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WORK, SKILLS, COMMUNITY

Restoring opportunity for
the working class

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Study group convened by Opportunity America, cosponsored by the American Enterprise Institute and the Brookings Institution

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EXECUTIVE SUMMARY

The 2016 election put the plight of working-class America front and center in American politics. A long-neglected and largely forgotten voting bloc thought by many to be shrinking to the point of irrelevance suddenly mattered, nationally and in every state. But more important even than the political consequences, the campaign and what followed shone a light on working-class communities, revealing a cluster of problems—economic, social, health-related—that had been festering for several decades.

Since the late 1970s and still today, working-class America is bearing the brunt of automation and globalization: entire industries are disappearing, and wages have been flat since the 1970s. Marriage has declined faster among the working class than in any other group, richer or poorer. Civic institutions that once sustained blue-collar enclaves—churches, union halls, neighborhood associations, the local VFW or Lions Club—are closing their doors or moving elsewhere. And as the social fabric frays, a host of new problems are arising, from opioid addiction to what Anne Case and Angus Deaton have called “deaths of despair” caused by drugs, alcohol or suicide and correlated with distress and social dysfunction.

Looking back, it’s clear that we as a nation should have seen the problem coming: the symptoms were stark and alarming.

Still, for all the attention of the past two years, it isn’t clear that anyone, left or right, understands working-class America. Who makes up the working class today? What exactly is it that ails them? Why, unlike in so many other parts of America, do their fortunes seem to be declining rather than improving? And what can government—state or federal government—do to remedy the collapse in blue-collar communities?

The authors of this report came together in the months after the 2016 election to develop a plan of action. We convened a group of scholars—half right-leaning, half left-leaning—then spent a year considering the causes of working-class distress and debating policy solutions. We struggled to find bipartisan consensus—far from easy in a year when American politics were more polarized than at any time in memory. And we have produced a set of recommendations that we hope Democrats and Republicans will come together to enact in Congress, arresting the decline in working-class communities and building bridges back to opportunity in the American mainstream.

Our definition of working class: people with at least a high school diploma but less than a four-year college degree living in households between the 20th and 50th income percentiles—roughly \$30,000 to \$69,000 a year for a household with two adults and one child. We include Americans of all races and ethnicities. A laid-off factory worker in Ohio or a Latina housekeeper in Los Angeles: when we look out across blue-collar America, we see more similarities than differences.

Our report begins with description: who makes up the working class, where do they live, how much education do they have, do they work, at what kinds of jobs, what do they earn, how much do they own? We also trace their growing problems—declining labor force participation, slumping marriage rates, single-parent families, opioid deaths—and map them.

The three chapters that follow contain our proposed solutions: ideas about creating jobs, increasing wages, drawing workers back into the labor force,

revamping education and job training, bolstering communities and strengthening families.

Among our top proposals:

- Make work pay by expanding the earned income tax credit to cover childless workers and experimenting with a new wage subsidy.
- Require state and local agencies that administer government benefits to make a priority of getting recipients back to work.
- Strengthen work requirements for some beneficiaries of means-tested government programs so long as jobs, training, treatment slots and other relevant services are available.
- Reform unemployment and disability insurance to promote work.
- Reform federal education spending to fund programs that teach students, college-age and older, the skills they need for the jobs of the future.
- Mobilize communities to make the most of the job-creating investment we expect to be unleashed by the Opportunity Zone provision of the 2017 tax bill.

- Make the child and dependent care tax credit more available to working-class families.

- Create a new federal program to monitor and limit opioid prescriptions.

See pages 3 to 5 for a full list of recommendations for government, business, labor, churches, civil society and, not least, working-class communities.

Many of the initiatives we propose are expensive, and we wrestled long and hard with how to pay for them. What we finally agreed: to do no harm. Members of our group are dismayed by the growing deficit, and we resolved we would do nothing to make it worse. The package of solutions we propose is budget-neutral.

Our final chapter points a way forward. We as a nation can and must renew the social contract that once bound us—the promise that if you worked hard and played by the rules, you could get ahead. Government, business and civic institutions all played a part in upholding the contract, and it was a two-way street—workers, parents and others were responsible for the choices they made about how to live their lives. That promise is no longer true for much of the working class, and we must restore it. The policy proposals in this volume are a place to start—the beginning, not the end, of what’s needed to arrest the decline in working-class communities.

POLICY RECOMMENDATIONS

JOBS AND WAGES

Jobs

Occupational licensing. Create new causes of action that allow workers to challenge licensing requirements in state or federal court. Grant states that adopt reciprocal multistate standards safe harbor from these challenges.

Works councils. Allow for alternative forms of labor-management cooperation outside the confines of traditional unions.

International trade. Combat mercantilist policies in nations like China that prevent market access and coerce technology transfer. Use multilateral institutions to amplify these efforts.

Environmental protection. Streamline permitting processes and reduce project-stalling litigation.

Antitrust enforcement. Consider both worker and consumer welfare when enforcing antitrust law. Evaluate the effects of mergers on monopsony power in labor markets as well as monopoly power in consumer markets. Prohibit noncompete agreements for low-wage workers.

The credential gap. Discourage employers from demanding college degrees for jobs that do not require them.

Monetary policy. Err on the side of tight labor markets unless there is clear evidence of persistent inflation.

Workers

Earned income tax credit (EITC). Expand the EITC for single workers. Avoid penalizing beneficiaries who marry. Pay for the expansion with a combination of new revenue and reallocation of existing spending. Reallocate funding saved by reducing the EITC error rate and savings that accrue to other programs if an expanded EITC spurs greater labor force participation. Three possible ways to raise new revenue: expand the number of families that pay estate taxes, limit tax exemptions available to better-off households or raise minimum taxes for corporations that rely on tax havens.

Wage subsidy pilot. Experiment with more direct ways to enhance the take-home pay of low-wage workers, inviting states and municipalities to propose pilot programs. Options could include worker tax credits or subsidizing workers for each hour worked—money added to each paycheck alongside wages from employers.

Unemployment insurance. Strengthen incentives and expectations that recipients of unemployment insurance will seek new employment quickly. Provide lump-sum payments when claimants take a new job. Require them to pick up benefits at unemployment offices where they receive case management services. Lower thresholds for acceptable employment after prolonged job searches.

Disability insurance. Review existing cases to determine if beneficiaries are still disabled. Strengthen employer incentives to contest claims and accommodate workers with impairments rather than shift them to disability programs.

Displaced workers. Rather than create programs to support a new class of beneficiary, focus on improving existing career education and making it more widely available to workers thrown out of work by automation. (See chapter IV, “Education and Skills.”)

Supplemental Nutrition Assistance Program (SNAP). Encourage states that relaxed work requirements during the Great Recession to reimplement them. Ensure that programs provide the training and support necessary to help employable beneficiaries find and retain jobs.

Child support. Expand work programs for fathers who owe child support, and sanction those who do not participate, including with mandatory community service. Permit federal funding to support these programs.

Universal basic income. Reject proposals that provide unconditional cash payments. Universal basic income would devalue work for individuals, undermine societal expectations and excuse the nation from its obligation to create job opportunities.

Jobs of last resort. Subsidize employers who create jobs for beneficiaries of safety-net programs, assuring a job of last resort to any recipient willing to work. Reject calls for a federal jobs program—a task beyond the scope of government that would distort the labor market.

EDUCATION AND SKILLS

New providers, new models. Encourage educational innovation focused on preparing students for the job market. Support new delivery models, including online and hybrid programs, competency-based

education, career academies, career pathways, early college high schools, career and technical education charters, apprenticeships and coops, and midcareer upskilling.

Employers. Create new norms and expectations for employer engagement in workforce training. More states should broker relationships between companies and colleges. Use state perks and privileges to encourage employers to offer training. Design state customized training grants to prime the pump of employer spending.

Secondary and postsecondary career education. Double existing funding for high school and community college career education. Include dedicated funding for internships, and reform state policy to shield employers who hire interns from liability. Use state funding formulas to spur community colleges to prioritize career education, including the “unbundled” nondegree courses likely to appeal most to workers who lose their jobs as a consequence of economic change.

A training tax credit. Create a federal tax credit modeled on the R&D tax credit to reimburse companies for 20 percent of new training offered to employees earning less than \$60,000 a year.

Federal incentives for employers. Strengthen federal mandates for employer-educator partnerships, and develop a metric to distinguish between perfunctory and meaningful employer input in training programs.

Federal financial aid. Provide federal financial aid for all career education that meets quality control standards, including short-term and nondegree programs at unaccredited institutions and options designed for older workers displaced by new technology.

A level playing field. Target federal financial aid to students who need it most, reallocating money currently spent on 529 education savings accounts,

tuition tax credits and graduate student loan forgiveness, all of which benefit primarily higher-income students.

Quality control. Experiment with alternative accreditation, including outcomes-based and industry-driven options. Support efforts by states and the private sector to identify quality industry certifications. Add employment outcomes metrics to state pay-for-performance formulas.

A pay-for-performance pilot. Make a share of federal funding for career education programs conditional on students' employment outcomes—jobs placements and wages.

Data. Overturn the federal student-level data ban, bolstering quality assurance and helping students make better choices based on information about outcomes, including jobs and wages.

FAMILY AND COMMUNITY

Opportunity Zones. Governors and mayors who wish to reap the full benefit of the new investment unleashed by federal Opportunity Zones should incorporate the incoming funds in a broader strategy to address social problems that private-investment dollars are unlikely or unable to reach.

Work requirements. Our working group agrees that assistance programs should do more to link disconnected workers to jobs, and most members believe more beneficiaries should be required to take a job if one is offered.

Family leave. Subsidize eight weeks of paid parental leave, and encourage employers to offer up to 40 weeks of unpaid time off.

Child care. Make the child and dependent care tax credit more available to working-class families by making it refundable—payable to even families who do not earn enough to owe income taxes. Pay for the expansion by capping program eligibility at \$80,000 per family per year. Strengthen state certification requirements for child care programs.

The private sector. Fund an independent non-profit to create new standards and expectations that employers adopt family-friendly policies and practices, including bans on unwanted overtime and weekend work hours.

Civic institutions. Institutions, religious and secular, that work to revitalize civic life and community engagement should reorient their programming to more directly engage working-class communities.

Marriage and family life. Raise expectations that young adults follow the “success sequence”—pursuing first postsecondary education, then full-time work, and then marrying before having children. Most of our group recommends that contraception be made available and affordable to young couples not yet ready to be parents. Most of us also favor scaling local civic efforts to strengthen family life with public messaging and relationship education.

Opioids. Create a federal program to monitor and limit opioid prescriptions. Make naloxone, treatment beds and recovery beds more readily available.

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