling for credit quality, industry, and other owner and firm characteristics, the racial and gender differences are not statistically significant in the years after business startup.

Barriers to business financing are correlated with restricted capital access in the housing market. The 2015 CAP column "Time to Reboot the Housing Market" found that "the housing market remains in a state of lethargy and, with overly rigid underwriting standards, unnecessarily excludes first-time buyers, young adults, and people of color from the opportunity of home ownership."[37] The Minority Business Development Agency report "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses" found that the decline in housing equity for people of color has been a significant barrier to starting a business, since housing equity can be used as collateral in securing financing and is a determinant of whether one can start a business.[38] As the SBA issue brief "Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables," states, "Home ownership may provide an important catalyst to small business growth, but it may also serve as a barrier to entry for prospective entrepreneurs."[39]

Access to education and training

The ability to start and successfully own a business is boosted by both education and training specific to business, as well as by higher levels of education in general. We know that business owners tend to have higher levels of education, with calculations showing, on average, 14.4 years of education for business owners in the PSID from 2008 to 2012 and 13.6 years of education for nonbusiness owners in the PSID in the same time period. The SBA analyzed the education levels of business owners and employees using the Survey of Income and Program Participation and found that 39.2 percent of business owners have a bachelor's degree or higher, while 29.2 percent of employees have a bachelor's degree or higher.[40]

Since businesses owners tend to have higher levels of educational attainment, certain demographics with lower educational attainment levels might face barriers to entrepreneurship. For example, Hispanics reported the lowest percentage of educational attainment at every education level: They graduate high school at a rate of 66.7 percent and graduate college at a rate of 15.5 percent, according to 2015 Census data.[41] African American rates are right above Hispanic rates. African Americans graduate high school at a rate of 87 percent and graduate college at 22.5 percent.[42] Additionally, in higher education, African Americans disproportionately study business,[43] demonstrating the desire to go into business despite the barriers to starting one's own.

However, comparing general educational attainment, such as receiving a bachelor's degree, cannot explain the disparity in business startup rates between genders, since men and women have very similar educational attainment rates.[44] Women across all races have slightly less business education compared with men[45] but a small enough magnitude that it is unlikely to explain the greater magnitude of lower business ownership and startup rates.

Policies to foster inclusive and diverse entrepreneurship

The United States should do more to foster inclusive and diverse entrepreneurship in the economy, for the economic well-being of entrepreneurs and their households, for local economic development, and for the dynamism of the American economy overall. Below, evidence is discussed that supports increasing investments in policies and programs to help more Americans overcome the barriers preventing them from tapping their entrepreneurial spirit.

The nation's current patchwork system to support entrepreneurship does not do enough to reach all Americans, especially those who have lower rates of business startup. Thus, many of the policies proposed here are designed to especially benefit people of color business owners and women business owners. However, many of the policies will help anyone seeking to start a business and also foster a healthy economy that supports small businesses.

Addressing the wealth gap and expanding access to capital through an enhanced State Small Business Credit Initiative

As described above, two important inhibitors for potential entrepreneurs are lack of personal wealth and lack of access to capital. While much of the discussions about promoting entrepreneurism have focused on a business soliciting funds from the capital markets, the reality is that this path to funding is only viable for a tiny fraction of small businesses. For the broader array of small businesses that need capital, a far more effective approach is to focus on other, more specific tools designed to assist those with less wealth and greater barriers to accessing capital for business formation.

Traditional capital access relies on having personal wealth, networks to help, and banking services.[46] Communities of color and low-income communities are often underserved by banks.[47] Programs that work to overcome these barriers in secur-

ing capital will help create more diverse and inclusive entrepreneurship. This also works best when local communities have a role in designing programs that best suit their unique needs and entrepreneurial ecosystem.

One such example is the Small Business Administration's Microloan Program. The Microloan Program operates through Community Development Financial Institutions, or CDFIs, specialized high-touch lenders that provide affordable products, flexible underwriting, and technical assistance to support businesses in low-income communities. The SBA's traditional 7(a) and 504 loan programs also fill a critical gap for underserved small businesses, since these types of guaranteed loans are often more accessible and lower cost than small bank loans not guaranteed by the SBA. The SBA also funds other, more specifically targeted programs.[48]

While the SBA administers a range of targeted programs, one innovative program, owing to its design and flexibility, possesses particular potential for expanding access to capital in underserved communities. The U.S. Department of the Treasury's State Small Business Credit Initiative, or SSBCI, was created by the Small Business Jobs Act of 2010 as a response to the fallout from the financial crisis and the Great Recession.[49] It was meant to provide lending to small businesses and small manufacturers that were unable to obtain the loans and investments they needed due to banks' reluctance to lend under economic uncertainty. Small-businesses owners were hit hard in the Great Recession by collapsing demand for their goods and services, as well as by sharp declines in the value of many assets, both personal and business, that served as collateral for bank loans.[50]

With those circumstances in mind, the SSBCI was authorized to provide—and provided—$1.5 billion over seven years, commencing in 2010 through its expiration in 2017, directly to states to design and develop their own targeted small-business support programs that would address the unique economic challenges they faced in the Great Recession.[51] To maximize impact, the program required states to leverage the federal investment with private-sector investment, and to date, the SSBCI has in fact leveraged $8 in private-sector lending or investment for every $1 of SSBCI funds.[52]

As applied by state and local economic development corporations, the SSBCI addresses two essential challenges for many entrepreneurs: (1) the ability to pledge enough collateral for a loan; and (2) the ability to make full loan payments immediately, as opposed to six months or one year later. Using SSBCI funds, for example, a state economic development corporation could assist a borrower in obtaining a loan from a private bank by pledging a portion of the collateral needed to support the loan.

This structure has a number of significant advantages. First, it significantly leverages federal investments by pairing them with private funding. This maximizes limited public investments and also helps align incentives. Second, the specific transactions are entered into by private parties—often community banks—and overseen by state and local development corporations. Locally focused decision-making not just improves the quality of funding decisions, but also the programs are designed by states with responsiveness to local economic conditions and programmatic accountability.

But what makes the SSBCI so valuable as a tool for expanding access to capital for traditionally underserved communities is its flexibility. States were given wide latitude to develop programs in any one of five categories to best serve local market needs: capital access by being able to secure financing to start a business; loan participation; and collateral support by having assets to use to guarantee a loan; and venture capital from investors who help finance a new business. And states did implement these programs in a variety of ways. This flexibility is one of the reasons why the SSBCI offers such potential for addressing the wealth and capital barriers highlighted in this report.[53]

The U.S. Department of the Treasury has highlighted a range of examples of businesses that have benefited from support from different types of SSBCI programs, including SSBCI-supported loans by a CDFI[54] and the SSBCI Cash Collateral Program, among others.[55]

An important part of the SSBCI funding application is for each state to increase access to capital for small business in low- and moderate-income communities; communities of color; underserved communities; and for women- and people of color-owned small businesses.[56] Indeed, the SSBCI has been reasonably successful in achieving some of these goals. For example, 42 percent of SSBCI loans were made in low- or moderate-income communities from 2010 to 2014.[57] However, with the Great Recession and its particular challenges now several years in the past, more can be done to achieve all of these goals—especially that of increasing access to capital for women- and people of color-owned small businesses.

Although the SSBCI was initially funded with $1.5 billion, that funding expires in 2017. As seen in the previous analysis, the decline in opportunities for small businesses is part of a longer-term trend that merits a policy response. The first years of the SSBCI demonstrate its effectiveness and flexibility during challenging economic circumstances. If deployed with focus and creativity, this program offers

a powerful vehicle for helping overcome the particular barriers to capital that people of color and women face in being entrepreneurs. Congress should reauthorize the SSBCI and expand it, and the Treasury and the states should implement it with greater focus to these particular goals.

More specifically, states should develop, and the Treasury Department overseeing the SSBCI should support, programs particularly designed to support small-business lending to lower-wealth but still creditworthy entrepreneurs. For example, a specially designed program that combines a capital access tool with a collateral support tool—to make up for limited assets—could potentially fill this need. More research and experimentation via pilot programs may be appropriate.

One last benefit for utilizing the SSBCI as a means to expand entrepreneurship opportunities is that it does not require going down the dangerous road of banking or securities deregulation. That road, traveled before, rarely leads to enhanced opportunity for disadvantaged communities; in fact, it quite often leads to additional abuse of these communities.[58] In fact, from a wealth perspective, one of the major reasons why communities of color are in such dire straits is that the consumer protection violations that played such a significant role in the financial crisis were disproportionately harmful to them.[59] This was both because these communities were targeted by the abusers and because much of their wealth is tied up in housing. As noted earlier, this highlights the fundamental importance of expanding entrepreneurial opportunity as a means of diversifying wealth.

Develop entrepreneurial apprenticeship

CAP has strongly advanced the idea of combining skills learning and on-the-job experience through apprenticeships. Apprenticeships combine on-the-job training with classroom instruction and have been successful at providing workers with the skills they need to get good-paying jobs.[60] And while a small-business apprenticeship might not fit within the ordinary conception of an apprenticeship, a creative approach to apprenticeships could give prospective entrepreneurs the skills, experience, and network they need to become a successful entrepreneur.

Some efforts along these fronts are already happening. For example, organizations such as Venture for America connect potential entrepreneurs with companies where they can get useful experience, while also helping those companies be successful, create jobs, and develop communities.[61] Expanding this model to be a

more formal apprenticeship paired with classroom instruction could help people learn the technical day-to-day business operations skills that are necessary for success, while also ensuring that potential entrepreneurs can support themselves as they learn how to become future business owners. For those who have less income and wealth, the ability to earn an income while learning entrepreneurship skills through an apprenticeship program could be crucial. These entrepreneurial apprenticeship programs also help build networks for entrepreneurs, which is especially crucial in encouraging women and people of color to become entrepreneurs, since networks provide knowledge and support to business owners.

Apprenticeships may also be valuable because there does not appear to be a significant gap in access: Women seek business education at similar rates as men,* and African Americans seek business education at even higher rates that whites.[62]

Funding for mentoring is often focused on early-stage business owners. But it could also be effective when teaching future business owners the daily ins and outs of running a business while they are simultaneously able to support themselves by working for the company where they apprentice. The SBA Entrepreneurial Mentor Corps[63] launched in 2011 to help early-stage entrepreneurs in high-growth sectors. While the focus on high-growth entrepreneurship is beneficial in fostering more diversity in high-growth sectors and in growing the American economy, the expansion of these programs to more industries could also help reach out to underserved communities. These programs could be encouraged to include apprenticeship for community-based businesses that would be more inclusive of people of color business owners and women business owners, which would help develop business and an entrepreneurial ecosystem within these communities. Apprentice programs for entrepreneurship address the need for specific entrepreneurial skills and training when formal business training is not feasible or accessible.

* Based on authors' calculations of National Center for Education Statistics data. See National Center for Education Statistics, "Table 322.40. Bachelor's degrees conferred to males by postsecondary institutions, by race/ethnicity and field of study: 2012-13 and 2013-14," available at http://nces.ed.gov/programs/digest/d15/tables/dt15_322.40.asp?current=yes (last accessed September 2016); National Center for Education Statistics, "Table 322.50. Bachelor's degrees conferred to females by postsecondary institutions, by race/ethnicity and field of study: 2012-13 and 2013-14," available at http://nces.ed.gov/programs/digest/d15/tables/dt15_322.50.asp?current=yes (last accessed September 2016). From 2013 to 2014, females were awarded 47 percent and males were awarded 52 percent of all undergraduate business degrees.

Apprenticeships could be especially useful at reducing the riskiness of small-business ownership, noted above, for people of color entrepreneurs and women entrepreneurs, who generally start with lower economic security.[64] Acquiring the skills through hands-on experience in a successful business while earning an income could help mitigate the risks of business failure in a new startup, since the entrepreneur would have more income to start with and more skills for business management.

Potential channels already exist to build apprenticeships for entrepreneurs. Grant programs such as the SBA Growth Accelerator Fund award grants to organizations that foster entrepreneurship through developing local ecosystems.[65] These funds could be increased and expanded to include programs that develop apprenticeship programs as a means of developing an entrepreneurial ecosystem. Once an explicit call for these programs is made, incubators and accelerators could also play a role in further developing these programs.

Foster early training and education to help young people foster an entrepreneurial spirit

Entrepreneurship among parents also leads to an increased likelihood of entrepreneurship for their children. In a survey of college students and graduates commissioned by the SBA, of the students whose parents were entrepreneurs, 39 percent went on to found their own entrepreneurial organization, compared with only 26 percent of those whose parents never started their own business.[66] It is clear that being exposed to entrepreneurship at a young age helps develop one's entrepreneurial spirit, or at least the vision of it as a career option. This creates path dependency, meaning that current rates of business ownership are perpetuated. Therefore, young people of color will have less exposure to business ownership within their households because their parents are less likely to be business owners. By the time a person reaches out to an incubator program or seeks technical assistance for applying for a business loan, they have already likely had exposure to entrepreneurship in their communities and self-selected into business ownership. Policies that target incubator programs will only be effective in encouraging entrepreneurship among individuals who already have self-selected to be entrepreneurs. If youth in low-income communities are not able to develop an early sense and reassurances that they could start their own business one day, they may not reach out to find their nearest incubator or technical assistance program.

Fortunately, there is evidence that entrepreneurial education and training, or EET, besides overall liberal arts or general business education, may also increase entrepreneurial outcomes, both startup and performance, as found in a meta-analysis of the effect of EET.[67] Expanding EET to young people and communities of color will likely increase exposure to entrepreneurship in households and communities where there are lower rates of business ownership.

A survey commissioned by the SBA with researchers from various business schools found that those who took entrepreneurial courses in college or graduate school were more likely to start and work at business startups. Thirty-nine percent of students who took an entrepreneurship course were a founder of an entrepreneurial business, compared with 26 percent who did not take a similar course.[68] One scholarly survey of 73 studies on entrepreneurship education found a small but positive and statistically significant effect of entrepreneurship intentions.[69] Learning about entrepreneurship increases the entrepreneurial spirit.

In communities where ready access to models for entrepreneurship are lacking, education and outreach programs at an early age could help make a difference. The Aspen Institute's "Youth Entrepreneurship Education in America" guide encourages policymakers to develop entrepreneurship training, especially in the school systems serving low-income communities, and to adopt standards for youth entrepreneurship education.[70] The adoption of guides such as these by cities and states could both increase diversity among entrepreneurs and help communities become inclusive entrepreneurial ecosystems.

Numerous high school entrepreneurship programs have already been developed in order to encourage young people to think of themselves as future entrepreneurs and to develop their own innovative business ideas at an early age.[71] Junior Achievement USA is the nation's largest organization devoted to developing entrepreneurs at a young age and reaches more than 4 million students per year through its classroom and after-school programs.[72] Public schools in low-income communities can collaborate with nonprofit organizations to use school space and classroom time to expose young people to entrepreneurship. Programs such as Sponsors for Educational Opportunity and Girls Who Invest also help expose young people to the possibilities of the business world, opening up their worlds more broadly and hopefully creating a virtuous cycle of networks—and capital—flowing back into diverse communities.[73]

Communities can also help create their own local entrepreneurial ecosystems outside their school systems. The Philadelphia-area Startup Corps fosters entrepreneurship in low-income communities and among a diverse background of young people. Startup Corps has received municipal funding from the city of Philadelphia matched by private sponsorship to expand its program by increasing the number of students and by reaching out to diverse communities of students who may want to get a jump-start on building the skills and ideas for starting their own businesses.[74] Other cities can follow suit by providing matched grants to incubators that would explicitly reach out to low-income communities and develop a more inclusive and diverse entrepreneurial ecosystem.

The benefits to cities developing high school entrepreneurship programs extend beyond the direct outcome of students starting their own businesses. High school entrepreneurship programs are also encouraged as a way to engage discouraged students in low-performing schools and to encourage students to stay in school. The nonprofit BUILD Greater Boston teamed up with startup accelerator MassChallenge to increase high school graduation rates and college acceptance rates. Working in schools with graduation rates as low as 40 percent, these programs saw graduation rates rise to more than 95 percent among their program participants.[75] The Network for Teaching Entrepreneurship, or NFTE, report "The NFTE Difference: Examining the Impact of Entrepreneurship Education" found a lower dropout rate among NFTE alumni between ages 16 and 19 than the national average and higher rates of having a high school diploma by age 25 among NFTE alumni compared with the national average.[76]

Tapping the resources of 'one stop shops' and Self-Employment Assistance Programs to help people start businesses

An additional barrier for all entrepreneurs, but especially for those who already have less access to networks and capital, is navigating how to formally open a business. For many new entrepreneurs, navigating the regulatory requirements necessary for starting a new business can be especially burdensome. Local one-stop shops can help ease these burdens by providing advice and support to entrepreneurs, including information on taxes, registration, licensing, and the other parts of the regulatory process. Thus, these local one-stop shops help ease some of the issues that entrepreneurs face in navigating the regulatory process.

Some states—including Michigan, Ohio, and Virginia—offer one-stop shop online portals for business owners to access the various services they need to start their business, from registering as a business to filing local taxes.[77] These "Business One Stop" websites, as they are called in these states, provide a simple gateway that directs business owners to the various state-level departments they need to interact with in managing their business. For example, Michigan's Business One Stop directs potential business owners to the Michigan Treasury for filing sales tax and to an e-Registration website for registering a new business online.[78]

The benefits of one-stop shops can be applied to support the success of other municipal and state programs to help people get their businesses off the ground, such as Self-Employment Assistance Programs. These programs existed in a few states—Delaware, Maine, New Jersey, New York, and Oregon—when the program was promoted and extended through the Middle Class Tax Relief and Job Creation Act of 2012.[79] The U.S. Department of Labor provided $35 million in grants to develop SEAPs as an extension of reforms to unemployment insurance.[80] Emphasis should be given to SEAPs that have a physical presence in a classroom because they tend to be more accessible to a broader range of people. Ideally, an individual location would reach out to particular groups of potential entrepreneurs in its area who tend to have lower rates of business ownership and are less likely to have access to the internet, such as Spanish speakers, adults with less than a high school education, and lower-income families.[81]

Participants in SEAPs receive benefits equal to unemployment insurance while learning necessary skills to start a business.[82] New York state's SEAP links the receipt of unemployment benefits to training for business ownership, including 20 hours of entrepreneurship training and meetings with a business counselor.[83] Oregon's program supplements counseling with the addition of technical assistance on developing a market feasibility study and business plan.[84] In addition to providing business counseling, technical assistance, and the equivalent of unemployment insurance, SEAPs could be expanded through greater involvement from local municipalities to integrate assistance provided in one-stop shops, such as licensing and permitting, so that new businesses can also navigate the regulatory landscape in their location.

CAP, the National Employment Law Project, and the Georgetown Center on Poverty and Inequality propose additional reforms to the unemployment insurance program to enable SEAPs to reach more workers successfully.[85] Ideas include lifting the requirement that they be budget neutral, allowing jobless workers to participate in the program from the beginning of their unemployment insurance claim, and allowing participants to collect up to half of their remaining unemployment insurance benefit entitlement upfront to finance the start of their business.

Broad progressive economic policies can also expand the opportunities for entrepreneurship

As explained in previous CAP reports on entrepreneurship, entrepreneurial potential depends greatly on the overall economic environment. As such, although these policies are not targeted at people of color entrepreneurs and women entrepreneurs, they are nevertheless essential for these group's small businesses to succeed.

For example, macroeconomic policies that boost and sustain aggregate demand both create the wealth that potential entrepreneurs need to venture out on their own and bring the customers those small-businesses owners need to thrive.

The 1990s, when small-business growth was strong, was a decade of tight labor markets, rising wages, and a strong middle class. In "How Does Middle-Class Financial Health Affect Entrepreneurship in America?", Mondragón-Vélez found that the percentage of business-owner households peaked in the second half of the 1990s at 13.6 percent.[86] The U.S. economy, and especially the middle class as part of it, have been hit hard by stagnant middle-class wages since 2001, as well as by the financial crisis and the Great Recession, which devastated employment, aggregate demand, and middle-class wealth. As the Roosevelt Institute shows in its recent report "Declining Entrepreneurship, Labor Mobility, and Business Dynamism," declining entrepreneurship is correlated with declining labor demand, so workers are locked into jobs in a slack labor market and unable to make the risky transition into entrepreneurship.[87] When labor demand is low, workers cannot take the risk to try to start their own business and lose their job prospects. This is an especially important conclusion if one views entrepreneurship as an occupational choice which represents the next step on the career ladder for many people who want to have autonomy over the work they do and own their businesses themselves.

In the recent report "Raising Wages and Rebuilding Wealth," CAP proposed a suite of policies designed to strengthen demand, ensure a strong labor market, and promote a robust middle class.

A wide range of other policies also impact entrepreneurial potential, including antitrust enforcement that protects competition in the marketplace;[88] immigration reform; policies that reduce gender and sociocultural inequity; and policies that ensure access to an affordable, high-quality education.[89] These can make a difference in expanding opportunities to become an entrepreneur.

Conclusion

Entrepreneurial dynamism is one of the key features of inclusive opportunity in the American economy. This report shows that entrepreneurship is a pathway to moving up a career ladder, realizing higher income and wealth, developing communities, and creating a competitive and dynamic American economy. But previous CAP research has demonstrated a decline in entrepreneurialism over the past 15 years.[90] Furthermore, certain groups continue to be underrepresented among business owners, a trend beyond the recent decline in overall rates of startup. People of color and women are less likely to own businesses already and to start their own businesses. This is correlated with persistent income and wealth gaps.

This report's data analysis demonstrates that wealth is one of the largest determinants in starting a business. Research shows that people of color business owners and women business owners are less likely to apply for and receive small-business loans and are more likely to rely on self-financing their businesses, which gives them substantially less capital to start with if they are facing income and wealth gaps already. They also are less able to tap into skills and mentorship networks. Policies need to target the many real barriers that people of color business owners and women business owners face in their ability to plan for and start their own businesses.

Appendix: Methodology

Data

The Panel Study of Income Dynamics is a nationally representative longitudinal data set that began in 1968, following families through multiple generations. An immigrant sample was added between the 1997 and 1999 surveys in order to maintain its nationally representative nature with the inclusion of newer immigrant populations, partially households of Hispanic descent. For this analysis, we rely on data from 1999 to 2013 in order to include the more representative sample that includes the immigrant addition.* The panels are conducted every other year during the period we are examining.

We use a broad measure of entrepreneurship which has also been used by Hurst and Lusardi (2004).[91] In each survey year of the PSID, entrepreneurs are defined as households who own a business, answering the question, "Did you (or anyone else in the family there) own a business at any time in [the prior year] or have a financial interest in any business enterprise?" In Mondragón-Vélez's 2009 paper using the PSID, "The probability of transition to entrepreneurship revisited: wealth, education and age," entrepreneurs are defined as business owners who are identified as self-employed.[92] In this analysis, we prefer to use the broader measure, which more closely captures the concept of entrepreneurship and includes those households who may start a business in addition to other employment. Also, the narrower measure provides a smaller number of entrepreneurs.

The variables that we include as explanatory variables are household race; gender of household head; an indicator of the person's marital status; household taxable income; household wealth; household equity; years of education; age; and

* The financial variables of income and wealth are the prior full year's data. So the 2013 panel refers to 2012 for income and wealth. The variables for employment status, including unemployment and being out of the labor force, were lagged to the previous wage to understand how they affected the incidence of business ownership in the current wage.

age-squared. We follow previous literature on entrepreneurship by focusing on the roles of age, education, and economic factors such as income and wealth. (see, for example, the 2009 Mondragón-Vélez work and the 2004 Hurst and Lusardi work) While Hurst and Lusardi use household net worth, we follow Mondragón-Vélez in using real household wealth because the wealth data allow us to understand the assets that a household can mobilize in financing a business startup or maintaining cash flow. The PSID contains two primary variables, wealth and wealth with equity. For our regression analysis, we separate the valuation of household equity in order to delineate between liquid assets that could be mobilized directly to start a business and the value of equity that could be leverage as collateral in obtaining financing. How we constructed each variable is listed below.

Variables related to the probability of business ownership

Income

The natural logarithm of the head of household and wife's total taxable income in the prior year: This variable includes the head's and wife's/"wife's" income from assets, earnings, and net profit or loss from a farm or business. Our sample is limited only to those with positive income.

Wealth without equity

The natural logarithm of the constructed variable that is a sum of seven asset types: value of farm/business (if sold and paid off debts); value of checking/savings accounts; value of other real estate; value of stocks; value of vehicles; value of other assets; value of annuity/individual retirement account; net of value of other debt.

Value of equity

The logarithm of value of home equity.

Age

Actual age of head, over age 18, recoded N/A to represent missing values.

Less than high school diploma

Less than 12 years of education.

High school diploma

12 years of education.

Some college

More than 12 years and fewer than 16 years of education.

College degree

16 or more years of education.

Single-female-headed household

Sex of head of household coded as female, couple status as head with no wife, "wife," husband, or first-year cohabitor or with only a first-year cohabitor.

Married household

Couple status is head with wife present, head with "wife" present, head (female) with husband present—but there should be none of these, since head with a spouse is automatically male in opposite-sex couples.

African American household

Both head and spouse (if any) self-identifying as black or African American, without Spanish descent (non-Hispanic).

Hispanic household

Response to the questions: "Are you Spanish, Hispanic, or Latino? – That is, Mexican, Mexican American, Chicano, Puerto Rican, Cuban, or other Spanish?" This variable began to be asked in 2005, so we rely on this stationary variable in a balanced panel to represent Hispanic origin across all years. Both head and spouse (if any) are of Spanish descent.

1997 immigrant sample add

A dummy variable identified by the interview number denoting that the household was part of the 1997 immigrant sample addition.

Unemployed previous year

Employment status of head of household answered as unemployed, looking for work, or temporarily laid off. Lagged to the previous panel.

Out of labor force previous year

Employment status of head of household answered as retired, permanently disabled, housewife/keeping house, or student.

Summary statistics

TABLE A1

Age and years of education of head of household, by business ownership status

	2000–2006	2008–2012
Age of business owners	48.9	51.5
Age of nonbusiness owners	48.3	49.4
Years of education of business owners	14.2	14.4
Years of education of nonbusiness owners	13.2	13.6

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

TABLE A2

Median real household income before and after the Great Recession by business ownership and demographics, in 2015 dollars

Demographics	2000–2006	2008–2012
Single-female-headed households	$24,897	$23,913
Single-female-headed households who own a business	$36,864	$39,130
Single-female-headed households who do not own a business	$24,319	$23,261
Single-male-headed households	$36,003	$30,960
Single-male-headed households who own a business	$65,995	$56,760
Single-male-headed households who do not own a business	$34,256	$29,022
Married households	$77,207	$72,296
Married households who own a business	$107,791	$103,302
Married households who do not own a business	$71,578	$68,111
Head of household in white, non-Hispanic households	$53,827	$48,913
Head of household in white, non-Hispanic households who owns a business	$94,616	$89,130
Head of household in white, non-Hispanic households who does not own a business	$47,679	$43,612
Head of household in African American, non-Hispanic households	$35,178	$31,265
Head of household in African American, non-Hispanic households who owns a business	$62,944	$50,330
Head of household in African American, non-Hispanic households who does not own a business	$34,256	$30,837
Head of household in Hispanic households	$36,386	$34,861
Head of household in Hispanic households who owns a business	$60,523	$49,780
Head of household in Hispanic households who does not own a business	$35,132	$34,056

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

TABLE A3

Median real household wealth with equity before and after the Great Recession by gender, marital status, and race

Demographics	2000–2006	2008–2012
Single-female-headed households	$46,245	$25,800
Single-female-headed households who own a business	$231,087	$147,781
Single-female-headed households who do not own a business	$39,953	$23,043
Single-male-headed households	$31,884	$16,520
Single-male-headed households who own a business	$202,889	$194,565
Single-male-headed households who do not own a business	$24,440	$12,445
Married households	$189,461	$147,687
Married households who own a business	$455,502	$424,665
Married households who do not own a business	$155,112	$120,109
White, non-Hispanic households	$149,931	$115,639
White, non-Hispanic households who own a business	$420,220	$416,304
White, non-Hispanic households who do not own a business	$122,961	$92,879
African American, non-Hispanic households	$14,492	$8,152
African American, non-Hispanic households who own a business	$61,924	$52,174
African American, non-Hispanic households who do not own a business	$13,181	$7,224
Hispanic households	$37,139	$18,576
Hispanic households who own a business	$193,302	$41,280
Hispanic households who do not own a business	$31,368	$16,304

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

Regression analysis

In order to understand why people of color and women own businesses at lower rates than whites and men, we ran linear probability models, or LPMs, on business ownership and transitioned into business ownership dependent on demographics, income, wealth, equity, age, education, and labor force status. The coefficient on a given variable represents the impact of the variable on the increased or decreased probability of having a business or becoming a business owner based on that factor. LPMs are appropriate when many of the independent variables are indicators themselves* and are useful for their straightforward interpretation. The results were also more robust than those resulting from a longitudinal probit model. The results from the regressions are listed in the following tables.

* Woolridge notes that "the case for the LPM is even stronger if most of the xj are discrete and take on only a few values." See Jeffrey M. Wooldridge, *Econometric Analysis of Cross Section and Panel Data, First Edition* (Cambridge, MA: The MIT Press, 2010), p. 456.

TABLE A4

Linear probability model of business ownership

Business ownership	Age and demographics	Age, demographics, and education	Age, demographics, education, and economic factors
African American household	-0.0965*** (0.011)	-0.0891*** (0.011)	-0.0498*** (0.014)
Hispanic household	-0.118*** (0.016)	-0.105*** (0.017)	-0.0672*** (0.021)
Single-female-headed household	-0.0484*** (0.014)	-0.0492*** (0.014)	-0.0390* (0.021)
Married household	0.0368*** (0.011)	0.0365*** (0.011)	0.010 (0.017)
Income			0.0148*** (0.003)
Wealth without equity			0.0330*** (0.003)
Value of equity			0.0055 (0.004)
Age	0.0135*** (0.002)	0.0131*** (0.002)	0.00493*** (0.002)
Age-squared	-0.000128*** (0.000)	-0.000125*** (0.000)	-6.15e-05*** (0.001)
Less than high school diploma		-0.0430*** (0.014)	0.000906 (0.018)
High school diploma		-0.0309** (0.013)	-0.0106 (0.016)
Some college		-0.0215* (0.013)	-0.00169 (0.015)
College degree		-0.00362 (0.013)	0.00912 (0.016)
Unemployed previous year			0.0367* (0.021)
Out of labor force previous year			0.0374*** (0.014)
Constant	-0.158*** (0.043)	-0.129*** (0.044)	-0.507*** (0.073)
Observations	20,469	20,469	13,603
Number of individuals	2,927	2,927	2,520

* $p < 0.1$
** $p < 0.05$
*** $p < 0.01$

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

TABLE A5

Linear probability model of a business startup

Business startup	Age and demographics	Age, demographics, and education	Age, demographics, education, and economic factors
African American household	-0.0296*** (0.008)	-0.0247*** (0.008)	-0.0106 (0.011)
Hispanic household	-0.0504*** (0.011)	-0.0418*** (0.011)	-0.0308** (0.014)
Single-female-headed household	-0.0237** (0.009)	-0.0244*** (0.009)	-0.0238 (0.015)
Married household	0.0254*** (0.008)	0.0256*** (0.008)	0.0139 (0.014)
Income previous year			0.00688*** (0.003)
Wealth without equity previous year			0.0123*** (0.002)
Value of equity previous year			0.00288 (0.003)
Age	0.00539*** (0.001)	0.00510*** (0.001)	-1.99e-05 (0.000)
Age-squared	-5.31e-05*** (0.000)	-5.09e-05*** (0.000)	-6.38e-05*** (0.000)
Less than high school diploma		-0.0299*** (0.011)	-0.00792 (0.014)
High school diploma		-0.0262*** (0.009)	-0.0164 (0.012)
Some college		-0.0116 (0.010)	-0.000746 (0.012)
College degree		-0.00841 (0.010)	-0.00406 (0.012)
Unemployed previous year			0.0532*** (0.018)
Out of labor force previous year			0.0159 (0.010)
Constant	-0.0422 (0.030)	-0.0196 (0.032)	-0.167*** (0.059)
Observations	17,015	17,015	10,741
Number of individuals	2,766	2,766	2,321

* $p < 0.1$
** $p < 0.05$
*** $p < 0.01$

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at https://psidonline.isr.umich.edu/ (last accessed September 2016).

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